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Propel Funeral Part. (PFP)

Accretive market share growth

Recommendation

Buy (unchanged)

Price

\$5.13

Target (12 months)

\$5.90 (previously \$5.70)

GICS Sector

Commercial Services and Suppliers

Expected Return

Capital growth	15%
Dividend yield	3%
Total expected return	18%

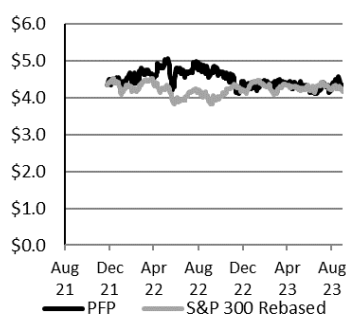
Company Data & Ratios

Enterprise value	\$768.9m
Market cap	\$607.4m
Issued capital	118.4m
Free float	65%
Avg. daily val. (52wk)	\$615.2k
12 month price range	\$4.11-5.13

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	4.81	4.57	4.25
Absolute (%)	6.65	12.25	20.71
Rel market (%)	1.30	7.57	17.68

Absolute Price



SOURCE: IRESS

Executing in the regional portfolio

Propel Funeral Partners (PFP) announced three acquisitions in regional Australia/New Zealand at A\$10.6m (cash/script based) today and an upsizing of funding facilities. While these are new markets for PFP, the company will also acquire freehold property in these new businesses and the existing PFP business including a cremation facility in regional NZ which we think would drive margin expansion on improving revenues from acquisitions over time. We see PFP growing their market share towards ~11% (Aus, BPe) in comparison to market leader, Invocare's market share of ~22% in 1Q23.

Earnings changes

We factor in the acquisitions announced today where we forecast a 3-month contribution in FY24e and \$5m annualised revenues in FY25e. On the back of the full year contribution in FY25e, we estimate a ~2% incremental contribution to our forward revenues and ~1% accretion to NPAT, in line with the company's expectations for earnings accretion in year 1. We also account for minor scale benefits in the operating cost line over the longer term given PFP's market share of ~11% that we estimate with the recent acquisitions annualised. The net result sees our NPAT forecasts +0.1%/+1.1%/+0.8% for FY24/25/26e.

Investment View: PT up 3.5% to \$5.90, Maintain BUY

Our Price Target increases 3.5% to \$5.90/share driven by our medium-longer-term earnings changes. We continue to view PFP's growth as well supported by a strong underlying business with good pricing power in addition to its acquisitive strategy in a large and fragmented market. We expect organic volume growth to return in 2Q24 as we have seen in NSW/VIC death statistics for the month of October/November and medium-long-term growth to be further supported by ageing baby boomers as the older cohorts reach average life expectancy in ~3 years. We also see unlocked value in PFP's freehold property portfolio which sits on the Balance Sheet at cost, valued close to \$220m less depreciation (BPe) and view this as a hedge to the net gearing level of 2.9-3.2x (management estimate).

Earnings Forecast

Year end	2023a	2024e	2025e	2026e
Sales (A\$m)	168.1	214.6	234.6	244.2
Operating EBITDA (A\$m)	46.0	57.3	62.2	65.9
Operating NPAT (ex.net pre-paid charge, A\$m)	20.9	23.2	26.2	29.6
EPS operating (ex.net pre-paid charge,cps)	17.7	19.6	21.2	22.4
EPS operating growth (%)	12.3%	10.4%	8.4%	5.7%
NPAT (reported) (A\$m)	17.8	22.8	25.4	28.8
PER (on operating EPS) (x)	30.3	27.1	24.9	23.5
PER (on reported EPS) (x)	33.9	26.7	24.9	23.5
EV/operating EBITDA (x)	18.3	14.6	12.7	12.0
Dividend (eps)	14.0	15.1	16.5	17.5
Yield (%)	2.7%	3.0%	3.2%	3.4%
Franking (%)	100%	100%	100%	100%
ROE (%)	7.9%	8.7%	9.6%	10.7%

SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Regional acquisitions and further upsizing of debt facilities

Summary

- Propel Funeral Partners (PFP) announced three small sized acquisitions in regional Australia / New Zealand at a total consideration of ~A\$10m in cash/script (excluding earn-outs)

Acquisition

- PFP has executed a binding sale agreement to acquire funeral service businesses and related real estate of Norman J Penhall Funerals in Orange, Australia and IC Mark Funeral Directors in Levin & Howard & Gannon Funerals in Taradale, NZ totalling to 4 locations
- The businesses collectively perform ~700 funerals per annum, generating ~A\$5m in revenue per annum
- PFP will acquire 4 properties (including a cremation facility) on completion of the acquisitions out of which 3 are on freehold basis (including the cremation facility)
- Completion is expected by 31-Mar-24 (in 2H of FY24)
- PFP is also acquiring the freehold property of a funeral home in the existing network (currently leased)
- Total consideration for the transaction and the acquisition of the existing leased business within the group is A\$10.6m consisting of A\$10.5m in cash and up to A\$0.1m in script while a further earn-out of ~A\$1.0m for the acquisitions is expected during the 5 years since completion (on meeting certain milestones)
- The acquisition is ~3%/2% incremental to BPe FY24e case volumes/revenues and PFP expects the transaction to be earnings accretive in year 1

Acquisition multiple

- ~60% of the transaction consideration relates to the acquisition of real estate and appears to be reasonable given the acquisition of a freehold cremation facility, which is broadly similar to PFP's previous acquisitions

Upsizing of debt facilities

- PFP's senior debt facilities have been successfully increased by \$20m to \$275m and higher covenant limits of 5x (from previously 4x) providing additional liquidity & flexibility (at same maturity date of Oct-27)
- Capacity remains at \$90m and ~1x as deployment in FY23 or ~2.5x as historical average annual deployment of \$35-40m
- Net leverage ratio is expected to be 2.9-3.2x, well below the covenant level as of 30-Jun-24

Earnings changes and Valuation

Earnings changes. We factor in the acquisitions announced today where we forecast a 3-month contribution in FY24e and \$5m annualised revenues in FY25e. On the back of the full year contribution in FY25e, we estimate a ~2% incremental contribution to our forward revenues and ~1% accretion to NPAT, in line with the company's expectations for earnings accretion in year 1. We also account for minor scale benefits in the operating cost line over the longer term given PFP's market share of ~11% that we estimate with the recent acquisitions annualised. The net result sees our NPAT forecasts +0.1%/+1.1%/+0.8% for FY24/25/26e.

Figure 2 – PFP BPe changes

Earnings Changes	2024e			2025e			2026e		
	old	new	% change	old	new	% change	old	new	% change
Revenue (\$m)	213.0	214.6	0.8%	229.4	234.6	2.3%	240.3	244.2	1.6%
EBITDA (Operating) (\$m)	57.0	57.3	0.6%	60.6	62.2	2.7%	64.7	65.9	1.9%
NPAT (Operating) (\$m)	23.2	23.2	0.1%	25.9	26.2	1.1%	29.4	29.6	0.8%
EPS (Operating) (cps)	19.6	19.6	0.1%	21.0	21.2	1.1%	22.3	22.4	0.8%
DPS (cps)	15.1	15.1	0.1%	16.3	16.5	1.1%	17.3	17.5	0.8%

NOTE: EBITDA IS PRO-FORMA OPERATING EBITDA | *NPAT IS EXCLUDING NET PRE-PAID CHARGES

SOURCE: BELL POTTER SECURITIES ESTIMATES

Propel Funeral Partners Limited (PFP)

Company description

Established in FY12, Propel Funeral Partners Ltd (PFP) has since emerged as the second largest provider of funeral, cemetery, crematoria, and related services in ANZ. PFP has a strong presence in regional areas and an emerging metropolitan presence. PFP operates under a multi-brand strategy with the majority of its funeral homes dating back over many decades. PFP was founded by Propel Investments Pty Ltd, the former external manager for PFP. However, effective July 2021, PFP internalised all senior management functions, with all key staff of the former external manager becoming employees of the company.

