

24 May 2018

Shriro Holdings Limited (SHM)

BUY

Share Price: A\$1.03

Omega sales drag down 1H18 earnings

Target Price:

A\$1.63

Shriro Holdings' earnings guidance for 1H18 is disappointing and indicative of the challenging market conditions. However, we remain confident that the earnings impact stemming from a continuation of these headwinds will be moderated in 2H18 by strategic initiatives and growth in other product segments. We reiterate our Buy rating, with a revised target price of \$1.63ps (previously \$1.77ps).

Event

- Shriro Holdings has released a trading update that features earnings guidance for the six months to June 2018.

Key points

- Management expects Shriro Holdings' trading EBITDA to be 15% below 1H17, and net profit to be in line with 1H17.
- The key driver of the weaker trading EBITDA is kitchen appliance sales, which are tracking 11% below 1H17, with associated margin compression.
- At the net profit line, the circa \$1.1m decline in 1H18 trading EBITDA is expected to be offset by a lower interest and tax expense.

Key takeaways

- While management has previously flagged emerging weakness in its kitchen appliance sales, particularly Omega, these headwinds have intensified.
- Anecdotal evidence points to stable DIY activity and lower new builds. Although Shriro Holdings has equal exposure to both, the weaker sales environment is in our view also due in part to structural changes in retail.

Earnings revisions

- We have downwardly revised our CY18 EBITDA and net profit forecast by 7.4 percent and 4.3 percent, respectively.
- Our CY18 dividend forecast remains unchanged at 11cps. In our view, a 78% payout ratio is sustainable given Shriro Holdings' low gearing and capex profile.

Investment view

- We view Shriro Holdings as a well-managed company with a diverse portfolio of brands, a strong balance sheet, and a clear and defined growth strategy.

Catalysts

- First, a model refresh across Omega to adapt to market conditions. Second, increased sales momentum in barbecues. Third, an earnings accretive acquisition.

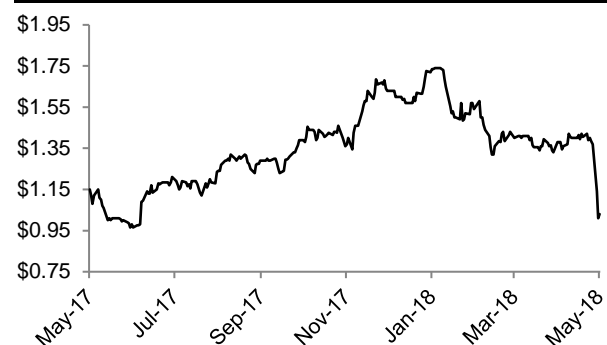
Company Data

Shares – ordinary (M)	96.0
Dilution (M)	0.0
Total (fully diluted) (M)	96.0
Market capitalisation (\$M)	98.9
12 month low/high (\$)	0.90 - 1.75
Average monthly turnover (\$M)	5.1
Index	Nil
GICS Industry	Household Durables

Financial Summary (fully diluted/normalised)

Year end December	2016A	2017A	2018F	2019F	2020F
Revenue (\$M)	183.5	188.3	191.5	205.8	213.5
Costs (\$M)	160.4	163.4	169.5	181.1	186.9
EBITDA (\$M)	23.0	24.9	22.0	24.7	26.7
NPAT (\$M)	13.2	14.5	13.5	14.7	16.1
EPS (¢ps)	13.7	14.0	14.1	15.3	16.7
PER (x)	7.5	7.4	7.3	6.7	6.2
Free cashflow (\$M)	12.2	13.6	12.2	11.6	14.1
FCFPS (¢ps)	12.8	14.1	12.8	12.0	14.7
PCFPS (x)	8.1	7.3	8.1	8.5	7.0
Enterprise Value (\$M)	106.2	102.6	100.7	100.1	97.8
EV / EBITDA (x)	4.6	4.1	4.6	4.1	3.7
Dividends (¢ps)	10.0	11.0	11.0	12.0	12.5
Yield (%)	9.7	10.7	10.7	11.7	12.1

