

M/W: COVID-19 turbulence remains

Experience Co. reported 1H21a underlying EBITDA of \$3.5m (pre-AASB 16, inc. JobKeeper), ahead of WILSe (\$1.3m). Excluding JobKeeper, EBITDA was \$0.0m (break-even). We are encouraged management has been able to maintain profitability on a month-to-month basis and see medium-term upside to the new pontoon project. However, given the continued domestic border challenges, restricted international tourism and limited visibility on when volumes return we retain a M/W recommendation.

Key points

Valuation: TP changed to \$0.22/share (+57.1% vs/ prev.). We revise our valuation methodology to DCF and EV/EBITDA (blended) from NTA given the domestic border outlook is gradually improving, profitability has been retained, pricing is resilient and demand is improving for core demographics. Our DCF is \$0.30/share.

Model changes: EBITDA forecasts -3.2% and -53.2% to \$5.3m and \$11.4m in FY21e and FY22e respectively. Our forecasts reflect 37.5% of FY19a Skydiving volumes in FY21e, growing by 67.2% in FY22e. We now expect New Zealand Skydiving and GBR Experiences to be loss making in 2H21e due to lower volumes and removal of funding.

Guidance: No quantitative guidance provided. While all operations appear to be open spot border closures due to hotspots are expected to be a theme in the near-term and the seasonal slowdown has commenced. EXP remains profitable on a mom basis.

Pontoon: The Marine World/Dreamtime Island pontoon is expected to be operational in CY22e at a total cost of \$6.7m. Based on conservative Revenue and ROIC metrics, we believe this asset could deliver through-cycle EBITDA of \$2.0-4.0m.

Skydiving: On balance, Skydiving has been the least impacted business in the period. Volumes continued to improve throughout the year in Australia with the core demographic willing to engage when restrictions were not in place. New Zealand operations were the hardest hit given reliance on international tourism.

Liquidity: EXP has \$15.7m cash on hand and a new \$20.0m debt facility (February 2022 expiry). Assuming monthly outgoings of \$1.0m, we believe EXP has sufficient cash reserves to see it through current trading conditions.

Risks and catalysts

Risks: i) decline in Queensland retail and consumer confidence conditions; ii) increased discounting by competitors; iii) softening global economic conditions.

Catalysts: i) Tourism JobKeeper announcement March 2021; ii) BOM monthly rainfall data; iii) ABS monthly tourism data.

Recommendation

12-mth target price (AUD)	\$0.22
Share price @ 18-Feb-21 (AUD)	\$0.22
Forecast 12-mth capital return	0.0%
Forecast 12-mth dividend yield	0.0%
12-mth total shareholder return	0.0%

MARKET WEIGHT

Market cap	\$122m
Enterprise value	\$125m
Shares on issue	556m
Sold short	0.0%
ASX 300 weight	n/a
Median turnover/day	\$0.0m

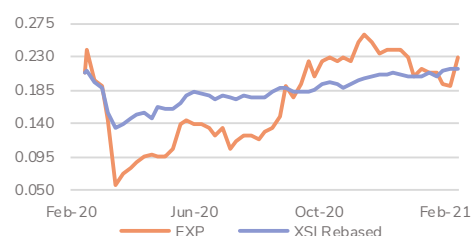
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12-mth price performance (\$)



	1-mth	6-mth	12-mth
Abs return (%)	4.5	76.9	9.5
Rel return (%)	-0.9	59.1	7.7

Key changes

		28-Aug	After	Var %
NPAT:	FY21F	-1.8	-2.7	N/A
norm	FY22F	11.5	4.0	-65.4%
(\$m)	FY23F	13.0	7.6	-41.3%
EPS:	FY21F	-0.3	-0.5	N/A
norm	FY22F	2.0	0.7	-65.4%
(cps)	FY23F	2.3	1.3	-41.3%
DPS:	FY21F	0.0	0.0	0.0%
(cps)	FY22F	0.0	0.0	0.0%
	FY23F	0.0	0.0	0.0%
Price target:		0.14	0.22	57.1%
Rating:		M/W	M/W	

