

## BUY: FY18e EBITDA +12.8%

NBL provided a positive 1H18 trading update today, advising LFL sales growth of 3.0% (1.5% in 1H17) and EBITDA of \$22.0m, +15.8% ahead of our estimates (\$19.0m). While LFL sales growth was attractive and operating expenses have improved, gross margins were flat yoy (~62.7%), and below our expectations. While we have downgraded our near-term gross margin assumptions accordingly, stronger than expected operating expenses more than offset this earnings weakness and positions NBL well when the sector stabilises. As a result, EBITDA forecasts +12.8%/+21.5% to \$37.4m/\$42.9m in FY18e/FY19e respectively and our PT +12.8% to \$3.00/share. NBL is trading on 7.3x FY19 PE, 33.6% below MYR (11.0x), despite FY18e/FY19e EPS growth of 53.8%/22.1% respectively.

### Key points

**LFL growth accelerated:** NBL reported LFL growth of 3.0% in 1H18, which is an improvement from +2.0% to 29 October 2017 (AGM on 11 November 2017). We believe this illustrates a strong November/December period for the group, albeit discounting was likely required.

**Pretty Girl sales growth:** Noni B closed 4 stores in 1H18 (228 stores). As a result, the majority of the group's sales growth likely came from Pretty Girl outperformance. We estimate revenue of \$58.2m (+1.6% yoy) and \$129.4m (+55.5% yoy) respectively in 1H18. We note Noni B is a mature lifecycle brand.

**Gross margins flat:** Pretty Girl has historically traded with a lower gross margin to Noni B (71.3% vs 58.7% in 2H17). Given our revenue assumptions detailed above, gross margins were likely flat at 62.7% in 1H18 (62.8% in 1H17) and we estimate gross profit of \$120.3m in 1H18 (+30.2% yoy).

**Difficult trading conditions:** NBL's softer than expected gross margin in 1H18 is a clear indication trading conditions remain volatile, with competitors likely offering material discounts leading into Christmas. This was evident in Specialty Fashion Group's recent guidance for negative EBITDA growth in October 2017 and Maggie T appointing administrators in early January 2018. Nevertheless, NBL is well positioned to gain market share and we see today's announcement as a strong result in a difficult market.

### Risks and catalysts

**Risks:** 1) continued aggressive discounting by peers; and 2) rapid decline in broader retail sales and consumer confidence.

**Catalysts:** 1) announcement of further accretive acquisitions; and 2) trading and store rollout update at the 1H18 results in February 2018.

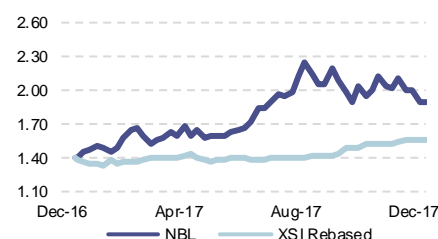
| Recommendation                  | BUY    |
|---------------------------------|--------|
| 12-mth target price (AUD)       | \$3.00 |
| Share price @ 09-Jan-18 (AUD)   | \$2.00 |
| Forecast 12-mth capital return  | 50.0%  |
| Forecast 12-mth dividend yield  | 7.8%   |
| 12-mth total shareholder return | 57.8%  |

|                     |        |
|---------------------|--------|
| Market cap          | \$161m |
| Enterprise value    | \$155m |
| Shares on issue     | 80m    |
| Sold short          | 0.1%   |
| ASX 300 weight      | n/a    |
| Median turnover/day | \$0.0m |

