Date
18 July 2018

Theme
Company Update

Company
Noni B (NBL)

WILSONS

BUY: Printing attractive sales growth

Noni B Group provided a FY18 trading update on 12 July. Management expects FY18 EBITDA of ~$37.0m vs consensus for $37.0m (Wilsons est. $37.6m), which reflects an increase of 61.5% yoy. The result appears to have been driven by attractive LFL sales growth of +4.5% yoy (FY17a +2.4% yoy) following a strong Mother's Day trading period (Wilsons est. +4.2% yoy). We expect further detail on LFL sales growth and success of early efficiencies from the SFH assets acquisition at the FY18 result (~28th August 2018). BUY retained on valuation (~45% upside).

Key points

Valuation: We make no change to our valuation which reflects a FY20e PE of 8.3x and EV/EBITDA of 3.9x vs specialty peers at 13.2x and 7.3x respectively.

Earnings: We make no change to our revenue or earnings forecasts. We forecast EPS growth of -31.3% and 149.4% in FY19e and FY20e respectively.

LFL sales: Growth of +4.5% yoy reflects outperformance of the clothing sector by +260bps (ABS data to May-2018 used). The strength likely came from Rockmans which had taken longer to restructure than other brands acquired as part of the Pretty Girl transaction in September 2016. We forecast LFL sales +1.6% for underlying brands and -2.5% for SFH assets in FY19e.

EBITDA margins: FY18 EBITDA margins +280bps yoy to 10.2%, below our forecasts for 10.5%. This was due to marginally higher-than-forecast revenue (+1.3%) and marginally lower EBITDA (-1.6%). While 2H18 EBITDA margins +350bps, this may imply minor discounting/trading activity for the period.

SFH assets: The acquisition successfully completed 2 July 2018. We view the transaction favourably and while considerable work is required by management to improve profitability, we expect $61.5m in efficiencies over two years (COGS/CODB) resulting in EBITDA of $77.1m in FY20e (FY18e $37.6m).

Risks and catalysts

Risks: 1) continued aggressive discounting by peers; 2) rapid decline in broader retail sales and consumer confidence; and 3) successful succession planning.

Catalysts: 1) announcement of further accretive acquisitions; and 2) update from Specialty Fashion Group in August 2018.

Recommendation	BUY
12-mth target price (AUD)	**$4.74**
Share price @ 17-Jul-18 (AUD)	$3.32
Forecast 12-mth capital return	42.7%
Forecast 12-mth dividend yield	3.7%
12-mth total shareholder return	**46.4%**

Market cap	$320m
Enterprise value	$307m
Shares on issue	96m
Sold short	0.0%
ASX 300 weight	n/a
Median turnover/day	$0.1m

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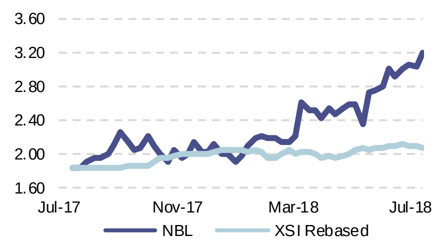
FUNDAMENTAL INSIGHTS

12-mth price performance ($)



	1-mth	6-mth	12-mth
Abs return (%)	7.7	57.1	83.5
Rel return (%)	9.1	54.8	70.6

Earnings forecasts

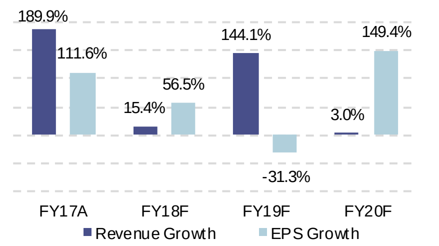
Year-end June (AUD)	FY16A	FY17A	FY18F	FY19F	FY20F
NPAT rep ($m)	2.4	3.3	19.1	11.5	37.4
NPAT norm ($m)	2.5	9.0	19.2	15.0	37.5
Consensus NPAT ($m)			18.3	12.4	35.8
EPS norm (cps)	6.9	14.6	22.8	15.7	39.0
EPS growth (%)	150.4	111.6	56.5	-31.3	149.4
P/E norm (x)	48.3	22.8	14.6	21.2	8.5
EV/EBITDA (x)	53.0	13.4	8.1	6.7	4.0
FCF yield (%)	2.4	10.4	5.6	4.3	7.5
DPS (cps)	0.0	0.0	14.0	12.1	23.0
Dividend yield (%)	0.0	0.0	4.2	3.6	6.9
Franking (%)	0	0	100	100	100