Earnings forecasts					
Year-end June (AUD)	FY19A	FY20A	FY21F	FY22F	FY23F
NPAT rep (\$m)	-48.2	37.7	-0.3	4.0	7.6
NPAT norm (\$m)	8.1	-1.9	-2.7	4.0	7.6
Consensus NPAT (\$m)			-1.9	6.3	12.3
EPS norm (cps)	1.4	-0.3	-0.5	0.7	1.3
EPS growth (%)	-49.2	-124.0	-39.8	247.2	91.6
P/E norm (x)	15.4	-64.5	-46.1	31.3	16.3
EV/EBITDA (x)	4.6	17.2	23.7	11.0	8.4
FCF yield (%)	2.7	-0.9	-3.6	7.9	9.3
DPS (cps)	1.0	0.0	0.0	0.0	0.0
Dividend yield (%)	4.5	0.0	0.0	0.0	0.0
Franking (%)	100	0	0	0	0

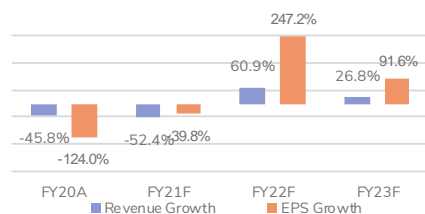
Source: Company data, Wilsons estimates, S&P Capital IQ

Wilsons Equity Research

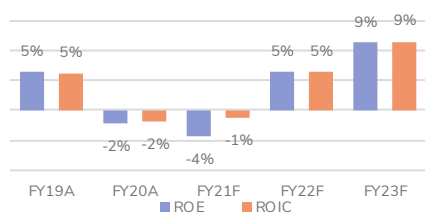
Analyst(s) who own shares in the Company: n/a

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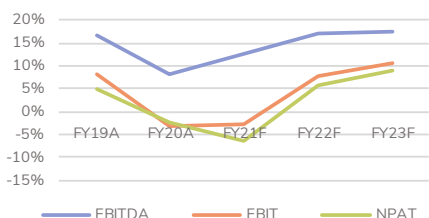
Growth rates



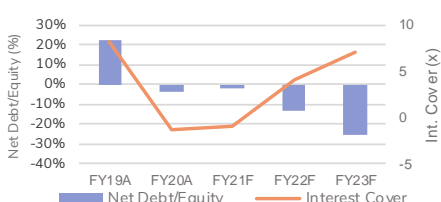
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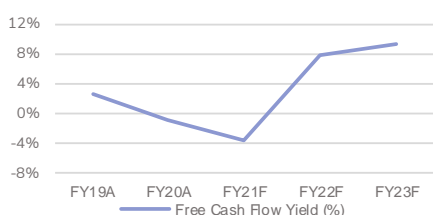
Margin trends



Solvency



Free cash flow yield



Interims (\$m)

	1H20A	2H20A	1H21A	2H21E
Sales revenue	60.3	27.1	20.1	21.5
EBITDA	9.1	-1.8	3.5	1.8
EBIT	5.4	-8.0	-0.5	-0.7
Net profit	2.8	-4.7	-1.7	-1.0
Norm EPS	0.5	-0.8	-0.3	-0.2
EBIT/sales (%)	8.9	-29.7	-2.6	-3.0
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0
Payout ratio (%)	0.0	0.0	0.0	0.0
Adj payout (%)	0.0	0.0	0.0	0.0

Key assumptions

	FY16A	FY17A	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue Growth (%)	122.2	53.2	51.1	19.2	-45.8	-52.4	60.9	26.8
EBIT Growth (%)	133.1	53.0	20.2	-33.6	-120.3	-56.0	-545.6	69.5
NPAT Growth (%)	217.1	43.0	29.4	-44.3	-124.0	39.8	-247.2	91.6
EPS Growth (%)	168.8	15.8	8.8	-49.2	-124.0	39.8	-247.2	91.6
EBIT / Sales (%)	18.5	18.5	14.7	8.2	-3.1	-2.8	7.8	10.5
Tax Rate (%)	22.8	26.7	19.6	30.1	57.6	-10.8	0.0	0.0
ROA (%)	12.3	11.8	8.5	7.2	-2.2	-1.0	4.0	6.3
ROE (%)	11.2	11.8	8.0	6.1	-2.5	-3.6	5.0	8.7

