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Accent Group (AX1)

A step forward

Recommendation
Buy (unchanged)
Price
\$2.25
Target (12 months)
\$2.75 (previously \$2.80)

Sector
Retailing

Expected Return

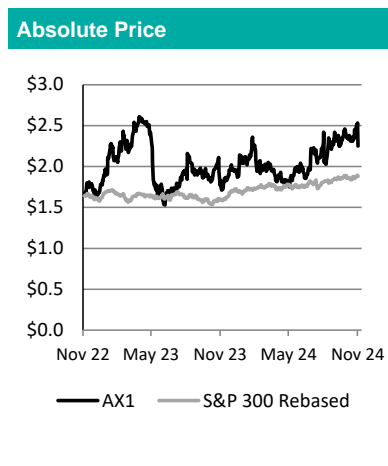
Capital growth	22%
Dividend yield	6%
Total expected return	28%

Company Data & Ratios

Enterprise value	\$1,781.9m
Market cap	\$1,273.4m
Issued capital	565.9m
Free float	~65%
Avg. daily val. (52wk)	\$4.38m
12 month price range	\$1.70-\$2.55

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	2.44	2.22	1.94
Absolute (%)	-7.79	1.35	16.28
Rel market (%)	-8.12	-3.03	-1.60



SOURCE: IRESS

Strong LFLs, category promo activity weighing on margins

Accent Group (AX1) provided a trading update for the first 20 weeks of FY25 at their AGM, with Group owned sales +6.8% YTD, (BPe +6.2%) while gross margin was down -70bps (BPe -10bps), largely impacted by the promotional trading environment within their mass/youth focused brands. The new 1H25 new store target of 50 was a beat to BPe while the Frasers Group (FRAS) executive on board another strategic positive for the partnership with the global player in their potential regional expansion in Australia.

Earnings changes

We make marginal changes to our revenue estimates as we factor in a handful of additional new stores for FY25e within the Skechers, Nude Lucy, Style Runner and Hoka brands. We make no changes to our average sales per store (LFL) assumptions and note the relatively more challenging comps through the Nov-Dec period (-2% in Jul-Oct vs +1.8% in Nov-Dec during FY24). However, our FY25e GP margins now see a 30bps decline (vs prev. flat), ahead of the current run-rate (70bps decline) given that we expect a progressive recovery through 2Q. We assume a narrower gap in gross margins vs pcp given a broadly similar promo participation intensity vs 2Q24. Our revised CODB assumptions see a ~30bps improvement in FY25 driving EBIT margins of ~9% for FY25. The net result sees our NPAT forecasts -1.7%/-1.2%/-1.3% for FY25/26/27e.

Investment view: PT down 2% to \$2.75, Retain BUY

Our Price Target (PT) decreases ~2% to \$2.75/share (prev. \$2.80/share) given the modest earnings changes. We continue to view AX1 as a key pick in our retail sector coverage given their scale as Australia's market leader, growth adjacencies in both footwear/apparel from exclusive partnerships & TAF channel conversion and growing vertical brand strategy led by Nude Lucy. We also view the strategic investment by FRAS in AX1 (~15%) and the board appointment today as a step forward to unlocking the sizable store roll-out opportunity of FRAS's core Sports Direct banner in Australia.

Earnings Forecast

Jun Year end	2024a	2025e	2026e	2027e
Sales (A\$m)	1,456.7	1,551.4	1,683.7	1,782.7
EBIT (A\$m)	126.7	139.9	174.4	193.0
NPAT (underlying) (A\$m)	71.6	83.0	105.5	117.2
EPS underlying (cps)	12.7	14.4	18.4	20.4
NPAT (adjusted) (A\$m)	72.4	83.8	106.3	118.0
EPS adjusted (cps)	12.8	14.6	18.5	20.5
EPS adjusted growth (%)	-18.6%	13.5%	26.9%	10.9%
P/E (on adjusted EPS) (x)	17.5	15.4	12.2	11.0
EV/EBITDA (x)	6.2	5.8	5.2	4.8
EV/EBIT (x)	14.4	13.0	18.5	9.4
Dividend (¢ps)	17.0	13.7	15.6	17.3
Yield (%)	7.6%	6.1%	6.9%	7.7%
Franking (%)	100%	100%	100%	100%

SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

FY25 to-date trading update

Accent Group (AX1) provided a trading update for the first 20 weeks of FY25 and the key points are:

- The first 20 weeks of FY25 owned sales +6.8% on pcp, tracking towards BPe +6.2% for 1H25e
- Retail channel like-for-like (LFL) sales maintained at +3.5% on pcp (similar to the first 7 weeks), a strong outcome
- Upgraded new store openings target to ~40 in 1H25 from earlier at least 50 for FY25, a beat to BPe of 25 net new stores for 1H25e
- 8 out of the 17 under-performing Glue stores closed as of end of Oct

Margins/Costs

- Gross margins tracking to down 70bps slightly below consensus at -50bps (Visible Alpha) and below BPe at -10bps in 1H25e; commentary noted as “impacted by a more promotional environment with customers responding to promotion and value”
- Cost of doing business % of sales (inclusive of restructure costs) seeing an improvement to pcp driven by cost focus initiatives vs BPe for 10bps lower in 1H25e (on pcp)

Update on partnership with Frasers Group (FRAS)

- Dave Forsey, current Frasers Group GM for APAC region to be appointed as an AX1 board member effective from the conclusion of the AGM today
- The company remains in active discussion with FRAS re future strategic opportunities

Frasers Partnership potential opportunity

Material potential opportunity ahead. We view an opportunity for FRAS's core and globally leading Sports Direct banner to be rolled out in Australia and size it considering the peer market presence, namely large and leading domestic sporting goods retailer, Rebel. While Rebel's store footprint spans to ~160 stores with multiple formats including the elevated/higher revenue generating RCX format (~20 stores), a potential quarter of the store print in the form of new Sports Direct stores may present a turnover/sales opportunity of A\$250-300m assuming 'small' format Sport Direct stores and A\$45-50m in EBITDA, as per BPe. We see a material incrementality associated with this partnership opportunity as the international footprint expansion has been noted as a key growth driver by FRAS.

Figure 1 – Sport Direct store penetration by region

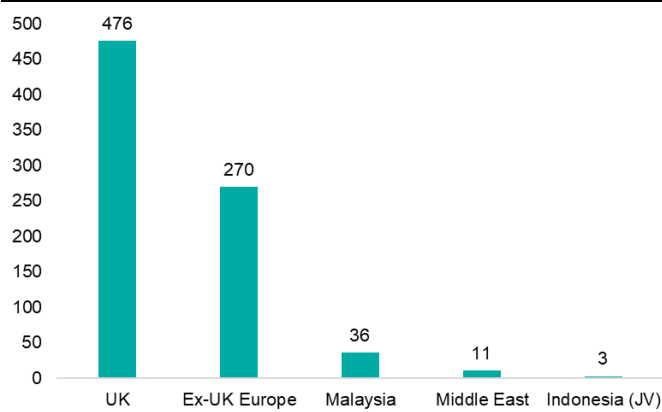
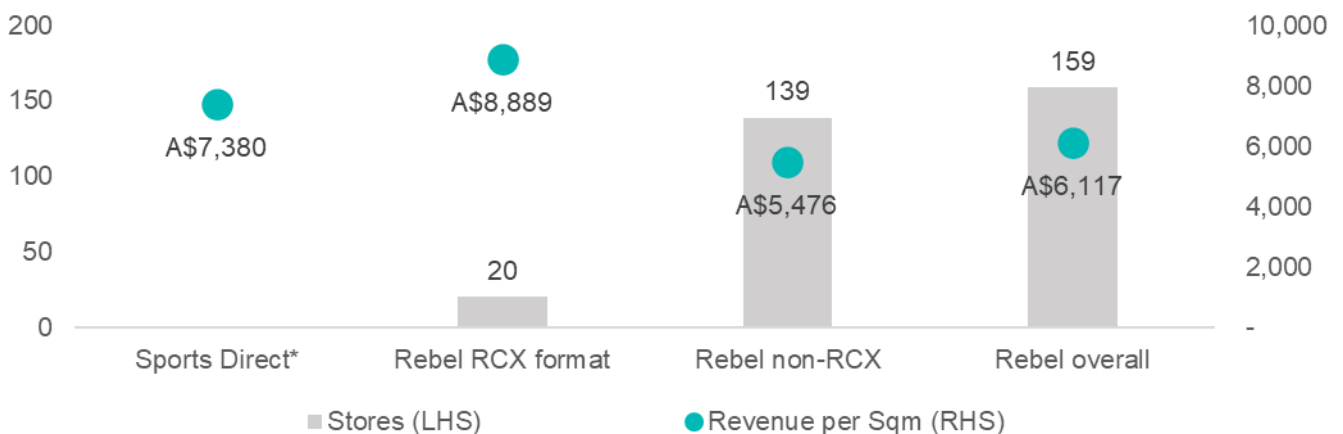


