

## BUY: Early signs of stabilisation

Specialty Fashion Group released its 1H18 results this morning. 1H18 EBITDA was 19.4% ahead of guidance, due to improved trading conditions, reduced costs and margin expansion at some brands. Specialty Fashion Group also advised it had hired a new CEO. We are encouraged by the company's update as we believe a renewed focus on inventory management, cost reductions and reduced store count will ultimately lead to less discounting and greater profitability for the sector as a whole. Noni B is well placed to take advantage of a less volatile sector given its sector leading gross margins (62.7% in 1H18). BUY retained given 40.2% valuation upside.

### Key points

**New CEO:** The Board has appointed Daniel Bracken as CEO, effective 12 February 2018. Bracken's previous appointments included: i) Deputy CEO and Chief Merchandise & Customer Officer at Myer, CEO of The Apparel Group (Sportscraft, Saba, Willow and Jag) and Vice President of Strategy at Burberry London. In our view, Bracken brings restructuring and brand alignment experience required to improve operating performance, albeit in a more premium product setting.

**Improving conditions:** While LFL sales -3.3% (NBL +3.0%), Christmas trading was ahead of expectations and improved conditions in 2Q partially offset a weak 1Q. Positively for NBL, Millers, City Chic and Katies experienced margin growth which was largely due to less promotional activity (discounting).

**Restructure on track:** As at 31 December 2017, Specialty Fashion Group's store count had declined 4.2% hoh to 999 from 1,043 as at 30 June 2017. We continue to expect the majority of the remaining closures (~250 stores) to come from the Millers, Katies and Crossroads brands. These brands are key competitors to NBL's Noni B, Rockmans and Table Eight offerings and should result in further market share gains. SFH saved ~\$14m in rental costs in 1H18.

**Acquisition progress:** Specialty Fashion Group advised on the 31 January 2018 it had received confidential, non-binding, indicative proposals for the acquisition of the group and certain brands. Management advised the process is ongoing and it will continue to inform the market as required.

**NBL result:** NBL pre-released its 1H18 results on 9 Jan, and expects EBITDA of \$22.0m (+55.6% yoy). It will formally release its 1H18 results on 28 August.

### 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

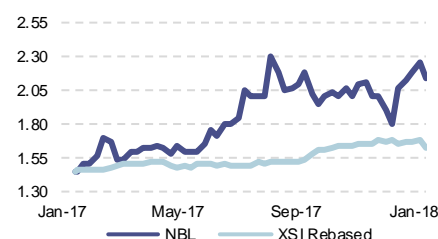
12-mth target price (AUD)	\$3.00
Share price @ 08-Feb-18 (AUD)	\$2.14
Forecast 12-mth capital return	40.2%
Forecast 12-mth dividend yield	7.4%
12-mth total shareholder return	47.6%

Market cap	\$172m
Enterprise value	\$166m
Shares on issue	80m
Sold short	0.1%
ASX 300 weight	n/a
Median turnover/day	\$0.1m

### John Hynd

john.hynd@wilsonsadvisory.com.au  
Tel. +61 2 8247 6661

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



	1-mth	6-mth	12-mth
Abs return (%)	7.8	8.5	50.3
Rel return (%)	10.8	0.5	38.3

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)			16.7	19.3	21.3
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)	31.1	14.7	9.6	7.8	6.9
EV/EBITDA (x)	28.7	7.2	4.4	3.9	3.5
FCF yield (%)	4.5	19.4	4.6	11.2	13.1
DPS (cps)	0.0	0.0	14.5	17.5	20.5
Dividend yield (%)	0.0	0.0	6.8	8.2	9.6
Franking (%)	0	0	100	100	100

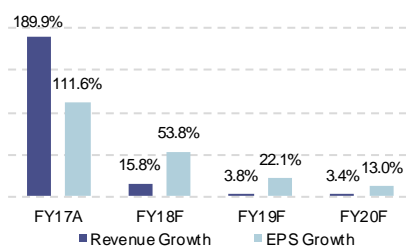
Source: Company data, Wilsons estimates, S&P Capital IQ

Key changes				
		09-Jan	After	Var %
NPAT:	FY18F	17.6	17.6	0.0%
norm	FY19F	21.2	21.2	0.0%
(\$m)	FY20F	23.9	23.9	0.0%
EPS:	FY18F	22.4	22.4	0.0%
norm	FY19F	27.3	27.3	0.0%
(cps)	FY20F	30.9	30.9	0.0%
DPS:	FY18F	14.5	14.5	0.0%
(cps)	FY19F	17.5	17.5	0.0%
	FY20F	20.5	20.5	0.0%
Price target:		3.00	3.00	0.0%
Rating:		BUY	BUY	

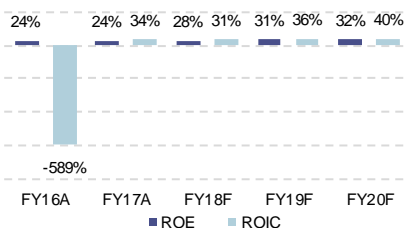
### Wilsons Equity Research

Issued by Wilsons Advisory and Stockbroking Limited ABN 68 010 529 665 - Australian Financial Services Licence No 238375, a participant of ASX Group and should be read in conjunction with the disclosures and disclaimer in this report. Important disclosures regarding companies that are subject of this report and an explanation of recommendations can be found at the end of this document.

