

Analyst

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Authorisation

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IVE Group (IGL)

Guidance looks conservative

Recommendation

Buy (unchanged)

Price

\$2.34

Target (12 months)

\$2.80 (previously \$2.70)

Sector

Hotels Restaurants and Leisure

Expected Return

Capital growth	19.7%
Dividend yield	7.7%
Total expected return	27.4%

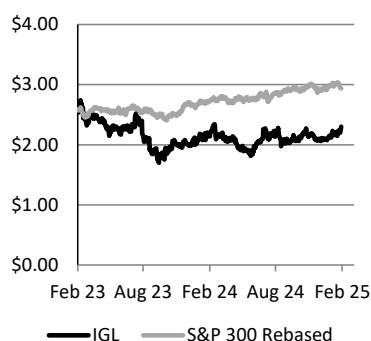
Company Data & Ratios

Enterprise value	\$483.8m
Market cap	\$362.4m
Issued capital	154.9m
Free float	95%
Avg. daily val. (52wk)	\$531,735
12 month price range	\$1.805 - \$2.38

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	2.13	2.27	2.18
Absolute (%)	7.98	1.32	5.50
Rel market (%)	9.44	2.43	-2.45

Absolute Price



SOURCE: IRESS

7% beat at underlying EBITDA

1HFY25 revenue of \$510m was 3% below our forecast of \$524m but underlying EBITDA of \$74.1m was 7% above our forecast of \$69.5m. The beat was obviously driven by a much higher underlying EBITDA margin than forecast (14.5% vs BPe 13.3%). There was a bigger beat of 16% at underlying NPAT (\$29.3m vs BPe \$25.2m) which was also driven by lower D&A than forecast (\$22.6m vs BPe \$24.1m). Cash flow was good with operating CF to EBITDA of 92% (vs 84% in pcp) and net debt reduced to \$121m at 31 Dec vs \$131m at 30 Jun. The interim dividend of 9.5c ff was in line with our forecast.

Soft upgrade to FY25 guidance

IVE revised its FY25 guidance from underlying NPAT of \$45-50m to \$47-50m. The company still expects Lasoo to generate an operating loss similar to FY24 but restructuring costs are now expected to be \$3.5m vs \$2.5m previously. The level of capex has also been increased from \$24.5m to \$32m due to an acceleration of the packaging capacity build-out.

Low to mid single digit earnings upgrades

We have downgraded our revenue forecasts by 3% in each of FY25, FY26 and FY27 but have conversely upgraded our underlying EBITDA forecasts by 3%, 2% and 2%. The upgrades at underlying NPAT are greater – 6%, 5% and 6% – and we now forecast FY25 underlying NPAT of \$51.8m which is above the \$47-50m guidance range.

Investment view: PT up 4% to \$2.80, Maintain BUY

We have rolled forward our PE ratio and EV/EBITDA valuations by a year and apply similar multiples of 7.5x and 4.0x to our FY26 forecasts. We have also increased the WACC we apply in the DCF from 9.4% to 9.8% due to an increase in the risk-free rate. The net result is a 4% increase in our PT to \$2.80 which is >15% premium to the share price and we maintain the BUY. A potential catalyst is the strategy update in late Q4.

Earnings Forecast

Year end 30 June	2024	2025e	2026e	2027e
Total revenue (A\$m)	972.8	980.2	1,003.4	1,015.2
Underlying EBITDA (A\$m)	126.3	138.4	137.8	138.2
Underlying NPAT (A\$m)	43.0	51.8	54.2	57.7
Underlying EPS (diluted) (A¢ps)	26.7	32.2	34.5	36.6
Underlying EPS growth (%)	3%	21%	7%	6%
Underlying PER (x)	8.8	7.3	6.8	6.4
Price/CF (x)	3.6	3.4	3.5	3.7
EV/Underlying EBITDA (x)	3.8	3.5	3.5	3.5
Dividend (A¢ps)	18.0	18.0	18.0	18.0
Yield (%)	7.7%	7.7%	7.7%	7.7%
Underlying ROE (%)	22.1%	24.3%	22.8%	21.7%
Franking (%)	100%	100%	100%	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

1HFY25 Result

A summary of the 1HFY25 result is below.

