

SFH acquisition could be up to 60% EPS accretive

Press reports today (Australian) suggest Noni B is a potential acquirer of Specialty Fashion Group (SFH), in competition with a buyout team led by former SFH Board member Gary Perlstein. This would be an attractive acquisition for NBL, and based on our analysis could be up to ~60% EPS accretive in FY18 (pro-forma), assuming a \$100m (50% premium to current market cap) acquisition price (100% debt funded) and conservative \$20m in synergies. BUY retained on earnings upside and valuation.

Key points

Attractive metrics: Based on Wilsons' NBL FY18 forecasts and SFH's FY17 reported figures, we believe an acquisition price of up to \$100m would be ~60% EPS accretive for NBL in FY18 (pro-forma), assuming a conservative \$20m in synergies. We note NBL flagged \$8m of cost savings following the acquisition of Pretty Girl in September 2016, which was upgraded to \$12m in FY17.

Combined footprint: A consolidated NBL and SFH would have total revenue of ~\$1.2bn and total stores of ~1,300 (post SFH's store rationalisation program). We believe SFH brands Millers, Katies, Autograph and Crossroads would be of most interest to NBL given the clear customer crossover, but note City Chic with 133 stores would help NBL's BeMe find scale in the sub-category market share too. We would not expect NBL to have long-term interest in Rivers given target customers and recent difficult trading. Rivers is 6% of SFH's group revenue.

Management experience: NBL CEO, Scott Evans, has +20 years retailing experience in both the private and public domain. In Australia, Evans was CEO of SFH's Millers and Crossroads brands before joining Bras N Things as CEO. Given Evan's achievements at NBL (gross margins +1320bps 2H14-2H16), history at SFH, and support from majority shareholder Alecon, we believe he is well placed to execute the acquisition of SFH.

SFH register: As at 16 February 2018, SFH's largest shareholder was Lazard with 12.17%, followed by Gary Perlstein with 9.29%. Given Perlstein's substantial holding, we believe it may be difficult for NBL to acquire 100% of SFH in its current form and ultimately believe brands could be divested separately to interested parties.

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.

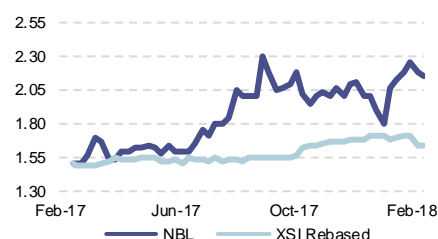
Recommendation	BUY
12-mth target price (AUD)	\$3.00
Share price @ 16-Feb-18 (AUD)	\$2.15
Forecast 12-mth capital return	39.5%
Forecast 12-mth dividend yield	7.4%
12-mth total shareholder return	46.9%

Market cap	\$173m
Enterprise value	\$167m
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 (%)	2.9	12.3	46.0
Rel return (%)	6.3	6.0	36.6

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)	31.3	14.8	9.6	7.9	7.0
EV/EBITDA (x)	28.8	7.3	4.5	3.9	3.5
FCF yield (%)	4.4	19.4	4.6	11.1	13.0
DPS (cps)	0.0	0.0	14.5	17.5	20.5
Dividend yield (%)	0.0	0.0	6.7	8.1	9.5
Franking (%)	0	0	100	100	100

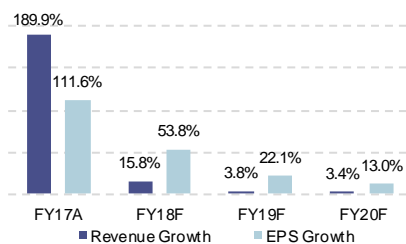
Source: Company data, Wilsons estimates, S&P Capital IQ

Key changes					
		09-Feb	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		

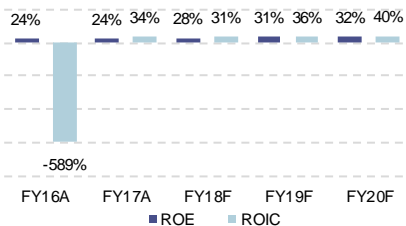
Wilsons Equity Research

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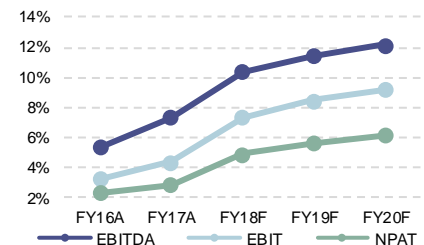
Growth rates