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

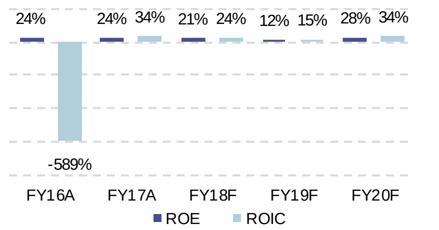
Key changes

		07-Jun	After	Var %
NPAT:	**FY18F**	19.2	19.2	0.0%
norm	**FY19F**	15.0	15.0	0.0%
($m)	**FY20F**	37.5	37.5	0.0%
EPS:	**FY18F**	22.8	22.8	0.0%
norm	**FY19F**	15.7	15.7	0.0%
(cps)	**FY20F**	39.0	39.0	0.0%
DPS:	**FY18F**	14.0	14.0	0.0%
(cps)	**FY19F**	12.1	12.1	0.0%
	FY20F	23.0	23.0	0.0%
Price target:		4.74	4.74	0.0%
Rating:		**BUY**	**BUY**	

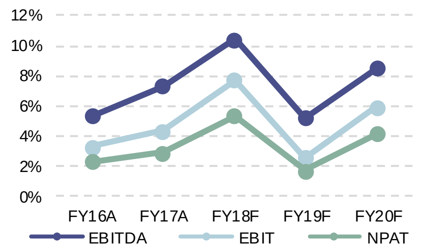
Growth rates



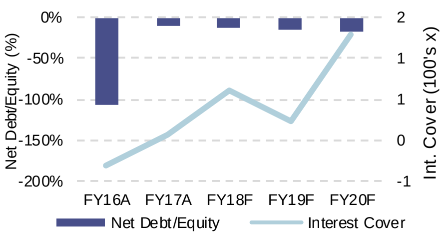
Returns



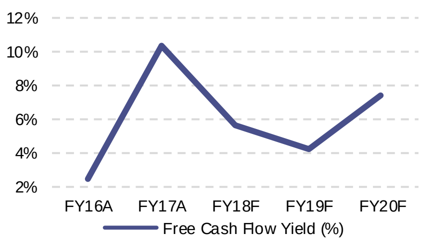
Margin trends



Solvency



Free cash flow yield



Interims ($m)

	1H17A	2H17A	1H18A	2H18E
Sales revenue	140.5	170.9	190.6	168.9
EBITDA	14.2	8.7	22.1	15.5
EBIT	10.5	3.2	16.9	11.0
Net profit	**7.9**	**1.1**	**11.9**	**7.3**
Norm EPS	**12.9**	**1.7**	**14.8**	**8.3**
EBIT/sales (%)	7.5	1.9	8.9	6.5
Dividend (c)	0.0	0.0	9.0	5.0
Franking (%)	0.0	0.0	100.0	100.0
Payout ratio (%)	0.0	0.0	60.7	60.5
Adj payout (%)	0.0	0.0	12.9	<0

Key assumptions

	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue growth (%)	1.6	-7.7	-4.0	0.0	187.1	16.1	142.6	3.3
EBITDA growth (%)	-27.1	-111.7	424.7	-286.3	295.9	64.3	21.2	68.9
EBIT growth (%)	-43.7	-275.8	52.4	-164.0	287.8	104.1	-19.8	140.7
NPAT growth (%)	-99.3		12.7	-153.6	263.9	117.3	-21.7	150.2
EPS growth (%)	-99.3		12.7	-144.0	77.8	97.6	-28.2	150.2
EBIT/sales (%)	1.7	-3.2	-5.1	3.3	4.4	7.8	2.5	6.0
Tax rate (%)	-99.2	15.2	-17.1	-33.6	-23.2	-30.5	-30.0	-30.0
ROA (%)	0.0	-13.5	-15.5	6.5	1.8	8.0	3.5	10.1
ROE (%)	0.1	-31.8	-53.7	20.2	5.3	15.9	9.3	23.3