Figure 1 - 1HFY25 result summary

Year end 30 June	Result vs PCP			Result vs Forecast		Comment
	1HFY24	1HFY25	Change	1HFY25e	Variance	
Revenue (A\$m)	507.6	510.2	1%	523.9	-3%	3% miss in revenue
Cost of sales	-273.0	-262.7	-4%	-280.3	-6%	COGS much lower than forecast
Gross profit	234.6	247.5	5%	243.6	2%	2% beat in BP despite miss in revenue
Gross margin	46.2%	48.5%	229bps	46.5%	200bps	GM 200bps above our forecast
Other income	0.0	0.0	NM	0.0	NM	
Total operating expenses	-206.6	-199.9	-3%	-203.0	-2%	Opex also lower than forecast ...
Expenses as % of sales revenue	-40.7%	-39.2%	152bps	-38.8%	-44bps	... but slightly higher as % of revenue
EBITDA (statutory)	52.7	71.0	35%	64.7	10%	10% beat in EBITDA driven by higher GM
D&A	-24.7	-23.5	-5%	-24.1	-3%	D&A slightly lower than forecast
EBIT	28.0	47.6	70%	40.6	17%	Larger beat in EBIT due to lower D&A
Net interest expense	-8.5	-8.4	-1%	-8.7	-3%	Slightly lower net interest expense
Profit before tax	19.5	39.1	101%	31.9	23%	Larger beat in PBT due to lower net interest expense
Income tax expense	-6.4	-12.0	87%	-10.4	16%	Higher tax expense than forecast due to higher PBT
NPAT from continuing operations	13.0	27.1	108%	21.5	26%	Large beat in NPAT despite higher tax
Underlying EBITDA	65.8	74.1	13%	69.5	7%	7% beat in underlying EBITDA
Underlying NPAT	22.7	29.3	29%	25.2	16%	16% beat in underlying NPAT
Statutory EBITDA margin	10.4%	13.9%	353bps	12.3%	157bps	Statutory EBITDA margin c.150bps above our forecast
Underlying EBITDA margin	13.0%	14.5%	156bps	13.3%	126bps	Underlying EBITDA margin c.125bps above our forecast
Effective tax rate	-33.1%	-30.8%	230bps	-32.5%	172bps	Effective tax rate lower than our forecast
Weighted average fully diluted shares	154.5m	155.9m	1%	156.0m	0%	
Diluted EPS	8.4c	17.4c	106%	13.8c	26%	
Interim dividend	9.5c	9.5c	0%	9.5c	0%	Interim dividend in line with our forecast
Franking	100%	100%		100%		
Payout ratio on underlying EPS	65%	51%		59%		Lower payout ratio than forecast

SOURCE: BELL POTTER SECURITIES ESTIMATES

The key take-outs are:

- Miss at revenue:** Revenue grew 1% to \$510.2m but was 3% below our forecast of \$523.9m. The revenue includes \$15.8m of incremental revenue from JacPak (acquired 31 October 2023) which means underlying or base revenue fell by about 3%. IVE attributed the decrease to a "softer economy and non-recurrence of large one-off prior period jobs (e.g the Voice Referendum and the FIFA World Women;s World Cup).
- Beat at EBITDA:** Statutory EBITDA grew 35% to \$71.0m and was 10% above our forecast of \$64.7m. The beat was driven by a better GM than forecast (48.5% vs BPe 46.5%) which more than offset the miss at revenue. Opex was also lower than forecast (\$199.9m vs BPe \$203.0m) though was higher as a percentage of revenue than forecast (39.2% vs BPe 38.8%). Underlying EBITDA grew 13% to \$74.1m and was 7% above our forecast of \$69.5m.
- Beat at NPAT:** Statutory NPAT grew >100% to \$27.1m and was 26% ahead of our forecast of \$21.5m. In absolute terms the beat was slightly smaller than at EBITDA as lower DA& and net interest expense was more-than-offset by higher than expected tax. Underlying NPAT grew 29% to \$29.3m and was 16% ahead of our forecast of \$25.2m.
- Good cash flow:** While not shown above, cash flow was good with operating CF to EBITDA of 92% (vs 84% in pcp) and net debt reduced to \$121m at 31 Dec vs \$131m at 30 Jun. Net debt to EBITDA is trending well below the company's target of 1.5x.
- Interim dividend in line:** The interim dividend of 9.5c ff was in line with our forecast. IVE has flagged it intends to pay an annual dividend of 18.0c for the foreseeable future.