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### 12-mth price performance (\$)



|                | 1-mth | 6-mth | 12-mth |
|----------------|-------|-------|--------|
| Abs return (%) | -10.0 | 13.2  | 38.3   |
| Rel return (%) | -11.8 | 0.5   | 26.7   |

| Earnings forecasts   |       |       |       |       |       |
|----------------------|-------|-------|-------|-------|-------|
| Year-end June (AUD)  | FY16A | FY17A | FY18F | FY19F | FY20F |
| NPAT rep (\$m)       | 2.4   | 3.3   | 17.6  | 21.2  | 23.9  |
| NPAT norm (\$m)      | 2.5   | 9.0   | 17.6  | 21.2  | 23.9  |
| Consensus NPAT (\$m) |       |       |       |       |       |
| EPS norm (cps)       | 6.9   | 14.6  | 22.4  | 27.3  | 30.9  |
| EPS growth (%)       | 150.4 | 111.6 | 53.8  | 22.1  | 13.0  |
| P/E norm (x)         | 29.1  | 13.7  | 8.9   | 7.3   | 6.5   |
| EV/EBITDA (x)        | 26.8  | 6.8   | 4.1   | 3.6   | 3.3   |
| FCF yield (%)        | 4.8   | 20.8  | 4.9   | 12.0  | 14.0  |
| DPS (cps)            | 0.0   | 0.0   | 14.5  | 17.5  | 20.5  |
| Dividend yield (%)   | 0.0   | 0.0   | 7.3   | 8.8   | 10.3  |
| Franking (%)         | 0     | 0     | 100   | 100   | 100   |

Source: Company data, Wilsons estimates, S&P Capital IQ

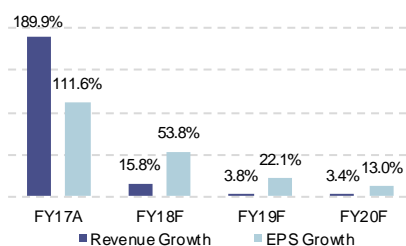
| Key changes   |       |        |       |       |
|---------------|-------|--------|-------|-------|
|               |       | 17-Nov | After | Var % |
| NPAT:         | FY18F | 14.9   | 17.6  | 18.6% |
| norm          | FY19F | 15.8   | 21.2  | 33.9% |
| (\$m)         | FY20F | 16.3   | 23.9  | 47.0% |
| EPS:          | FY18F | 18.9   | 22.4  | 18.6% |
| norm          | FY19F | 20.4   | 27.3  | 33.9% |
| (cps)         | FY20F | 21.0   | 30.9  | 47.0% |
| DPS:          | FY18F | 12.5   | 14.5  | 16.0% |
| (cps)         | FY19F | 13.5   | 17.5  | 29.6% |
|               | FY20F | 13.5   | 20.5  | 51.9% |
| Price target: |       | 2.66   | 3.00  | 12.8% |
| Rating:       |       | BUY    | BUY   |       |

### Wilsons Equity Research

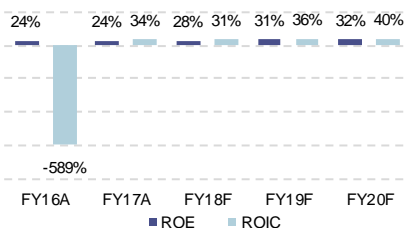
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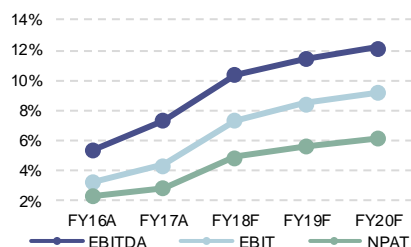
### Growth rates