SHM – performance over one year



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Analysis

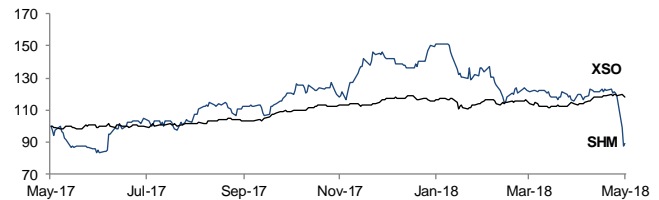
Shriro Holdings Limited

Year End December

MARKET DATA

Recommendation		Buy
Price	\$	1.03
Price target (12-month)	\$	1.63
52 week high / low	\$	0.9 - 1.75
Market capitalisation	\$m	98.9
Shares on issue (basic)	no.	96.0
Performance rights	no.	0.0
Other equity	no.	0.0
Shares on issue (diluted)	no.	96.0

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

	2016A	2017A	2018F	2019F	2020F	
Reported net profit	\$m	13.2	14.5	13.5	14.7	16.1
Normalised net profit	\$m	13.2	13.5	13.5	14.7	16.1
Reported EPS (diluted)	¢	13.7	15.1	14.1	15.3	16.7
Normalised EPS (diluted)	¢	13.7	14.0	14.1	15.3	16.7
...Growth	%	6.1	2.2	0.5	8.5	9.5
Normalised diluted PER	x	7.5	7.4	7.3	6.7	6.2
Operating cash flow per share	¢	16.6	17.9	16.6	15.9	18.6
Free cash flow per share	¢	12.8	14.1	12.8	12.0	14.7
Price to free cash flow per share	x	8.1	7.3	8.1	8.5	7.0
Free cash flow yield	%	12.4	13.7	12.4	11.7	14.3
Dividend per share	¢	10.0	11.0	11.0	12.0	12.5
Payout ratio	%	72.2	77.7	78.1	78.6	74.7
Yield	%	9.7	10.7	10.7	11.7	12.1
Franking	%	100.0	100.0	100.0	100.0	100.0
Enterprise value	\$m	106.2	102.6	100.7	100.1	97.8
EV/EBITDA	x	4.6	4.1	4.6	4.1	3.7
EV/EBIT	x	5.5	4.8	5.4	4.7	4.2
Price to book (NAV)	x	1.8	1.7	1.6	1.6	1.5
Price to NTA	x	1.8	1.7	1.6	1.6	1.5

KEY RATIOS

	2016A	2017A	2018F	2019F	2020F	
EBITDA margin	%	12.5	13.2	11.5	12.0	12.5
EBIT margin	%	10.6	11.2	9.7	10.3	10.8
Underlying net profit margin	%	7.2	7.7	7.0	7.1	7.5
Return on average equity	%	26.1	26.3	22.9	23.8	24.6
Return on average assets	%	21.7	22.3	18.7	20.5	21.0
Net tangible assets per share	¢	56.1	60.2	62.6	65.9	70.1
Net debt / (cash)	\$m	7.3	3.8	1.9	1.3	(1.1)
Interest cover (EBIT / net interest)	x	15.4	26.5	66.2	87.4	120.1
Leverage (net debt / EBITDA)	x	0.3	0.2	0.1	0.1	n/a
Gearing (net debt / net debt plus equity)	%	12.0	6.2	3.0	2.0	n/a

DUPONT ANALYSIS

	2016A	2017A	2018F	2019F	2020F	
Net Profit Margin	%	7.2	7.7	7.0	7.1	7.5
Asset Turnover	x	2.0	1.9	1.9	1.9	1.9
Return on Assets	%	14.4	14.8	13.4	13.7	14.2
Financial Leverage	x	1.7	1.7	1.7	1.7	1.7
Return on Equity	%	24.7	25.4	22.4	23.2	23.9

DIVISIONAL BREAKDOWN

	2016A	2017A	2018F	2019F	2020F	
Revenue	\$m	183.5	188.3	191.5	205.8	213.5
Kitchen Appliances	\$m	81.5	83.3	77.8	79.4	81.0
Consumer Products	\$m	99.8	103.6	111.8	124.4	130.6
Other	\$m	2.3	1.4	2.0	2.0	2.0
EBITDA	\$m	23.0	24.9	22.0	24.7	26.7
Kitchen Appliances	\$m	6.6	8.5	4.4	4.8	5.8
Consumer Products	\$m	16.1	16.2	17.6	19.9	20.9
Other	\$m	0.3	0.2	0.0	0.0	0.0
EBITDA margin	%	12.5	13.2	11.5	12.0	12.5
Kitchen Appliances	%	8.1	10.2	5.7	6.0	7.2
Consumer Products	%	16.2	15.6	15.8	16.0	16.0
Other	%	12.0	17.5	0.0	0.0	0.0