Investment Strategy

PFP intends to continue to build on its strong track record of making and integrating profitable acquisitions of private businesses, properties, infrastructure and related assets which operate within the death care industry in Australia and New Zealand. PFP expects to continue to invest in its funeral homes to facilitate growth, including selectively identifying potential sites in new locations and expanding (and/or re-furbishing) existing locations.

Valuation

Our \$5.90 12-month target price is based on a 50:50 blend of DCF valuation methodology utilising a WACC of 9.3% and a terminal growth rate of 4% and Target P/E multiple of ~24x on a FY24e & FY25e blended basis. Our estimates do not include future acquisitions and we think PFP should see continued earnings accretion as acquisitions (historically \$30-40m a year on average) take place. We have considered a ~20% acquisition premium in our target price to incorporate this.

Risk to Investment Thesis

- **Death volumes:** Death volumes is the most significant driver of the level of activity in the death care industry. A sustained decline in volumes can have a negative impact.
- **Reliance on key personnel:** The unexpected loss of key management personnel, or the inability of PFP to attract personnel, may adversely affect its financial performance.
- **Acquisitions may not be successful:** There can be no assurance PFP will be able to identify suitable acquisitions at acceptable prices or integrate acquisitions successfully.
- **Failure to execute acquisition opportunities:** Risk PFP is unable to identify/execute suitable opportunities, and a failure to do so could adversely impact PFP's share price.
- **Competition:** Actions by existing competitors, the entry of new competitors, or failure by PFP to continue to meet changing market conditions and customer needs.
- **Brand and reputation damage:** Factors that adversely affect PFP's reputation may impact PFP's competitiveness, growth and profitability.
- **Pre-paid funds under management:** Pre-paid funeral contracts exposes PFP to potential escalation in costs in the period between when the contract is signed and when the funeral event is performed. If costs escalate at a higher rate versus the return on investment, this will expose PFP to lower returns on pre-paid contracts & erode

Propel Funeral Part.

as at 19 December 2023

Recommendation
Price
Target (12 months)

