

## BUY: FY19e EBITDA +20.1% yoy

Noni B Group reported 1H19a EBITDA of \$29.1m in line with guidance for \$29.0m provided in January 2019. While FY19e EBITDA guidance for \$45.0m is unchanged (consensus \$45.3m), it appears undemanding given attractive LFL sales growth (December +1.0% yoy) and cost initiative momentum. NBL trades on a 12-month forward PE of 7.3x, despite EPS growth of 120.8% yoy and a dividend yield of 8.2 in FY20e. BUY.

### Key points

**Valuation:** We value NBL on a blended methodology (DCF, EV/EBITDA). Our valuation -11.0% to \$4.14/share, largely due to lower peer average multiples (our DCF valuation increases marginally to \$4.47/share). NBL trades on 7.3x 12-month forward PE vs City Chic on 15.5x (-52.3%) and peers on 11.3x (-34.5%), despite offering EPS growth of 120.8% yoy in FY20e.

**Earnings:** Minor changes to forecasts. Revenue assumptions increase, driven by a better-than-expected performance by SFH Assets and less seasonal 1H/2H split. Lower 2H19e gross margins assumptions provide a partial offset, given NBL will be cycling higher average purchase prices and lower average selling prices through 3QFY19e. More favourable D&A and Tax assumptions drive EPS increases of 24.1% and 1.2% in FY19e and FY20e respectively.

**Guidance:** Whilst conditions remain challenging, LFL sales growth has continued in 2H19e (December +1.0% yoy) and NBL reaffirmed FY19e EBITDA guidance for \$45.0m (+20.1% yoy), subject to favourable trading leading into the key Mother's Day period.

**Key briefing questions:** Questions at the result lunch focused on: (i) market conditions; (ii) lease negotiations; (iii) online traction; (iv) store roll-out plans; and (v) further cost initiative upside. Broader conditions remain challenging and consumers require a reason to transact, while online growth is favourable, especially for the BeMe and Autograph brands (plus size). Store roll-outs are back on the agenda and offer considerable revenue upside while favourable lease negotiations and operational restructuring will improve earnings.

### Risks and catalysts

**Risks:** 1) poor response to revised pricing models; 2) rapid decline in broader retail sales and consumer confidence; and 3) successful succession planning.

**Catalysts:** 1) announcement of further accretive acquisitions; 2) announcement of further cost efficiencies; and 3) trading update MYR, CCX or PMV.

### Recommendation

BUY

12-mth target price (AUD)	\$4.14
Share price @ 21-Feb-19 (AUD)	\$3.06
Forecast 12-mth capital return	35.4%
Forecast 12-mth dividend yield	6.4%
12-mth total shareholder return	41.8%

Market cap	\$297m
Enterprise value	\$297m
Shares on issue	97m
Sold short	0.0%
ASX 300 weight	n/a
Median turnover/day	\$0.1m

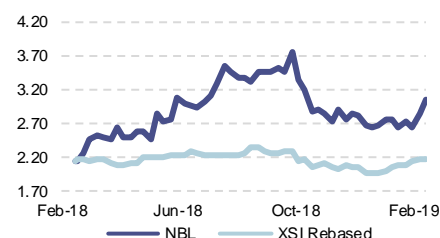
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FUNDAMENTAL  
INSIGHTS

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



	1-mth	6-mth	12-mth
Abs return (%)	11.3	-8.1	49.1
Rel return (%)	6.2	-2.8	48.5

### Key changes

		23-Nov	After	Var %
NPAT:	FY19F	14.6	18.2	24.1%
norm	FY20F	39.6	40.1	1.2%
(\$m)	FY21F	41.7	41.2	-1.3%
EPS:	FY19F	15.2	18.9	24.1%
norm	FY20F	41.2	41.7	1.2%
(cps)	FY21F	43.3	42.7	-1.3%
DPS:	FY19F	12.1	14.6	20.7%
(cps)	FY20F	24.5	25.0	2.0%
	FY21F	26.0	25.5	-1.9%
Price target:		4.66	4.14	-11.0%
Rating:		BUY	BUY	