Financial ratios

	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
PE (x)	790.5	-26.4	-23.4	46.5	22.0	14.0	20.4	8.2
EV/EBITDA (x)	60.8	-518.3	-98.8	53.0	13.4	8.1	6.7	4.0
Dividend yield (%)	0.8	0.5	0.0	0.0	0.0	4.4	3.8	7.2
FCF yield (%)	1.9	-0.7	1.6	2.4	10.4	5.6	4.3	7.5
Payout ratio (%)	>500	<0	0.0	0.0	0.0	61.5	77.3	58.9
Adj payout (%)	31.3	<0	0.0	0.0	0.0	56.8	77.9	72.7

Profit and loss ($m)

	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Sales revenue	121.5	112.1	107.9	107.5	311.5	359.5	877.6	903.9
EBITDA	5.0	-0.6	-3.1	5.8	22.9	37.6	45.6	77.1
Depn & amort	3.0	3.0	2.4	2.3	9.2	9.7	23.3	23.3
EBIT	**2.1**	**-3.6**	**-5.5**	**3.5**	**13.7**	**27.9**	**22.4**	**53.8**
Net interest expense	-0.2	-0.1	-0.1	-0.1	2.2	0.5	1.0	0.4
Tax	2.2	0.5	-0.9	1.2	2.7	8.4	6.4	16.0
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**	**19.1**	**14.9**	**37.4**
Abns/exts/signif	0.0	-0.1	0.0	0.0	-5.5	0.0	-3.4	0.0
Reported net profit	**0.0**	**-4.1**	**-4.5**	**2.4**	**3.3**	**19.1**	**11.5**	**37.4**

Cash flow ($m)

	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
EBITDA	5.0	-0.6	-3.1	5.8	22.9	37.6	45.6	77.1
Interest & tax	-0.8	-0.9	0.7	0.1	-3.1	-6.7	-7.4	-16.4
Working cap/other	1.9	-0.6	7.5	1.8	13.6	-6.6	10.5	-1.0
Operating cash flow	**6.1**	**-2.1**	**5.1**	**7.7**	**33.4**	**24.4**	**48.7**	**59.6**
Maintenance capex	0.0	0.0	0.0	0.0	0.0	-6.5	-35.1	-35.7
Free cash flow	**6.1**	**-2.1**	**5.1**	**7.7**	**33.4**	**17.9**	**13.7**	**23.9**
Dividends paid	-1.9	-0.5	0.0	0.0	0.0	-10.2	-10.6	-17.4
Growth capex	-3.5	-2.0	-0.3	-3.6	-11.1	-9.1	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	5.9	0.0	0.0
Cash flow pre-financing	**0.8**	**-4.5**	**3.3**	**4.6**	**-14.8**	**4.6**	**3.0**	**6.5**
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	-1.5	0.0	-18.0
Funded by cash	-0.6	4.6	-3.2	-4.4	-15.2	-3.1	-3.0	11.5

Balance sheet summary ($m)

	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F	FY19F	FY20F
Cash	9.9	5.3	8.5	12.9	28.2	36.2	39.3	27.8
Current receivables	1.4	1.0	0.4	1.5	3.7	1.9	4.5	4.6
Current inventories	13.6	11.8	9.9	11.4	29.2	41.5	112.3	107.5
Net PPE	8.4	7.4	5.1	6.4	28.3	34.2	46.0	58.6
Intangibles/capitalised	8.3	3.9	4.9	4.2	90.6	123.4	123.4	123.4
Total assets	**41.6**	**30.0**	**29.0**	**37.0**	**180.7**	**237.9**	**326.2**	**322.5**
Current payables	13.9	10.9	14.7	17.7	46.4	49.3	133.2	127.4
Total debt	0.2	0.3	0.2	0.0	22.4	21.0	20.9	2.9
Total liabilities	**20.3**	**17.3**	**20.7**	**25.0**	**118.3**	**117.6**	**202.4**	**183.3**
Shareholder equity	**21.3**	**12.7**	**8.4**	**12.0**	**62.4**	**120.3**	**123.8**	**139.2**
Total funds employed	**21.6**	**13.0**	**8.6**	**12.0**	**84.8**	**141.3**	**144.7**	**142.1**

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 650 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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Disclaimers and disclosures

Recommendation structure and other definitions

Definitions at wilsonsadvisory.com.au/Disclosures.

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