Buy
\$5.13
\$5.90

Table 1 - Financial summary

June Year end (post AASB 16)	2022	2023	2024e	2025e	2026e
Profit & Loss (A\$m)					
Sales revenue	145.2	168.1	214.6	234.6	244.2
... Change	20.6%	15.7%	27.7%	9.3%	4.1%
Operating EBITDA	39.0	46.0	57.3	62.2	65.9
... Change	25.4%	18.0%	24.7%	8.5%	5.9%
Deprec. & amort.	(10.3)	(11.4)	(12.9)	(13.6)	(13.4)
Operating EBIT	28.6	34.6	44.4	48.6	52.5
Net Interest	(3.5)	(5.0)	(11.2)	(11.3)	(10.1)
Net pre-paid contracts charge	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Operating Pre-tax profit	24.3	28.8	32.4	36.6	41.5
Operating tax expense (BPe)	(7.3)	(8.7)	(10.0)	(11.2)	(12.7)
... tax rate	30%	30%	31%	31%	31%
Operating Net Profit (BPe)	16.9	20.1	22.5	25.4	28.8
... Change	46.4%	19.0%	11.5%	13.1%	13.6%
Operating NPAT (ex.net pre-paid charge)	17.8	20.9	23.2	26.2	29.6
... Change	41.0%	17.7%	11.1%	12.6%	13.2%
Cashflow (A\$m)					
Operating EBITDA	39.0	46.0	57.3	62.2	65.9
Working capital changes	(5.0)	(13.6)	(1.0)	(0.2)	(0.2)
Net Interest Expense	(2.7)	(3.7)	(11.2)	(11.3)	(10.1)
Tax	(5.9)	(8.0)	(8.8)	(10.6)	(11.9)
Other operating items	(1.1)	15.5	9.2	2.4	1.7
Operating Cash Flow	24.3	36.1	45.5	42.6	45.3
Capex	(6.4)	(6.9)	(8.5)	(8.2)	(8.5)
Free Cash Flow	17.9	29.2	37.0	34.4	36.8
Acquisitions	(25.8)	(59.1)	(89.0)	(3.5)	(1.3)
Disposals	1.3	1.4	-	-	-
Payment of leases	(3.5)	(3.5)	(3.6)	(3.7)	(3.8)
Dividends paid	(13.0)	(15.7)	(17.2)	(19.3)	(22.0)
Performance fee (n/a after FY21)	n/a	n/a	n/a	n/a	n/a
Other investing items	(0.2)	2.0	-	-	-
Equity (FY18 represents IPO)	62.3	-	3.5	-	-
Core debt increase/(reduction)	(38.6)	92.5	69.3	(7.9)	(9.7)
Balance Sheet (A\$m)					
Cash	7.9	46.9	27.0	27.0	27.0
Receivables	7.0	10.9	14.1	14.9	15.5
Inventories	4.2	4.8	6.4	6.7	7.0
Pre-paid funds	53.1	64.5	64.5	64.5	64.5
Other current assets	1.9	2.1	2.1	2.1	2.1
Current Assets	74.1	129.2	114.1	115.2	116.1
Fixed Assets (PP&E)	168.6	216.2	302.2	298.4	295.0
Right-of-use Assets	35.7	31.1	31.8	32.6	33.5
Intangibles	141.8	155.4	155.4	158.8	160.1
Other non-curr assets	8.5	8.0	8.0	8.0	8.0
Non Current Assets	354.6	410.6	497.4	497.8	496.5
Total Assets	428.6	539.8	611.5	613.1	612.7
Short term debt	14.9	19.8	19.8	19.8	19.8
Creditors	10.8	11.9	15.6	16.6	17.2
Pre-paid liabilities	59.6	71.3	71.3	71.3	71.3
Provisions	9.7	10.6	13.8	14.8	15.4
Other curr liabilities	8.9	3.5	3.6	3.7	3.8
Current Liabilities	103.9	117.1	124.1	126.2	127.6
LT debt (incl. leases)	61.9	150.2	200.4	193.3	184.5
Creditors	-	-	-	-	-
Provisions & other liabilities	14.1	19.2	25.2	26.6	27.7
Non Current Liabilities	76.0	169.4	225.6	219.9	212.1
Total Liabilities	179.9	286.5	349.7	346.1	339.7
Net Assets	248.8	253.3	261.8	267.0	273.0
Share Capital	280.2	280.5	284.0	284.0	284.0
Reserves	(1.8)	(0.7)	(0.7)	(0.7)	(0.7)
Retained Earnings	(29.7)	(26.4)	(21.5)	(16.3)	(10.3)
Shareholders Equity	248.8	253.3	261.8	267.0	273.0
Outside Equity Interests	-	-	-	-	-
Total Equity	248.8	253.3	261.8	267.0	273.0
Core Net debt/(cash) \$m	39.9	92.7	161.9	154.1	144.4
Net debt/(cash) [incl. leases] \$m	77.8	126.6	196.8	189.8	181.0

Price	\$5.13
Recommendation	Buy
Diluted issued capital (m)	118.4
Market cap (\$m)	604.8
Target Price (A\$m)	\$ 5.90