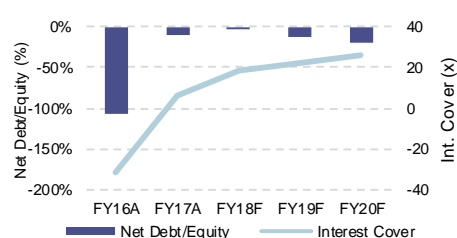
Returns



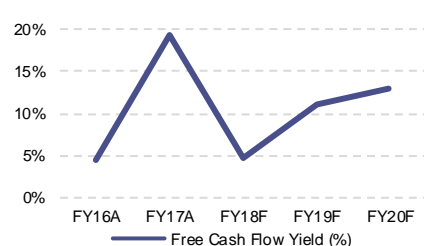
Margin trends



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
Net profit	7.9	1.1	11.0	6.6
Norm EPS	12.9	1.7	13.9	8.5
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)	531.1	-17.7	-15.8	31.3	14.8	9.6	7.9	7.0
EV/EBITDA (x)	33.1	-281.9	-53.7	28.8	7.3	4.5	3.9	3.5
Dividend yield (%)	1.1	0.7	0.0	0.0	0.0	6.7	8.1	9.5
FCF yield (%)	3.6	-1.2	3.0	4.4	19.4	4.6	11.1	13.0
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
EBIT	2.1	-3.6	-5.5	3.5	13.7	26.6	31.7	35.6
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
Net profit (pre-sig items)	0.0	-4.0	-4.5	2.4	8.8	17.6	21.2	23.9
Abns/exts/signif	0.0	-0.1	0.0	0.0	-5.5	0.0	0.0	0.0
Reported net profit	0.0	-4.1	-4.5	2.4	3.3	17.6	21.2	23.9

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
Operating cash flow	6.1	-2.1	5.1	7.7	33.4	20.8	32.1	35.6
Maintenance capex	0.0	0.0	0.0	0.0	0.0	-12.8	-12.9	-13.2
Free cash flow	6.1	-2.1	5.1	7.7	33.4	7.9	19.2	22.4
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
Cash flow pre-financing	0.8	-4.5	3.3	4.6	-14.8	-3.9	6.8	7.3
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
Total assets	41.6	30.0	29.0	37.0	180.7	188.5	195.1	204.8
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
Total liabilities	20.3	17.3	20.7	25.0	118.3	124.8	123.8	125.5
Shareholder equity	21.3	12.7	8.4	12.0	62.4	63.6	71.2	79.3
Total funds employed	21.6	13.0	8.6	12.0	84.8	86.0	93.7	101.7

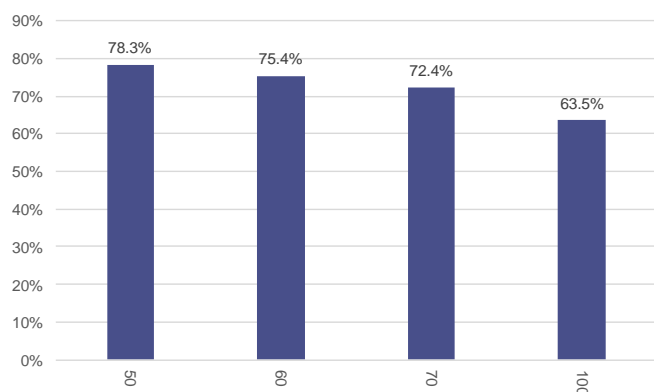


Acquisition metrics

As a 30 June 2017, NBL had net cash of \$5.8m. As a result, we believe management would initially pursue a debt funded acquisition of SFH to avoid dilution. We assume the following in our analysis:

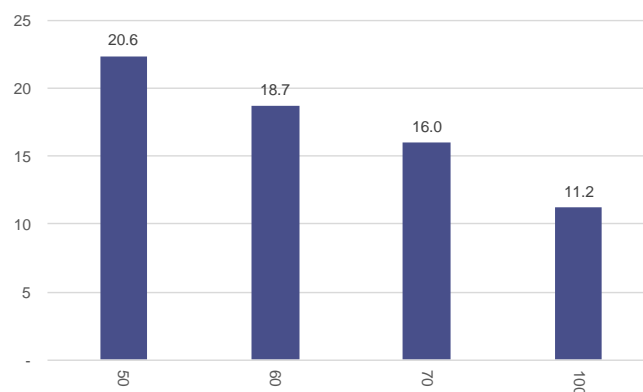
- Wilsons FY18 forecasts for NBL (FY18e EBITDA \$37.4m);
- interest rate of 7.5% (conservative);
- synergies \$20m (conservative); and
- FY17 actual for SFH (FY17a EBITDA \$26.7m). We note SFH has already achieved cost savings of \$14m in 1H18 due to favourable rent reviews and headcount reductions, which is likely offsetting some of the earnings decline experienced from softer comps (-3.3% in 1H18) and a reduction in store count.

Figure 1: NBL FY18 EPS accretion



Source: Wilsons estimates

Figure 2: NBL FY18 EBITDA/Interest (x)



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

Contact details

Address: Ground Floor, 61 Dunning Avenue, Rosebery, NSW 2018
Phone: +61 2 8577 7777
Website: www.nonib.com.au

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Recommendation structure and other definitions

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Phone: 1300 655 015. Website: wilsonsadvisory.com.au.