Forecast and Valuation Changes

Low to Mid Single Digit Earnings Upgrades

We have downgraded our revenue forecasts by 3% in each of FY25, FY26 and FY27 but have conversely upgraded our underlying EBITDA forecasts by 3%, 2% and 2%. The upgrades at underlying NPAT are greater – 6%, 5% and 6% - and we now forecast FY25 underlying NPAT of \$51.8m which is above the \$47-50m guidance range. We note the top end of the guidance range implies a flat 2HFY25 result relative to pcp but with a stronger GM, JakPak synergies now realised and the potential positive impact on the Federal Election we expect 2HFY25 to be stronger but still down relative to 1HFY25.

A summary of the changes in our key forecasts is below.

Figure 2 - Change in key forecasts

Year end 30 June	FY25e			FY26e			FY27e		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (A\$m)	1,007.5	980.2	-2.7%	1,031.4	1,003.4	-2.7%	1,043.6	1,015.2	-2.7%
Underlying EBITDA	134.9	138.4	2.6%	135.3	137.8	1.9%	135.1	138.2	2.3%
Underlying NPAT	48.6	51.8	6.4%	51.8	54.2	4.6%	54.7	57.7	5.5%
Underlying diluted EPS	31.2c	33.2	6.4%	33.0c	34.5	4.6%	34.6c	36.6	5.5%
DPS	18.0c	18.0	0.0%	18.0c	18.0	0.0%	18.0c	18.0	0.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

4% Increase in PT to \$2.80

We have rolled forward our PE ratio and EV/EBITDA valuations by a year and apply similar multiples of 7.5x and 4.0x to our FY26 forecasts. We have also increased the WACC we apply in the DCF from 9.4% to 9.8% due to an increase in the risk-free rate.

The change in each valuation and the impact on our price target calculation is shown below.

Figure 3 - PT calculation

Methodology	Old (as at 26-Nov-24)			New (as at 24-Feb-25)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
PE ratio	\$2.49	40%	\$1.00	\$2.59	40%	\$1.04
EV/EBITDA	\$2.69	40%	\$1.08	\$2.80	40%	\$1.12
DCF	\$3.12	20%	\$0.62	\$3.21	20%	\$0.64
Total			\$2.70			\$2.80

SOURCE: BELL POTTER SECURITIES ESTIMATES

The net result is a 4% increase in our PT to \$2.80 which is >15% premium to the share price and we maintain the BUY. A potential catalyst for the share price is the strategy update in late Q4 which could see further revision of the guidance. The impact of the Federal Election should be known by then and the winning tenderer(s) of the McDonalds' contract should also be known (decision is scheduled for May).

IVE Group

Company Description

IVE Group (IVE) is the largest integrated marketing communications business in Australia with leading market positions across every sector in which the company operates. Today, IVE is much more than “just a printing company” and over the past 20 years or so has expanded organically into logistics, creative services, integrated marketing and web offset printing and through acquisition into data driven communications, retail display, premiums and merchandising, marketing automation, distribution and digital catalogues. The result is a diversified, resilient business which has supported a consistently high dividend yield and a strong Balance Sheet to pursue further growth opportunities.