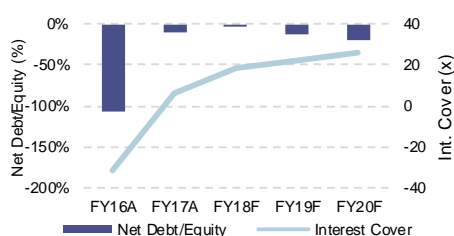
### Returns



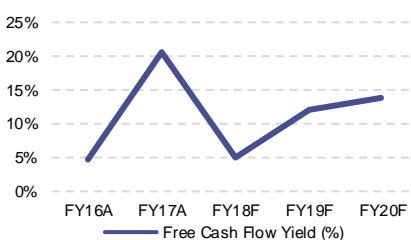
### Margin trends



### Solvency



### Free cash flow yield



### Interims (\$m)

|                   | 1H17A       | 2H17A      | 1H18E       | 2H18E      |
|-------------------|-------------|------------|-------------|------------|
| Sales revenue     | 140.5       | 170.9      | 187.6       | 173.2      |
| EBITDA            | 14.2        | 8.7        | 22.1        | 15.3       |
| EBIT              | 10.5        | 3.2        | 16.5        | 10.1       |
| <b>Net profit</b> | <b>7.9</b>  | <b>1.1</b> | <b>11.0</b> | <b>6.6</b> |
| <b>Norm EPS</b>   | <b>12.9</b> | <b>1.7</b> | <b>13.9</b> | <b>8.5</b> |
| EBIT/sales (%)    | 7.5         | 1.9        | 8.8         | 5.8        |
| Dividend (c)      | 0.0         | 0.0        | 9.0         | 5.5        |
| Franking (%)      | 0.0         | 0.0        | 100.0       | 100.0      |
| Payout ratio (%)  | 0.0         | 0.0        | 64.8        | 65.0       |
| Adj payout (%)    | 0.0         | 0.0        | 0.0         | 80.7       |

### Key assumptions

|                    | FY13A | FY14A  | FY15A | FY16A  | FY17A | FY18F | FY19F | FY20F |
|--------------------|-------|--------|-------|--------|-------|-------|-------|-------|
| Revenue growth (%) | 1.6   | -7.7   | -4.0  | 0.0    | 187.1 | 15.6  | 3.7   | 3.4   |
| EBITDA growth (%)  | -27.1 | -111.7 | 424.7 | -286.3 | 295.9 | 63.4  | 14.6  | 9.9   |
| EBIT growth (%)    | -43.7 | -275.8 | 52.4  | -164.0 | 287.8 | 94.6  | 19.1  | 12.3  |
| NPAT growth (%)    | -99.3 |        | 12.7  | -153.6 | 263.9 | 100.9 | 20.2  | 13.0  |
| EPS growth (%)     | -99.3 |        | 12.7  | -144.0 | 77.8  | 104.0 | 22.1  | 13.0  |
| EBIT/sales (%)     | 1.7   | -3.2   | -5.1  | 3.3    | 4.4   | 7.4   | 8.5   | 9.2   |
| Tax rate (%)       | -99.2 | 15.2   | -17.1 | -33.6  | -23.2 | -30.0 | -30.0 | -30.0 |
| ROA (%)            | 0.0   | -13.5  | -15.5 | 6.5    | 1.8   | 9.4   | 10.9  | 11.7  |
| ROE (%)            | 0.1   | -31.8  | -53.7 | 20.2   | 5.3   | 27.7  | 29.7  | 30.2  |

### Financial ratios

|                    | FY13A | FY14A  | FY15A | FY16A | FY17A | FY18F | FY19F | FY20F |
|--------------------|-------|--------|-------|-------|-------|-------|-------|-------|
| PE (x)             | 469.4 | -15.7  | -13.9 | 27.6  | 13.1  | 8.5   | 7.0   | 6.2   |
| EV/EBITDA (x)      | 30.7  | -261.5 | -49.8 | 26.8  | 6.8   | 4.1   | 3.6   | 3.3   |
| Dividend yield (%) | 1.3   | 0.8    | 0.0   | 0.0   | 0.0   | 7.6   | 9.2   | 10.8  |
| FCF yield (%)      | 3.8   | -1.3   | 3.2   | 4.8   | 20.8  | 4.9   | 12.0  | 14.0  |
| Payout ratio (%)   | >500  | <0     | 0.0   | 0.0   | 0.0   | 64.8  | 64.0  | 66.4  |
| Adj payout (%)     | 31.3  | <0     | 0.0   | 0.0   | 0.0   | 90.0  | 64.8  | 67.4  |