Financial ratios

	FY16A	FY17A	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
PE (x)	10.3	8.9	8.2	16.1	-67.4	-48.2	32.7	17.1
EV/EBITDA (x)	8.7	5.6	4.1	4.6	17.2	23.7	11.0	8.4
Dividend yield (%)	4.3	4.3	4.3	4.3	0.0	0.0	0.0	0.0
FCF yield (%)	-2.3	-6.0	-8.2	2.7	-0.9	-3.6	7.9	9.3
Payout ratio (%)	44.9	38.8	35.6	70.2	0.0	0.0	0.0	0.0
Adj payout (%)	<0	<0	<0	169.3	0.0	0.0	0.0	0.0

Profit and loss (\$m)

	FY16A	FY17A	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Sales revenue	58.5	89.6	135.3	161.3	87.4	41.6	66.9	84.9
EBITDA	14.4	22.4	30.2	27.2	7.3	5.3	11.4	14.9
Depn & amort	3.6	5.9	10.3	13.9	9.9	6.4	6.1	6.0
EBIT	10.8	16.5	19.9	13.3	-2.7	-1.2	5.2	8.9
Net interest expense	0.7	1.3	1.9	1.6	1.9	1.3	1.3	1.3
Tax	2.3	4.1	3.5	3.5	-2.6	0.3	0.0	0.0
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)	7.8	11.2	14.5	8.2	-1.9	-2.7	4.0	7.6
Abns/exts/signif	-0.7	-1.7	-7.7	-56.3	39.7	2.4	0.0	0.0
Reported net profit	7.2	9.5	6.8	-48.2	37.7	-0.3	4.0	7.6

Cash flow (\$m)

	FY16A	FY17A	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
EBITDA	14.4	22.4	30.2	27.2	7.3	5.3	11.4	14.9
Interest & tax	-0.7	-1.3	-1.9	-1.6	-1.9	-1.3	-1.3	-1.3
Working cap/other	-4.3	-8.5	-13.5	-7.1	1.2	-5.1	2.9	2.2
Operating cash flow	9.4	12.6	14.8	18.5	6.6	-1.1	13.0	15.8
Maintenance capex	-12.3	-20.0	-24.9	-15.2	-7.6	-3.4	-3.4	-4.3
Free cash flow	-2.9	-7.4	-10.1	3.3	-1.1	-4.4	9.6	11.4
Dividends paid	-2.9	-4.0	-4.3	-5.6	0.0	0.0	0.0	0.0
Growth capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Invest/disposals	-24.6	-31.5	-72.4	1.1	5.1	1.8	0.0	0.0
Oth investing/finance flows	-1.3	0.1	-2.3	0.0	14.4	1.3	0.0	0.0
Cash flow pre-financing	-31.7	-42.7	-89.2	-1.2	18.5	-1.3	9.6	11.4
Funded by equity	34.5	20.1	80.9	0.0	-0.2	-0.1	0.0	0.0
Funded by debt	0.7	19.3	5.9	-1.0	-10.5	-1.4	0.0	0.0
Funded by cash	-3.6	3.3	2.3	2.2	-7.7	2.8	-9.6	-11.4

Balance sheet summary (\$m)

	FY16A	FY17A	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Cash	12.8	9.5	7.2	4.8	12.5	9.7	19.3	30.7
Current receivables	2.5	4.3	8.4	5.6	2.9	1.3	2.0	2.6
Current inventories	1.5	2.5	4.7	5.0	3.0	1.3	1.7	2.2
Net PPE	39.5	70.4	121.5	118.9	68.9	64.6	61.8	60.1
Intangibles/capitalised	18.0	48.0	85.0	39.5	12.0	11.8	11.9	12.0
Total assets	87.8	139.6	232.4	182.1	121.8	122.0	129.4	141.7
Current payables	2.7	6.6	9.6	9.5	4.6	2.0	2.6	3.3
Total debt	10.3	29.6	35.5	34.3	9.8	8.4	8.4	8.4
Total liabilities	17.8	45.1	52.0	49.7	44.0	46.0	49.4	54.1
Shareholder equity	70.0	94.5	180.4	132.4	77.8	76.0	80.0	87.6
Total funds employed	80.4	124.1	215.9	166.7	87.5	84.4	88.4	96.0