PROFIT AND LOSS

	2016A	2017A	2018F	2019F	2020F	
Total revenue	\$m	183.5	188.3	191.5	205.8	213.5
EBITDA	\$m	23.0	24.9	22.0	24.7	26.7
Depreciation & amortisation	\$m	3.6	3.8	3.4	3.5	3.6
EBIT	\$m	19.4	21.2	18.6	21.2	23.1
Net interest	\$m	1.3	0.8	0.3	0.2	0.2
Non-operating income	\$m	0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m	18.2	20.4	18.3	20.9	22.9
Tax expense	\$m	5.0	5.9	4.8	6.3	6.9
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Reported NPAT	\$m	13.2	14.5	13.5	14.7	16.1
Significant items	\$m	0.0	(1.1)	0.0	0.0	0.0
Underlying NPAT	\$m	13.2	13.5	13.5	14.7	16.1

GROWTH PROFILE

	2016A	2017A	2018F	2019F	2020F	
Operating revenue	%	(1.5)	2.7	1.7	7.5	3.8
EBITDA	%	1.5	8.3	(11.6)	12.1	8.1
EBIT	%	0.7	8.9	(12.2)	14.0	9.1
Operating NPAT	%	6.1	10.2	(7.2)	9.0	9.5
Normalised EPS	%	6.1	10.2	(7.7)	8.5	9.5
DPS	%	66.7	10.0	0.0	9.1	4.2

BALANCE SHEET

	2016A	2017A	2018F	2019F	2020F	
Cash	\$m	0.0	3.5	5.2	6.0	8.5
Receivables	\$m	34.9	36.3	36.4	39.1	40.6
Inventory	\$m	39.7	42.2	42.1	45.3	47.0
Other	\$m	1.8	1.6	1.6	1.6	1.6
Current	\$m	76.4	83.5	85.3	92.0	97.7
Prop, plant & equip	\$m	10.0	9.7	9.8	10.0	10.2
Goodwill	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	5.2	5.0	5.0	5.0	5.0
Non current	\$m	15.2	14.7	14.9	15.0	15.2
Total assets	\$m	91.5	98.2	100.2	107.0	112.9
Accounts Payable	\$m	20.7	23.2	23.0	24.7	25.6
Borrowings	\$m	5.5	5.5	5.5	5.5	5.5
Other	\$m	12.0	12.4	11.6	13.6	14.5
Total liabilities	\$m	38.3	41.1	40.1	43.8	45.6
Net assets	\$m	53.3	57.2	60.1	63.2	67.3
Equity	\$m	53.3	57.2	60.1	63.2	67.3
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	\$m	53.3	57.2	60.1	63.2	67.3
Shares on issue	m	95.0	95.0	96.0	96.0	96.0

CASH FLOW

	2016A	2017A	2018F	2019F	2020F	
EBITDA	\$m	23.0	24.9	22.0	24.7	26.7
Change in working capital	\$m	(1.4)	(1.5)	(0.2)	(4.1)	(2.2)
Net interest	\$m	(1.2)	(0.8)	(0.3)	(0.2)	(0.2)
Tax paid	\$m	(4.9)	(5.7)	(5.7)	(5.1)	(6.4)
Other	\$m	0.5	0.2	0.0	0.0	0.0
Operating cash flow	\$m	15.9	17.2	15.8	15.2	17.9
Capital expenditure	\$m	(3.7)	(3.6)	(3.6)	(3.7)	(3.7)
Acquisitions/divestment/other	\$m	0.2	0.2	0.0	0.0	0.0
Investing cash flow	\$m	(3.5)	(3.4)	(3.6)	(3.7)	(3.7)
Free cash flow	\$m	12.2	13.6	12.2	11.6	14.1
Equity	\$m	0.0	0.0	0.0	0.0	0.0
Increase / (decrease) in borrowings	\$m	(4.9)	(0.1)	0.0	0.0	0.0
Dividend/other	\$m	(8.6)	(10.5)	(10.5)	(10.8)	(11.6)
Financing cash flow	\$m	(13.4)	(10.5)	(10.5)	(10.8)	(11.6)
Net cash flow	\$m	(1.1)	3.2	1.7	0.8	2.5

Source: Petra Capital

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