IVE was founded in 1921 by Oscar Selig who established *The Link* newspaper in Balmain, Sydney. Oscar’s son, Gordon, took over in the early 1960’s and evolved the newspaper into a leading commercial printing operation. Today, a third generation of Selig’s – Paul – is still involved in the business as an Executive Director.

Investment Thesis

We maintain our BUY recommendation on IVE. Our investment thesis is based on:

- **Valuation:** Our 12 month price target on IVE is \$2.80. The price target is generated from a blend of three valuation methodologies we apply to the company: PE ratio, EV/EBITDA and DCF. The PT is a 20% premium to the current share price and the total expected return (which includes the forecast dividend yield) is 27%.
- **Strong yield:** IVE has a history of paying dividends and has a payout ratio policy of between 65-75% of underlying NPAT/EPS. The company recently indicated at the FY24 result that it intends to pay a total dividend of 18c for the “medium term” which equates to a yield of >7%. This dividend still allows for the paying down of debt and/or capital management initiatives.
- **Potential for further diversification/acquisitions:** IVE has successfully diversified over the past 20 years or so and today the company has five distinct but complementary businesses. IVE is now looking to further diversify and expand into the packaging sector which provides another potential area of growth.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Market risk:** Print remains the key market for IVE and generates or represents around 50% of the company’s revenue post Ovata. The print market is in gradual decline and a more rapid decline than we have assumed in our forecasts would have an adverse impact on our forecasts and valuation.
- **Customer risk:** IVE has a large number of customers – over 3,000 – but still relatively high customer concentration with the top 20 customers representing around 40% of group revenue (post Ovato). Loss of a key customer or a reduction in demand by one or more key customers would have an adverse impact on our forecasts and valuation.
- **Acquisition risk:** IVE has been acquisitive in the past and has indicated it is likely to be acquisitive in the future. Risks associated with acquisitions include overpaying, longer integration and/or lower cost synergies all of which may negatively impact financial performance and the outlook.