Changes to forecasts

- **Revenue:** Forecasts decline 43.8% to \$41.6m, largely driven by downgrades to our New Zealand Skydiving volume assumptions (1H21a ~5.0k). GBR Experiences was also weaker than expected.
 - **Skydiving:** Australian and New Zealand jump volume forecasts decline materially. Downgrades are driven by the impact border closures have on domestic demand in Australia. We were surprised at the difficulties being faced in New Zealand. Conservatively we expect marginal improvements (in jump terms) until 2H23e.
 - **Experiences:** All volumes negatively impacted by lack of inbound tourism volumes, partially offset by stronger demand for the Fitzroy Island product (local demand). We now assume 2H21e demand increases 25.0% yoy driven by focused domestic tourism marketing.
- **CODB:** We forecast CODB at 40.7% of revenues in FY21e (\$16.9m). This compares to a cost base which was 32.7% of revenue in FY20a (\$28.6m) and 27.1% in FY19a (\$43.8m). As revenue growth starts to improve, we forecast CODB to improve to 37.0% of revenue (\$24.8m) in FY22e, implying +46.7% yoy growth (vs +60.9% revenue growth). This highlights some cost leverage which translates to temporary EBITDA margin expansion. However, our FY22e margin of 17.0% remains below EXP's pre-COVID average of ~20.0%.
- **EBITDA:** Forecasts decline 3.2% to \$5.3m, largely driven by lower volume assumptions across the businesses. 1H21a margins benefited from funding and JobKeeper. While we assume some form of JobKeeper is allocated to the Tourism sector in 2H21e, it is not the same impact as 1H21a.

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

	FY21e			FY22e		
	Old	New	Change	Old	New	Change
Australian skydiving revenue	33.1	23.6	-28.8%	47.3	45.0	-4.7%
New Zealand skydiving revenue	18.8	5.2	-72.3%	26.8	7.8	-70.9%
GBR Experiences revenue	22.1	12.8	-42.0%	28.0	14.1	-49.6%
Revenue	74.0	41.6	-43.8%	102.1	66.9	-34.4%
Skydiving	9.4	6.0	-35.6%	22.2	13.5	-39.2%
GBR Experiences	1.3	3.2	145.0%	7.7	2.1	-72.5%
Corporate	-5.2	-4.0	-175.7%	-5.6	-4.2	-175.6%
EBITDA	5.4	5.3	-3.2%	24.3	11.4	-53.2%
EBITDA margin	7.3%	12.6%	529.5 bp	23.8%	17.0%	-681.4 bp
D&A	-6.6	-6.4	2.3%	-6.4	-6.1	-195.5%
EBIT	-1.1	-1.2	-202.5%	17.9	5.2	-70.7%
Interest	1.5	1.3	-13.7%	1.5	1.3	-13.7%
Tax	-0.8	0.3	-396.8%	4.9	0.0	-100.0%
NPAT	-1.8	-2.7	247.8%	11.5	4.0	-65.4%

Source: WILSe



Experience Co (EXP)

Business description

Experience Co Limited (EXP) is an adventure tourism and leisure company, providing tandem skydiving services in Australia and New Zealand. It also provides white water rafting, canyoning, helicopter and boat tours, island day trips, reef tours, snorkeling and diving in the Great Barrier Reef; rain forest tours in North Queensland; and hot air ballooning in New South Wales. As of June 30, 2018, it operates 18 skydiving locations in Australia and New Zealand; 2 hot air ballooning locations in New South Wales; and eco-tourism adventure hub in Cairns Far North Queensland.

Investment thesis

EXP has historically operated a skydiving business which operates with high margins and has a leading market share. However, recent acquisitions are underperforming and have put pressure on earnings. While EXP is not over geared, near-term earnings visibility is challenged and we are yet to cite the full impact from the latest strategy.

Revenue drivers

International tourism volumes
Retail activity
Market share gains/acquisitions

Margin drivers

- Pricing increases/decreases
- Promotional activity
- Packaging options
- Operational leverage

Key issues/catalysts

1H21e results (February 2021)
Queensland border opening
Divestment timing

Risk to view

Volatile tourism activity in FNQ
Change in tourist demographic

Balance sheet

- Assets: \$89.1m
- Equity: \$77.9m
- Net Debt: \$9.0m (FY20a)

Board

- Kerry (Bob) East – Non-Executive Chairman
- Michelle Cox – Non-Executive Director
- Anthony Boucaut – Non-Executive Director
- Neil Cathie – Non-Executive Director
- John O'Sullivan – Executive Director

Management

John O'Sullivan – CEO & Executive Director
Owen Kemp – Chief Financial Officer
Fiona van Wyk – Company Secretary

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Recommendation structure and other definitions

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