Figure 2 – Store size, return metrics for Sports Direct format



SOURCE: FRASERS REPORTS, BELL POTTER SECURITIES

Figure 3 – Sports Direct store opportunity in Australia based on Rebel store footprint



*SPORTS DIRECT REVENUE PER SQM ESTIMATED AS PER THEIR STORE METRICS, REBEL STORE NUMBERS ON A FY24 BASIS, REVENUE PER SQM ON A FY23 BASIS AND AS PER BPE
SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Figure 5 – Core Brands and Channels for AX1 and Frasers

Core Brands				
AX1			Frasers	
Exclusive Distribution	Vertically owned	Retail Banners	Vertically owned	Retail Banners

SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES

Earnings changes and Valuation

Revenue assumptions. We make marginal changes to our revenue estimates as we factor in a handful of additional new stores for FY25 within the Skechers, Nude Lucy, Style Runner and Hoka brands. We make no changes to our average sales per store (LFL) assumptions and note the relatively more challenging comps through the Nov-Dec period (-2% in Jul-Oct vs +1.8% in Nov-Dec during FY24).

Earnings changes. our FY25e GP margins now see a 30bps decline (vs prev. flat), ahead of the current run-rate (70bps decline) given that we expect a progressive recovery through 2Q. We assume a narrower gap in gross margins vs pcp given a broadly similar promo participation intensity vs 2Q24. Our revised CODB assumptions see a ~30bps improvement in FY25 driving EBIT margins of ~9% for FY25. The net result sees our NPAT forecasts -1.7%/-1.2%/-1.3% for FY25/26/27e.

Figure 5 – AX1 BPe Changes

Earnings Changes June Year End	2025e			2026e			2027e		
	old	new	% change	old	new	% change	old	new	% change
Revenue (\$m)	1,547.3	1,551.4	0.3%	1,674.8	1,683.7	0.5%	1,769.6	1,782.7	0.7%
EBIT (\$m)	141.8	139.9	-1.3%	175.8	174.4	-0.8%	193.8	193.0	-0.4%
NPAT (Underlying) (\$m)	84.4	83.0	-1.7%	106.8	105.5	-1.2%	118.7	117.2	-1.3%
EPS (Underlying) (cps)	14.7	14.4	-1.8%	18.7	18.4	-1.9%	20.8	20.4	-2.1%
DPS (cps)	13.9	13.7	-1.4%	15.8	15.6	-1.2%	17.6	17.3	-1.5%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Valuation. Our Price Target decreases 2% to \$2.75/share (prev. \$2.80/share) given modest earnings changes. We maintain our BUY rating.

Accent Group Ltd (AX1)

Company Description

Accent Group Limited (AX1) is a footwear and sports clothing retailer and wholesaler which owns/operates a number of footwear businesses in the performance, comfort and active lifestyle sectors. These include multi-branded retailers, The Athlete's Foot (TAF) Australia, Platypus, Hype and Glue Store, as well as a number of mono-branded retail stores for Merrell, Skechers, Vans, Timberland, Stylerunner, Nude Lucy and more recently Hoka. While AX1 has a dominant market position in the overall Australian footwear market, the company also has an emerging presence in youth apparel through its Glue Store platform. The group has exclusive distribution rights for a number of international brands across ANZ including Skechers, Reebok, Vans, Merrell, CAT, Saucony, Timberland, Palladium, Stance and Dr Martin. Its growing vertical brand range includes Nude Lucy, Style Runner, Article One and Lulu & Rose.