### Profit and loss (\$m)

|                                   | FY13A      | FY14A       | FY15A       | FY16A      | FY17A       | FY18F       | FY19F       | FY20F       |
|-----------------------------------|------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|
| Sales revenue                     | 121.5      | 112.1       | 107.9       | 107.5      | 311.5       | 360.8       | 374.4       | 387.2       |
| EBITDA                            | 5.0        | -0.6        | -3.1        | 5.8        | 22.9        | 37.4        | 42.9        | 47.2        |
| Depn & amort                      | 3.0        | 3.0         | 2.4         | 2.3        | 9.2         | 10.8        | 11.2        | 11.6        |
| <b>EBIT</b>                       | <b>2.1</b> | <b>-3.6</b> | <b>-5.5</b> | <b>3.5</b> | <b>13.7</b> | <b>26.6</b> | <b>31.7</b> | <b>35.6</b> |
| Net interest expense              | -0.2       | -0.1        | -0.1        | -0.1       | 2.2         | 1.4         | 1.4         | 1.4         |
| Tax                               | 2.2        | 0.5         | -0.9        | 1.2        | 2.7         | 7.6         | 9.1         | 10.3        |
| Minorities/pref divs              | 0.0        | 0.0         | 0.0         | 0.0        | 0.0         | 0.0         | 0.0         | 0.0         |
| Equity accounted NPAT             | 0.0        | 0.0         | 0.0         | 0.0        | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>Net profit (pre-sig items)</b> | <b>0.0</b> | <b>-4.0</b> | <b>-4.5</b> | <b>2.4</b> | <b>8.8</b>  | <b>17.6</b> | <b>21.2</b> | <b>23.9</b> |
| Abns/exts/signif                  | 0.0        | -0.1        | 0.0         | 0.0        | -5.5        | 0.0         | 0.0         | 0.0         |
| <b>Reported net profit</b>        | <b>0.0</b> | <b>-4.1</b> | <b>-4.5</b> | <b>2.4</b> | <b>3.3</b>  | <b>17.6</b> | <b>21.2</b> | <b>23.9</b> |

### Cash flow (\$m)

|                                | FY13A      | FY14A       | FY15A      | FY16A      | FY17A        | FY18F       | FY19F       | FY20F       |
|--------------------------------|------------|-------------|------------|------------|--------------|-------------|-------------|-------------|
| EBITDA                         | 5.0        | -0.6        | -3.1       | 5.8        | 22.9         | 37.4        | 42.9        | 47.2        |
| Interest & tax                 | -0.8       | -0.9        | 0.7        | 0.1        | -3.1         | -9.0        | -10.5       | -11.6       |
| Working cap/other              | 1.9        | -0.6        | 7.5        | 1.8        | 13.6         | -7.7        | -0.3        | 0.1         |
| <b>Operating cash flow</b>     | <b>6.1</b> | <b>-2.1</b> | <b>5.1</b> | <b>7.7</b> | <b>33.4</b>  | <b>20.8</b> | <b>32.1</b> | <b>35.6</b> |
| Maintenance capex              | 0.0        | 0.0         | 0.0        | 0.0        | 0.0          | -12.8       | -12.9       | -13.2       |
| <b>Free cash flow</b>          | <b>6.1</b> | <b>-2.1</b> | <b>5.1</b> | <b>7.7</b> | <b>33.4</b>  | <b>7.9</b>  | <b>19.2</b> | <b>22.4</b> |
| Dividends paid                 | -1.9       | -0.5        | 0.0        | 0.0        | 0.0          | -7.1        | -12.4       | -15.1       |
| Growth capex                   | -3.5       | -2.0        | -0.3       | -3.6       | -11.1        | 0.3         | 0.0         | 0.0         |
| Invest/disposals               | 0.0        | 0.0         | 0.0        | 0.0        | 0.0          | 0.0         | 0.0         | 0.0         |
| Oth investing/finance flows    | 0.1        | 0.1         | -1.5       | 0.6        | -37.1        | -5.0        | 0.0         | 0.0         |
| <b>Cash flow pre-financing</b> | <b>0.8</b> | <b>-4.5</b> | <b>3.3</b> | <b>4.6</b> | <b>-14.8</b> | <b>-3.9</b> | <b>6.8</b>  | <b>7.3</b>  |
| Funded by equity               | 0.0        | 0.0         | 0.0        | 0.0        | 0.0          | 0.0         | 0.0         | 0.0         |
| Funded by debt                 | -0.2       | -0.1        | -0.1       | -0.2       | 30.0         | 0.0         | 0.0         | 0.0         |
| Funded by cash                 | -0.6       | 4.6         | -3.2       | -4.4       | -15.2        | 3.9         | -6.8        | -7.3        |