Table 1 - Financial summary

IVE Group (IGL)						Share price:	\$2.34	Target price:	\$2.80		
						No. of issued shares:	154.9m	Market cap:	\$362.4m		
Profit & Loss (A\$m)						Valuation data					
Year end 30 Jun	2023	2024	2025e	2026e	2027e	Year end 30 Jun	2023	2024	2025e	2026e	2027e
Revenue	970.2	972.8	980.2	1,003.4	1,015.2	NPAT (A\$m)	17.2	27.6	46.4	52.7	56.7
Change	28%	0%	1%	2%	1%	Diluted EPS (Ac)	11.2	17.7	29.7	33.6	35.9
Cost of sales	-532.8	-518.4	-509.7	-521.8	-527.9	Change	-40%	58%	68%	13%	7%
Gross profit	437.4	454.5	470.5	481.6	487.3	P/E ratio (x)	20.9	13.2	7.9	7.0	6.5
Gross margin	45.1%	46.7%	48.0%	48.0%	48.0%	CFPS (Ac)	15.2	65.6	68.9	67.3	64.0
Other income	2.8	0.0	0.0	0.0	0.0	Price/CF (x)	15.4	3.6	3.4	3.5	3.7
Expenses (excl. D&A, int.)	-402.6	-397.3	-387.2	-391.3	-393.4	DPS (Ac)	18.0	18.0	18.0	18.0	18.0
% of revenue	-41.5%	-40.8%	-39.5%	-39.0%	-38.8%	Yield	7.7%	7.7%	7.7%	7.7%	7.7%
						Franking	100%	100%	100%	100%	100%
EBITDA (statutory)	90.6	107.0	130.7	135.3	136.7	Underlying NPAT (A\$m)	39.7	43.0	51.8	54.2	57.7
D&A	-52.9	-49.9	-47.4	-45.0	-42.8	Underlying diluted EPS (Ac)	25.9	26.7	32.2	34.5	36.6
EBIT	37.7	57.2	83.3	90.3	93.9	Change	13%	3%	21%	7%	6%
Net interest (expense)/revenue	-13.3	-17.5	-16.6	-14.5	-12.3	Underlying P/E ratio (x)	9.0	8.8	7.3	6.8	6.4
Pre-tax profit	24.4	39.7	66.7	75.8	81.6	Underlying EBITDA (A\$m)	119.0	126.3	138.4	137.8	138.2
Income tax expense	-7.2	-12.1	-20.4	-23.1	-24.9	Underlying EBIT	66.1	76.5	91.1	92.8	95.4
NPAT from continuing ops.	17.2	27.6	46.4	52.7	56.7	EV/Underlying EBITDA (x)	4.1	3.8	3.5	3.5	3.5
Profit from discontinued ops.	0.0	0.0	0.0	0.0	0.0	NTA per share (Ac)	41.3	25.7	35.5	51.1	69.0
NPAT	17.2	27.6	46.4	52.7	56.7	Price/NTA (x)	5.7	9.1	6.6	4.6	3.4
Change	-36%	61%	68%	14%	8%						
Cash Flow (A\$m)						Performance ratios					
Year end 30 Jun	2023	2024	2025e	2026e	2027e	Year end 30 Jun	2023	2024	2025e	2026e	2027e
EBITDA	90.6	107.0	130.7	135.3	136.7	Underlying EBITDA margin	12.3%	13.0%	14.1%	13.7%	13.6%
Change in working capital	-20.7	32.6	13.8	7.9	1.6	Underlying EBIT margin	6.8%	7.9%	9.3%	9.2%	9.4%
Gross cash flow	69.9	139.7	144.4	143.3	138.3	Underlying return on assets	5.9%	6.5%	8.0%	8.8%	9.8%
Interest received	0.5	0.9	0.0	0.0	0.0	Underlying return on equity	20.5%	22.1%	24.3%	22.8%	21.7%
Interest paid	-7.1	-11.4	-16.6	-14.5	-12.3	Payout ratio	160.6%	101.4%	60.5%	53.6%	50.2%
Income tax paid	-14.8	-8.3	-20.4	-23.1	-24.9	Effective tax rate	-29.5%	-30.5%	-30.5%	-30.5%	-30.5%
JobKeeper payment received	0.0	0.0	0.0	0.0	0.0						
Other	-25.2	-18.7	0.0	0.0	0.0	Leverage ratios					
Operating cash flow	23.2	102.1	107.5	105.6	101.0	Year end 30 Jun	2023	2024	2025e	2026e	2027e
Proceeds from sale of PPE	0.4	1.0	0.0	0.0	0.0	Net debt/(cash) (A\$m)	124.2	131.0	117.3	84.7	58.1
Payments for PPE	-11.4	-14.7	-32.0	-15.0	-16.3	Net debt/equity	64%	67%	55%	36%	22%
Payment for acquisitions	-15.7	-29.4	-4.0	0.0	0.0	Gearing	39%	40%	36%	26%	18%
Proceeds from sale of	2.1	1.2	0.0	0.0	0.0	Net debt/EBITDA (x)	1.4	1.2	0.9	0.6	0.4
Other	-0.9	-1.1	0.0	0.0	0.0	Net interest cover (x)	2.8	3.3	5.0	6.2	7.6