Investment View

We rate AX1 Buy with a PT of \$2.75/share. AX1's strategic focus has moved from acquisition and integration to innovation in its core business and expansion through new concepts. AX1 has a leading omni-channel capability across its key banners with close to 20% of retail sales driven by e-commerce.

Valuation

Our blended 12-month price target is \$2.75/share. The PT is a 50/50 blend of DCF (WACC 9.2%, TGR 3.5%) and Relative Valuation methodology (target P/E multiple of ~18x on a FY25/26e blended basis).

Key risks

Key risks to our investment thesis include (but are not limited to):

- **Slowdown in consumer spending and rise in unemployment** – AX1's product portfolio is mainly footwear and clothing which are discretionary items. This sees exposure to consumer sentiment & spend risk, although AX1's portfolio is well diversified across all segments of the market including affordable to premium products.
- **Increased competition** – Increased competitive intensity via price/product range may place pressure on sales/margins. This includes the threat of online competition.
- **Loss of relationships with global brands** – A large component of retail earnings is derived from the distribution of key brands such as Skechers, Nike, Adidas and Reebok (from May-22).
- **Inventory risk** – As a retailer, the company is exposed to inventory risk and in a period of store closures or demand weakness, the inventory position could be higher than expected which could lead to aged stock.
- **Movements in \$A/\$US** – Can impact sourcing cost/earnings. AX1 employ a hedging program: 6 months out (as a min. term) at 50% until an order is placed at which point this rises to 70% hedged. As stock arrival nears, AX1 increases hedge cover >70%.
- **Impairment risk** – due to difficult market conditions or the deterioration in brand equity.
- **Prolonged adverse weather** – AX1 has exposure to outdoor footwear/apparel.

Accent Group

as at 21 November 2024

Recommendation

Buy

Price

\$2.25

Target (12 months)