### Balance sheet summary (\$m)

|                             | FY13A       | FY14A       | FY15A       | FY16A       | FY17A        | FY18F        | FY19F        | FY20F        |
|-----------------------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Cash                        | 9.9         | 5.3         | 8.5         | 12.9        | 28.2         | 24.3         | 31.1         | 38.4         |
| Current receivables         | 1.4         | 1.0         | 0.4         | 1.5         | 3.7          | 1.9          | 1.9          | 2.0          |
| Current inventories         | 13.6        | 11.8        | 9.9         | 11.4        | 29.2         | 41.1         | 39.3         | 40.1         |
| Net PPE                     | 8.4         | 7.4         | 5.1         | 6.4         | 28.3         | 29.9         | 31.6         | 33.2         |
| Intangibles/capitalised     | 8.3         | 3.9         | 4.9         | 4.2         | 90.6         | 90.6         | 90.6         | 90.6         |
| <b>Total assets</b>         | <b>41.6</b> | <b>30.0</b> | <b>29.0</b> | <b>37.0</b> | <b>180.7</b> | <b>188.5</b> | <b>195.1</b> | <b>204.8</b> |
| Current payables            | 13.9        | 10.9        | 14.7        | 17.7        | 46.4         | 48.7         | 46.6         | 47.5         |
| Total debt                  | 0.2         | 0.3         | 0.2         | 0.0         | 22.4         | 22.4         | 22.4         | 22.4         |
| <b>Total liabilities</b>    | <b>20.3</b> | <b>17.3</b> | <b>20.7</b> | <b>25.0</b> | <b>118.3</b> | <b>124.8</b> | <b>123.8</b> | <b>125.5</b> |
| <b>Shareholder equity</b>   | <b>21.3</b> | <b>12.7</b> | <b>8.4</b>  | <b>12.0</b> | <b>62.4</b>  | <b>63.6</b>  | <b>71.2</b>  | <b>79.3</b>  |
| <b>Total funds employed</b> | <b>21.6</b> | <b>13.0</b> | <b>8.6</b>  | <b>12.0</b> | <b>84.8</b>  | <b>86.0</b>  | <b>93.7</b>  | <b>101.7</b> |





## Changes to forecasts

- **Gross margins:** We have reduced our gross margin assumptions to 63.9% and 63.7% in FY18 and FY19 respectively. This is largely due to the continued price discounting and irrational competition we expect NBL to face medium term as the sector continues to rationalise and consolidate. We assume some gross margin improvement in 2H19.
- **LFL growth:** We conservatively forecast LFL sales growth of +2.5% for Pretty Girl and +2.2% for Noni B in FY18. This represents a minor upgrade (+30bps) at the group level.
- **Sales:** We continue to assume a typical 53%/47% (1H/2H) sales revenue split for both Noni B and Pretty Girl brands long term. However, our previous sales forecasts were too conservative for Pretty Girl and we have upgraded our expectations long term.
- **Store growth:** Given Noni B is clearly now a mature lifecycle brand in the NBL portfolio, we assume no further net store growth (previously 2-3 stores pa). Assumptions for the Pretty Girl brands store growth is in line with management guidance.
- **Operating expenses:** Today's trading update suggests operating expenses have improved markedly. We have adjusted our forecasts accordingly, and now forecast FY18 operating expenses of 52% of revenue vs 57% previously.