June Year end	2022	2023	2024e	2025e	2026e
Valuation Ratios					
Operating EPS (eps)	15.1	16.9	18.9	20.6	21.8
... % change	29.6%	12.4%	11.9%	8.8%	6.0%
Operating EPS (ex.net pre-paid charge) (eps)	15.8	17.7	19.6	21.2	22.4
... % change	24.8%	12.3%	10.4%	8.4%	5.7%
Reported EPS (eps)	(0.3)	15.1	19.2	20.6	21.8
P/E (on operating EPS) (x)	34.1	30.3	27.1	24.9	23.5
P/E (on reported EPS) (x)	(1,625.3)	33.9	26.7	24.9	23.5
EV/Operating EBITDA (Pre-AASB, x)	22.2	18.3	14.6	12.7	12.0
EV/EBIT (Pre-AASB, x)	27.3	22.2	18.6	15.8	14.8
NTA (\$ps)	0.91	0.83	0.89	0.85	0.83
P/NTA (x)	5.65	6.18	5.73	6.06	6.20
Book Value (\$ps)	2.11	2.15	2.20	2.09	2.00
Price/Book (x)	2.43	2.39	2.33	2.45	2.56
DPS (eps)	12.3	14.0	15.1	16.5	17.5
... % pay-out	85.7%	79.0%	76.4%	79.0%	79.2%
Annualised Yield (%)	2.4%	2.7%	3.0%	3.2%	3.4%
Franking (%)	100%	100%	100%	100%	100%

Performance Ratios	2022	2023	2024e	2025e	2026e
Revenue growth (%)	20.6%	15.7%	27.7%	9.3%	4.1%
Operating EBITDA growth (%)	25.4%	18.0%	24.7%	8.5%	5.9%
EBITDA margin (%)	26.8%	27.3%	26.7%	26.5%	27.0%
EBIT margin (%)	19.7%	20.6%	20.7%	20.7%	21.5%
NPAT margin (%)	12.2%	12.4%	10.8%	11.2%	12.1%

Gross cash conversion (%)	84.3%	104.0%	114.3%	103.6%	102.3%
Free cash-flow yield (%)	3.1%	4.8%	6.1%	2.1%	5.4%
ROE (%)	7.4%	7.9%	8.7%	9.6%	10.7%
ROIC (%)	8.1%	8.5%	8.1%	8.3%	9.0%
Capex/Depn (x)	1.0	0.9	0.7	0.7	0.7
Net interest cover (x)	6.6	6.0	3.7	4.0	4.8
Core Net Debt/EBITDA (x)	1.0	2.0	2.8	2.5	2.2
Net debt/equity (%)	31.3%	50.0%	75.2%	71.1%	66.3%
Net debt/net debt + equity (%)	23.8%	33.3%	42.9%	41.5%	39.9%

Half yearly (A\$m)	2H21	1H22	2H22	1H23	2H23
Sales revenue	61.4	68.0	77.3	83.8	84.3
Operating EBITDA	15.6	18.4	20.6	23.1	22.9
Deprec. & amort.	(4.9)	(5.0)	(5.3)	(5.5)	(5.9)
Operating EBIT	10.7	13.4	15.3	17.6	17.0
Net Interest	(1.7)	(1.8)	(1.7)	(2.0)	(2.9)
Net pre-paid contracts charge	-0.5	-0.3	-0.5	-0.3	-0.5
Operating Pre-tax profit	8.4	11.3	13.0	15.2	13.6
Operating tax expense	(2.8)	(3.5)	(3.9)	(4.7)	(4.2)
... tax rate	33%	31%	30%	31%	31%
Minorities	-	-	-	-	-
Operating Net Profit (BPe)	5.6	7.8	9.1	10.6	9.4
Abs. & extras.	-	(16.4)	-	-	(2.3)
Reported Profit	5.6	(8.6)	9.1	10.6	7.1

Operating NPAT (ex.net pre-paid charge)	2022	2023e	2024e	2025e	2026e
6.1	8.1	9.7	10.9	9.9	
Segments (A\$m)					
Funeral operations	127.5	148.1	189.1	206.7	215.1
Cemetery and memorial gardens	15.4	18.5	23.6	25.8	26.8
Other trading revenue	2.3	1.5	2.0	2.2	2.2
Total revenue	145.2	168.1	214.6	234.6	244.2

*PFP'S ENTERPRISE VALUE (EV) CALCULATED USING BPE NET DEBT AS OF DECEMBER-23 | SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

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