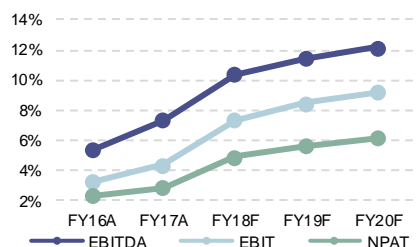
### Growth rates



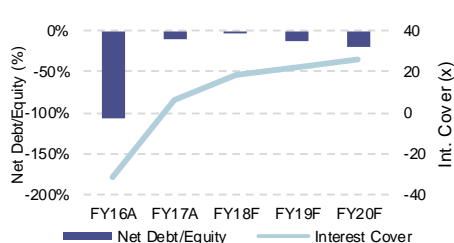
### Returns



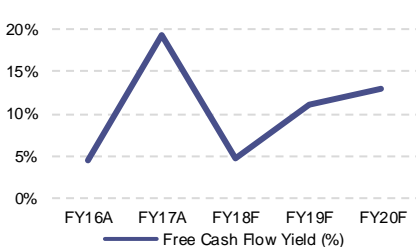
### Margin trends



### 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)	528.7	-17.6	-15.7	31.1	14.7	9.6	7.8	6.9
EV/EBITDA (x)	32.9	-280.5	-53.5	28.7	7.2	4.4	3.9	3.5
Dividend yield (%)	1.1	0.7	0.0	0.0	0.0	6.8	8.2	9.6
FCF yield (%)	3.6	-1.2	3.0	4.5	19.4	4.6	11.2	13.1
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>



## 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

### Contact details

Address: Ground Floor, 61 Dunning Avenue, Rosebery, NSW 2018  
Phone: +61 2 8577 7777  
Website: [www.nonib.com.au](http://www.nonib.com.au)



## Disclaimers and disclosures

### Recommendation structure and other definitions

Definitions at [wilsonsadvisory.com.au/Disclosures](http://wilsonsadvisory.com.au/Disclosures).

### Disclaimer

This document has been prepared by Wilsons Advisory and Stockbroking Limited (ACN 010 529 665: AFSL 238375) ("Wilsons"). This document is a communication to intended recipients and is not intended for public circulation. This communication is not to be disclosed in whole or part or used by any other party without Wilsons' prior written consent.

This document is being supplied to you solely for your information and no action should be taken on the basis of or in reliance on this document. Any advice contained in this document is general advice only and has been prepared by Wilsons without taking into account any person's objectives, financial situation or needs. Any person, before acting on any advice contained within this communication, should first consult with a Wilsons investment adviser to assess whether the advice within this communication is appropriate for their objectives, financial situation and needs. Those acting upon such information without advice do so entirely at their own risk.

Wilsons has not independently verified all of the information given in this document which is provided at a point in time and may not contain all necessary information about the company or companies covered in this report ("Companies"). Accordingly, no representation or warranty, express or implied, is made as to the accuracy or completeness of the information and opinions contained in this document. To the fullest extent permitted by law Wilsons, its related bodies corporate and their respective officers, directors, employees or agents, disclaim any and all liabilities for any loss or damage howsoever arising in connection with the use of this document or its contents. Any projections contained in this document are indicative estimates only. Such projections are contingent upon matters outside the control of Wilsons (including but not limited to economic conditions, market volatility and company-specific fundamentals) and therefore may not be realised in the future. Past performance is not an indication of future performance.

This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

Wilsons and Wilsons Corporate Finance Limited (ABN 65 057 547 323: AFSL 238 383) and their associates may have received and may continue to receive fees from the Companies in relation to corporate advisory, underwriting or other professional investment services. Please see relevant Wilsons disclosures at [wilsonsadvisory.com.au/Disclosures](http://wilsonsadvisory.com.au/Disclosures).

Neither Wilsons nor its research analysts received any direct financial or non-financial benefits from the Companies for the production of this document. However, Wilsons' research analysts may attend site visits and/or meetings hosted by the Companies. In some instances the costs of such site visits or meetings may be met in part or in whole by the Companies if Wilsons considers it is reasonable given the specific circumstances relating to the site visit or meeting.

Wilsons advises that at the date of this report, its directors, associates and employees may have relevant interests in the Companies.

Wilsons and its related bodies may trade securities in the Companies as principal.

### Regulatory disclosures

This report was prepared solely by Wilsons Advisory and Stockbroking Limited. ASX did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation, by Wilsons Advisory and Stockbroking Limited, in accordance with the ASX Equity Research Scheme. ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports.

### Wilsons contact

Phone: 1300 655 015. Website: [wilsonsadvisory.com.au](http://wilsonsadvisory.com.au).