\$2.75

Table 1 - Financial summary

Jun Year end (post AASB 16)	2023a*	2024a*	2025e	2026e	2027e
Profit & Loss (A\$m)					
Sales revenue	1,400.7	1,456.7	1,551.4	1,683.7	1,782.7
... Change	24.0%	4.0%	6.5%	8.5%	5.9%
Gross Profit	767.8	802.7	847.9	936.0	1011.3
... Margin	54.8%	55.1%	54.7%	55.6%	56.7%
EBITDA	296.0	295.8	313.4	351.1	379.3
... Change	33.8%	-0.1%	5.9%	12.0%	8.0%
Deprec. & amort.	(159.4)	(169.2)	(173.5)	(176.7)	(186.3)
EBIT	136.6	126.7	139.9	174.4	193.0
Net Interest	(19.5)	(26.0)	(23.1)	(25.2)	(27.4)
Pre-tax profit	117.1	100.7	116.8	149.2	165.6
Tax expense	(31.0)	(29.1)	(33.8)	(43.7)	(48.4)
Underlying Net Profit	86.1	71.6	83.0	105.5	117.2
... Change	133.7%	-16.9%	16.0%	27.2%	11.0%
Abs. & extras.	-	(12.0)	-	-	-
Reported Net Profit	86.1	59.5	83.0	105.5	117.2
Underlying Net Profit	86.1	71.6	83.0	105.5	117.2
Add-back ident. amort'n	0.8	0.8	0.8	0.8	0.8
Adjusted Net Profit	86.9	72.4	83.8	106.3	118.0
... Change	130.9%	-16.8%	15.8%	26.9%	10.9%
Underlying EBITDA (Pre-AASB16)	185.2	167.5	178.3	205.4	219.1
Cashflow (A\$m)					
EBITDA	296.0	295.8	313.4	351.1	379.3
Working capital changes	(17.1)	12.5	(3.5)	(10.4)	(4.7)
Net Interest Expense	(19.5)	(17.7)	(23.1)	(25.2)	(27.4)
Tax	(20.0)	(27.8)	(31.4)	(38.9)	(46.6)
Other operating items	17.2	(2.3)	1.5	2.1	1.4
Operating Cash Flow	256.6	260.5	256.9	278.7	302.1
Capex	(26.2)	(30.2)	(28.3)	(29.0)	(26.2)
Free Cash Flow	230.4	230.3	228.6	249.7	275.9
Dividends paid	(88.0)	(78.7)	(99.4)	(81.8)	(96.2)
Acquisitions	(14.2)	(4.3)	-	(28.0)	(37.3)
Share issues	-	-	-	-	-
Payment of leases	(127.4)	(130.9)	(137.9)	(148.7)	(163.5)
Other investing items	-	-	-	-	-
Core debt increase/(reduction)	(20.0)	2.2	8.7	8.7	21.1
Balance Sheet (A\$m)					
Cash	29.7	28.1	37.7	37.7	37.7
Receivables	34.1	36.8	39.3	42.7	45.0
Inventories & WIP	239.6	264.8	275.2	296.9	308.8
Other current assets	19.5	16.7	16.7	16.7	16.7
Current Assets	322.9	346.5	369.0	394.0	408.3
Fixed Assets (PP&E)	140.5	121.4	104.4	94.1	84.9
Right-of-use Assets	281.4	265.4	277.8	301.0	332.7
Intangibles	382.2	384.0	377.5	398.8	428.9
Other non-curr assets	27.6	30.6	30.6	30.6	30.6
Non Current Assets	831.7	801.5	790.4	824.5	877.2
Total Assets	1,154.5	1,147.9	1,159.3	1,218.6	1,285.6
Short term debt	10.0	10.0	10.0	10.0	10.0
Creditors	110.8	151.3	160.6	175.3	185.0
Provisions	23.8	20.7	22.0	23.9	25.3
Other curr liabilities	146.5	150.7	157.1	169.1	185.7
Current Liabilities	291.1	332.6	349.7	378.4	405.8
LT debt (incl. leases)	416.2	393.5	423.7	454.6	506.0
Other non curr liabilities	6.0	3.1	3.2	3.4	3.5
Non Current Liabilities	422.2	396.6	426.9	457.9	509.5
Total Liabilities	713.3	729.1	776.6	836.3	915.3
Net Assets	441.2	418.8	382.7	382.3	370.2
Share Capital	390.9	390.9	390.9	390.9	390.9
Reserves	37.0	33.8	33.8	33.8	33.8
Retained Earnings	13.3	(6.0)	(42.0)	(42.5)	(54.5)
Shareholders Equity	441.2	418.8	382.7	382.3	370.2
Outside Equity Interests	-	-	-	-	-
Total Equity	441.2	418.8	382.7	382.3	370.2
Core Net debt/(cash) \$m	119.6	121.5	130.2	138.8	159.9
Net debt/(cash) [incl. leases] \$m	528.6	513.4	540.4	583.3	651.3

SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Price	\$2.25
Recommendation	Buy
Diluted issued capital (m)	563.9
Market cap (\$m)	1,294.0
Target Price (A\$m)	\$ 2.75

Jun Year end (post AASB 16)

Valuation Ratios	2023a*	2024a*	2025e	2026e	2027e
Underlying EPS (eps)	15.6	12.7	14.4	18.4	20.4
... % change	130.4%	-18.8%	13.7%	27.2%	11.0%
Adjusted EPS (eps)	15.8	12.8	14.6	18.5	20.5
... % change	127.6%	-18.6%	13.5%	26.9%	10.9%
P/E (on underlying EPS) (x)	14.4	17.7	15.6	12.3	11.0
P/E (on adjusted EPS) (x)	14.3	17.5	15.4	12.2	11.0
EV/EBITDA (x)	6.16	6.16	5.81	5.19	4.80
EV/EBIT (x)	13.34	14.39	13.02	18.50	9.44
NTA (\$ps)	0.10	0.06	0.01	(0.03)	(0.10)
P/NTA (x)	21.46	37.19	247.63	(78.27)	(22.05)
Book Value (\$ps)	0.78	0.73	0.67	0.66	0.64
Price/Book (x)	2.87	3.09	3.38	3.39	3.50
DPS (eps)	17.5	17.0	13.7	15.6	17.3
... % pay-out	113.3%	135.0%	95.0%	85.1%	85.1%
Yield (%)	7.8%	7.6%	6.1%	6.9%	7.7%
Franking (%)	100%	100%	100%	100%	100%
Capital Return Payts (eps)	-	-	-	-	-