**Table 1: NBL old vs new forecasts (A\$m)**

|                      | FY18         |              |              | FY19         |              |              |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                      | Old          | New          | Change       | Old          | New          | Change       |
| Store Revenue        | 350.2        | 360.8        | 3.0%         | 375.3        | 374.4        | -0.2%        |
| LFL growth           | 1.3%         | 1.6%         |              | 1.0%         | 1.0%         |              |
| Other                | 5.3          | 5.3          | 0.0%         | 5.3          | 5.3          | 0.0%         |
| <b>Total Revenue</b> | <b>355.5</b> | <b>366.1</b> | <b>3.0%</b>  | <b>380.6</b> | <b>379.7</b> | <b>-0.2%</b> |
| Gross Profit         | 236.4        | 230.5        | -2.5%        | 254.9        | 242.0        | -5.0%        |
| Gross Profit Margin  | 67.5%        | 63.9%        |              | 67.0%        | 63.7%        |              |
| <b>EBITDA</b>        | <b>33.2</b>  | <b>37.4</b>  | <b>12.8%</b> | <b>35.3</b>  | <b>42.9</b>  | <b>21.5%</b> |
| D&A                  | 10.5         | 10.8         | 3.0%         | 11.3         | 11.2         | -0.2%        |
| EBIT                 | 22.7         | 26.6         | 17.3%        | 24.0         | 31.7         | 31.7%        |
| Interest             | 1.4          | 1.4          | -1.4%        | 1.4          | 1.4          | -2.5%        |
| Tax                  | 6.4          | 7.6          | 18.6%        | 6.8          | 9.1          | 33.9%        |
| <b>NPAT</b>          | <b>14.9</b>  | <b>17.6</b>  | <b>18.6%</b> | <b>15.8</b>  | <b>21.2</b>  | <b>33.9%</b> |

Source: Wilsons estimates





## Noni B (NBL)

### Business description

Noni B Limited (NBL) is a ladies fashion retailer targeting the older, mature demographic (55+ years old) and recently acquired Pretty Girl Pty Ltd to expand its retail network to more than 600 stores nationwide. Its current brand portfolio consists of Noni B, Rockmans, W.Lane and BeMe.

### Investment thesis

Since the Alceon Group's acquisition of a majority shareholding in NBL in FY15, NBL has recorded significant improvements in gross margins and has shown early signs of success. In addition to our optimism about management's experience we are encouraged by its conservative guidance.

### Revenue drivers

- Consumer confidence
- Retail sales
- Store rollout

### Margin drivers

- Selling and distribution costs
- Leveraging cost savings from larger store network
- Store volumes

### Key issues/catalysts

- Robust store like-for-like growth
- Improved online retail sales
- New earnings base

### Risk to view

- Poor Mother's Day trading period
- Aggressive discounting by peers
- Rapid decline in broader retail sales and consumer confidence

### Balance sheet

- Assets: \$180.7m
- Equity: \$62.4m
- Net cash: \$5.3m

### Board

- Richard Facioni: Chairman and Non-Executive Director
- Scott Evans: Chief Executive Officer and Managing Director
- Sue Morphet: Non-Executive Director
- David Wilshire: Non-Executive Director

### Management

- Scott Evans: Chief Executive Officer and Managing Director
- Luke Softa: Chief Financial Officer, Secretary

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