### Earnings forecasts

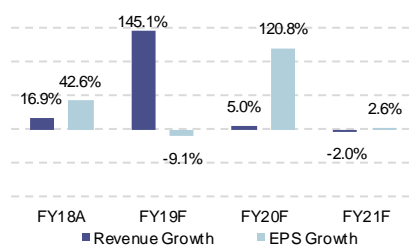
Year-end June (AUD)	FY17A	FY18A	FY19F	FY20F	FY21F
NPAT rep (\$m)	3.3	17.3	12.6	40.1	41.2
NPAT norm (\$m)	9.0	17.5	18.2	40.1	41.2
Consensus NPAT (\$m)			14.3	38.4	42.7
EPS norm (cps)	14.6	20.8	18.9	41.7	42.7
EPS growth (%)	111.6	42.6	-9.1	120.8	2.6
P/E norm (x)	21.0	14.7	16.2	7.3	7.2
EV/EBITDA (x)	13.0	8.1	6.4	3.7	3.7
FCF yield (%)	11.2	7.3	11.6	20.5	21.1
DPS (cps)	0.0	13.0	14.6	25.0	25.5
Dividend yield (%)	0.0	4.2	4.8	8.2	8.3
Franking (%)	0	100	100	100	100

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

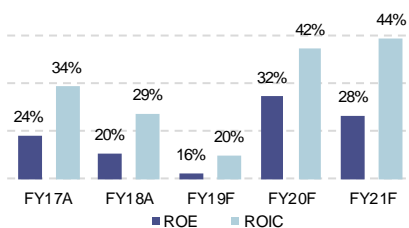
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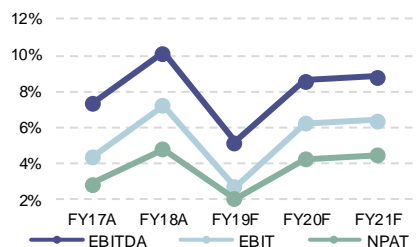
### Growth rates



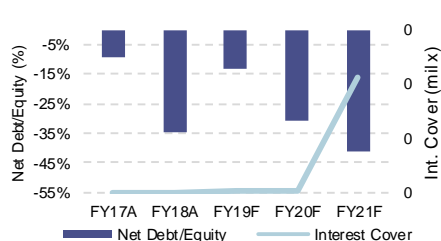
### Returns



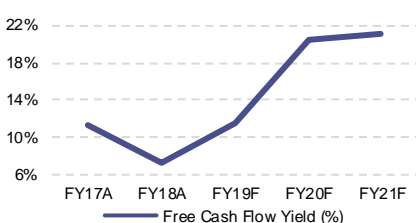
### Margin trends



### Solvency



### Free cash flow yield



### Interims (\$m)

	1H18A	2H18A	1H19A	2H19E
Sales revenue	190.6	173.6	462.1	430.2
EBITDA	22.1	14.8	29.4	17.2
EBIT	16.9	9.4	18.2	6.1
<b>Net profit</b>	<b>11.9</b>	<b>5.6</b>	<b>15.1</b>	<b>3.1</b>
<b>Norm EPS</b>	<b>14.8</b>	<b>6.3</b>	<b>15.7</b>	<b>3.2</b>
EBIT/sales (%)	8.9	5.4	3.9	1.4
Dividend (c)	9.0	4.0	9.0	5.6
Franking (%)	100.0	100.0	100.0	100.0
Payout ratio (%)	60.7	63.1	57.4	175.6
Adj payout (%)	12.9	<0	8.1	<0

### Key assumptions

	FY14A	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F
Revenue Growth (%)	-7.7	-4.0	0.0	187.1	17.6	141.5	5.4	-2.0
EBITDA Growth (%)	-111.7	424.7	-286.3	295.9	62.4	24.3	74.2	0.3
EBIT Growth (%)	-275.8	52.4	-164.0	287.8	94.5	-9.8	143.0	0.4
NPAT Growth (%)		12.7	-153.6	263.9	97.0	5.1	120.8	2.6
EPS Growth (%)		12.7	-144.0	77.8	78.8	-3.8	120.8	2.6
EBIT / Sales (%)	-3.2	-5.1	3.3	4.4	7.3	2.7	6.2	6.4
Tax Rate (%)	15.2	-17.1	-33.6	-23.2	-31.1	-23.4	-30.2	-30.0
ROA (%)	-13.5	-15.5	6.5	1.8	7.3	3.4	10.8	10.7
ROE (%)	-31.8	-53.7	20.2	5.3	15.7	11.0	29.7	26.3