Performance Ratios	2023a*	2024a*	2025e	2026e	2027e
Revenue growth (%)	24.0%	4.0%	6.5%	8.5%	5.9%
EBITDA growth (%)	33.8%	-0.1%	5.9%	12.0%	8.0%

Gross Profit margin (%)	54.8%	55.1%	54.7%	55.6%	56.7%
EBITDA margin (%)	21.1%	20.3%	20.2%	20.9%	21.3%
EBIT margin (%)	9.8%	8.7%	9.0%	10.4%	10.8%
NPAT margin (%)	6.2%	5.0%	5.4%	6.3%	6.6%
Gross cash conversion (%)	100.0%	103.4%	99.4%	97.6%	99.1%
ROE (%) (on adj NPAT)	19.2%	16.5%	20.7%	27.1%	30.6%
ROIC (%)	17.3%	16.2%	18.3%	23.2%	25.3%
Capex/Sales (x)	1.9%	2.1%	1.8%	1.7%	1.5%
Capex/Deprn (x)	0.6	0.6	0.6	0.7	0.7

Net interest cover (x)	7.0	4.9	6.0	6.9	7.1
Core net Debt/EBITDA (pre-AASB16)	0.6	0.7	0.7	0.7	0.7
Core net debt/Equity (%)	27.1%	29.0%	34.0%	36.3%	43.2%
Net debt/Net debt + Equity (%)	21.3%	22.5%	25.4%	26.6%	30.2%

Half year (A\$m)	2H22	1H23	2H23	1H24	2H24
Sales revenue	593.3	722.1	678.6	742.1	714.6
EBITDA	121.7	160.2	135.9	158.0	137.9
Deprec. & amort.	(25.2)	(22.0)	(29.5)	(29.4)	(24.6)
EBIT	39.7	81.2	55.4	73.0	53.7
Interest expense	(7.5)	(10.4)	(9.1)	(13.2)	(12.8)
Pre-tax profit	32.2	70.9	46.2	59.8	40.9
Tax expense	(10.1)	(20.2)	(10.8)	(17.0)	(12.1)
Associates	-	-	-	-	-
Minorities	-	-	-	-	-
Underlying Net Profit	22.1	50.7	35.5	42.7	28.8
Abs. & extras.	(5.4)	-	-	(2.2)	(9.9)
Add-back ident. amort'n	(0.0)	0.8	(0.0)	0.8	(0.0)
Adj. Net Profit	22.1	51.5	35.5	43.5	28.8

Segments	2023a*	2024a*	2025e	2026e	2027e
Owned retail sales	1176.5	1271.3	1358.2	1476.8	1575.5
Store sales ex. Vertical & Virtual	815.0	861.8	904.2	989.7	1052.4
Vertical sales	101.0	127.9	156.5	188.1	216.4
Virtual sales	260.5	281.5	297.4	299.0	306.7
Wholesale sales	196.8	163.6	167.7	185.3	215.9
TAF franchisee gross sales	197.0	164.7	184.7	158.5	102.0
Total Gross Revenue	1570.2	1599.6	1710.6	1820.6	1893.4

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

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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The Price appearing in the Recommendation panel on page 1 of the Research Report is the Closing Price on the Date of the Research Report (appearing in the top right hand corner of page 1 of the Research Report), unless a before midday (am) time appears below the Date of the Research Report in which case the Price appearing in the Recommendation panel will be the Closing Price on the business day prior to the Date of the Research Report.

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