Investing cash flow	-25.5	-43.0	-36.0	-15.0	-16.3	Segmentals (A\$m)					
Proceeds from borrowings	30.0	50.0	0.0	0.0	0.0	Year end 30 Jun	2023	2024	2025e	2026e	2027e
Repayment of borrowings	-4.3	-39.4	-12.5	-25.0	-25.0	Revenue					
Proceeds from issue of shares	18.6	0.0	0.0	0.0	0.0	Products and services point in tir	914.1	916.4	921.0	944.0	955.8
Dividends paid	-25.9	-27.7	-27.8	-28.0	-28.2	Products and services over time	56.1	56.4	59.2	59.4	59.4
Lease payments	-38.3	-38.0	-30.0	-30.0	-30.0	Total revenue	970.2	972.8	980.2	1,003.4	1,015.2
Shares repurchased	0.0	0.0	0.0	0.0	0.0	Growth					
Financing cash flow	-20.0	-55.1	-70.3	-83.2	-83.2	Products and services point in tir	29%	0%	1%	3%	1%
Net change in cash	-22.2	3.9	1.2	7.6	1.6	Products and services over time	8%	1%	5%	0%	0%
Cash at start of period	67.0	44.9	48.8	50.0	57.6	Total growth	28%	0%	1%	2%	1%
Cash at end of period	44.9	48.8	50.0	57.6	59.2						
Balance Sheet (A\$m)						Interims (A\$m)					
Year end 30 Jun	2023	2024	2025e	2026e	2027e	Year end 30 Jun		1HFY24	2HFY24	1HFY25	2HFY25e
Cash	44.9	48.8	50.0	57.6	59.2	Revenue		507.6	465.2	510.2	470.0
Current receivables	137.2	140.6	137.2	135.5	137.1	Change		0.7%	-0.2%	0.5%	1.0%
Inventories	98.7	80.5	73.5	70.2	68.5	Cost of sales		-273.0	0.0	-262.7	0.0
Prepayments	5.2	4.8	4.8	4.8	4.8	Gross profit		234.6	219.9	247.5	223.0
Other current assets	6.4	2.0	2.0	2.0	2.0	Gross margin		46.2%	47.3%	48.5%	47.5%
Deferred tax assets	22.0	15.5	15.5	15.5	15.5	Other income		0.0	0.0	0.0	0.0
PPE	107.0	111.6	121.0	113.5	108.3	Expenses (excl. D&A, int.)		-206.6	-190.7	-199.9	-187.3
Right of use assets	122.2	105.5	81.8	59.3	37.9	% of revenue		-40.7%	-41.0%	-39.2%	-39.8%
Intangibles - Goodwill	110.0	133.7	135.7	135.7	135.7	EBITDA (statutory)		52.7	54.3	71.0	59.7
Intangibles - Other	20.7	21.3	22.3	22.3	22.3	D&A		-24.7	-25.2	-23.5	-23.9
Other non-current assets	0.9	0.6	0.6	0.6	0.6	EBIT		28.0	29.2	47.6	35.8
Total assets	675.3	664.8	644.3	616.9	591.9	Net interest (expense)/revenue		-8.5	-8.9	-8.4	-8.2
Payables	118.9	119.1	122.5	125.4	125.4	Pre-tax profit		19.5	20.3	39.1	27.6
Current lease liabilities	36.7	32.3	32.3	2.3	2.3	Income tax expense		-6.4	-5.7	-12.0	-8.3
Current borrowings	3.6	3.0	3.0	3.0	3.0	NPAT from continuing ops.		13.0	14.6	27.1	19.3
Current provisions	31.0	30.1	30.1	30.1	30.1	Profit from discontinued ops.		0.0	0.0	0.0	0.0
Other current liabilities	17.4	15.8	15.8	15.8	15.8	NPAT		13.0	14.6	27.1	19.3
Non-current lease liabilities	165.5	176.8	164.3	139.3	114.3	Underlying EBITDA		65.8	60.5	74.1	64.3
Non-current borrowings	94.2	78.8	48.8	48.8	18.8	Underlying EBIT		41.1	35.4	50.7	40.4
Non-current provisions	14.4	13.4	13.4	13.4	13.4	Underlying NPAT		22.7	20.3	29.3	22.5
Total liabilities	481.7	470.3	431.2	379.1	325.5						
Share capital	167.7	167.7	167.7	167.7	167.7						
Reserves	2.8	3.9	3.9	3.9	3.9						
Retained earnings/(losses)	23.1	23.0	41.6	66.3	94.8						
Total shareholders' equity	193.6	194.6	213.1	237.8	266.4						

SOURCE: 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

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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