### Financial ratios

	FY14A	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F
PE (x)	-25.2	-22.4	44.5	21.0	14.7	16.2	7.3	7.2
EV/EBITDA (x)	-501.9	-95.7	51.3	13.0	8.1	6.4	3.7	3.7
Dividend yield (%)	0.5	0.0	0.0	0.0	4.2	4.8	8.2	8.3
FCF yield (%)	-0.7	1.7	2.6	11.2	7.3	11.6	20.5	21.1
Payout ratio (%)	<0	0.0	0.0	0.0	62.6	77.4	60.0	59.7
Adj payout (%)	<0	0.0	0.0	0.0	44.5	36.2	29.4	39.2

### Profit and loss (\$m)

	FY14A	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F
Sales revenue	112.1	107.9	107.5	311.5	364.2	892.4	937.1	918.3
EBITDA	-0.6	-3.1	5.8	22.9	36.9	46.5	80.5	81.1
Depn & amort	3.0	2.4	2.3	9.2	10.6	22.3	22.3	22.3
<b>EBIT</b>	<b>-3.6</b>	<b>-5.5</b>	<b>3.5</b>	<b>13.7</b>	<b>26.3</b>	<b>24.3</b>	<b>58.3</b>	<b>58.8</b>
Net interest expense	-0.1	-0.1	-0.1	2.2	1.2	0.5	0.8	0.0
Tax	0.5	-0.9	1.2	2.7	7.8	5.6	17.3	17.6
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>-4.0</b>	<b>-4.5</b>	<b>2.4</b>	<b>8.8</b>	<b>17.3</b>	<b>18.2</b>	<b>40.1</b>	<b>41.2</b>
Abns/exts/signif	-0.1	0.0	0.0	-5.5	0.0	-5.6	0.0	0.0
<b>Reported net profit</b>	<b>-4.1</b>	<b>-4.5</b>	<b>2.4</b>	<b>3.3</b>	<b>17.3</b>	<b>12.6</b>	<b>40.1</b>	<b>41.2</b>

### Cash flow (\$m)

	FY14A	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F
EBITDA	-0.6	-3.1	5.8	22.9	36.9	46.5	80.5	81.1
Interest & tax	-0.9	0.7	0.1	-3.1	-9.3	-10.4	-18.2	-17.6
Working cap/other	-0.6	7.5	1.8	13.6	-5.9	-1.2	-1.4	-0.7
<b>Operating cash flow</b>	<b>-2.1</b>	<b>5.1</b>	<b>7.7</b>	<b>33.4</b>	<b>21.7</b>	<b>35.0</b>	<b>61.0</b>	<b>62.7</b>
Maintenance capex	0.0	0.0	0.0	0.0	0.0	-0.6	0.0	0.0
<b>Free cash flow</b>	<b>-2.1</b>	<b>5.1</b>	<b>7.7</b>	<b>33.4</b>	<b>21.7</b>	<b>34.4</b>	<b>61.0</b>	<b>62.7</b>
Dividends paid	-0.5	0.0	0.0	0.0	-9.7	-12.5	-17.9	-24.6
Growth capex	-2.0	-0.3	-3.6	-11.1	-14.2	-13.3	-14.5	-14.8
Invest/disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oth investing/finance flows	0.1	-1.5	0.6	-37.1	31.9	-32.4	0.0	0.0
<b>Cash flow pre-financing</b>	<b>-4.5</b>	<b>3.3</b>	<b>4.6</b>	<b>-14.8</b>	<b>29.7</b>	<b>-23.7</b>	<b>28.6</b>	<b>23.4</b>
Funded by equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Funded by debt	-0.1	-0.1	-0.2	30.0	0.0	1.5	-18.0	0.0
Funded by cash	4.6	-3.2	-4.4	-15.2	-29.7	22.2	-10.6	-23.4

### Balance sheet summary (\$m)

	FY14A	FY15A	FY16A	FY17A	FY18A	FY19F	FY20F	FY21F
Cash	5.3	8.5	12.9	28.2	58.7	36.5	47.1	70.5
Current receivables	1.0	0.4	1.5	3.7	5.2	4.7	5.2	5.0
Current inventories	11.8	9.9	11.4	29.2	45.5	125.2	120.2	117.2
Net PPE	7.4	5.1	6.4	28.3	32.2	46.1	38.3	30.8
Intangibles/capitalised	3.9	4.9	4.2	90.6	92.6	157.3	157.3	157.3
<b>Total assets</b>	<b>30.0</b>	<b>29.0</b>	<b>37.0</b>	<b>180.7</b>	<b>237.0</b>	<b>374.6</b>	<b>372.9</b>	<b>385.6</b>
Current payables	10.9	14.7	17.7	46.4	59.7	148.4	142.5	138.9
Total debt	0.3	0.2	0.0	22.4	20.4	21.8	5.9	5.9
<b>Total liabilities</b>	<b>17.3</b>	<b>20.7</b>	<b>25.0</b>	<b>118.3</b>	<b>127.0</b>	<b>260.5</b>	<b>237.8</b>	<b>228.9</b>
<b>Shareholder equity</b>	<b>12.7</b>	<b>8.4</b>	<b>12.0</b>	<b>62.4</b>	<b>110.0</b>	<b>114.1</b>	<b>135.1</b>	<b>156.7</b>
<b>Total funds employed</b>	<b>13.0</b>	<b>8.6</b>	<b>12.0</b>	<b>84.8</b>	<b>130.5</b>	<b>135.9</b>	<b>141.0</b>	<b>162.7</b>



### Three key points

- **3QFY19e will be difficult:** 3QFY19e will be a difficult trading period for NBL, which will compound the less profitable 2H trading period. Given we understand February trading has been challenging more broadly, NBL will also be cycling higher cost price inventory across the SFH Assets stores, at a time discounting is more prevalent for the industry. While management have the experience to trade through the period, we are expecting some of the cost of doing business savings to provide an offset through the period.
- **Online upside:** NBL achieved online sales growth of 27.9% yoy in 1H19a, representing 9% of total sales (\$41.8m). As NBL improve their online offering (consolidating each brand onto one platform, streamlining customer databases, etc.) we believe total usage could reach 15% of total sales. Assuming \$1.0b in sales medium-term (FY20e \$947.9m), online would contribute revenue of ~\$150m and EBITDA of ~\$44m, equivalent to 230 stores.
- **Store roll-out upside:** NBL advised today it had conducted some market place analysis and believes there is a potential for a further ~800 stores nationally across its portfolio of brands and believes there is potential for 100 stores in FY20e. While we do not include this level of store growth in our forecasts, this could add a further \$65m revenue or \$18.9m EBITDA (FY20e +23.5%).

### Changes to forecasts

We have upgraded our FY19e EBITDA 2.2% to \$46.2m, which is marginally ahead of management's guidance (~\$45.0m), driven by a more stable 1H/2H revenue split, flat average sales price assumptions, partially offset by higher cost prices assumptions. Our NPAT forecasts +24.1% to \$18.2m, driven by changes in D&A and Tax assumptions.

- **Revenue:** Our store revenue forecasts have increased 5.2%, largely due to a better than expected contribution from the SFH Assets, which have had a more equal 1H/2H revenue split historically and expectations for positive LFL sales growth (+2.0% yoy).
- **Store growth:** NBL has further store rollout upside after recently performing some market research. While it has guided to potentially 100 new stores in FY20e our forecasts remain conservative at +6 and will revisit once further demonstrated.
- **D&A:** 1H19a D&A was lower than expected. We now expect 2H19e to be similar (~\$11m/half).

**Table 1: NBL Old vs New Forecasts (A\$m)**

	FY19			FY20		
	Old	New	Change	Old	New	Change
Stores	1,395	1,422	1.9%	1,401	1,428	1.9%
Store Revenue	844.8	892.4	5.6%	861.7	937.1	8.8%
LFL growth	-5.5%	0.6%	612 bp	0.0%	0.7%	67 bp
Other	10.5	7.2	-31.9%	11.9	10.8	-9.0%
<b>Total Revenue</b>	<b>855.3</b>	<b>899.5</b>	<b>5.2%</b>	<b>873.6</b>	<b>947.9</b>	<b>8.5%</b>
Gross Profit	487.6	497.8	2.1%	525.5	564.6	7.5%
Gross Profit Margin	57.0%	55.3%	-167 bp	60.1%	59.6%	-58 bp
<b>EBITDA</b>	<b>45.2</b>	<b>46.2</b>	<b>2.2%</b>	<b>80.2</b>	<b>80.5</b>	<b>0.4%</b>
D&A	23.4	22.3	-5.0%	23.4	22.3	-5.0%
EBIT	21.8	24.0	10.0%	56.7	58.3	2.7%
Interest	0.9	0.2	-71.7%	0.1	0.8	666.0%
Tax	6.3	5.6	-11.4%	17.0	17.3	2.0%
<b>NPAT</b>	<b>14.6</b>	<b>18.2</b>	<b>24.1%</b>	<b>39.6</b>	<b>40.1</b>	<b>1.2%</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 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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