

23 September 2020

Russell Wright | T+02 8288 6900 | E:russell@barclaypearce.com.au

Kathmandu Holdings Ltd

Retail

BUY

KMD A\$1.18

TARGET PRICE A\$1.47

Kathmandu Holdings Limited (KMD) is engaged in the design, marketing and retailing of clothing and equipment for travel and adventure. Currently, KMD 167 stores also operate an online store. KMD's product offering generally falls into two retailing statistical categories: apparel retailing and recreational goods retailing. Apparel goods include technical wear, down jackets, thermals, fleece, woven casual wear and merino for men, women and kids.

Company Data

Number of shares	709.0M
Market Capitalisation	\$833.1M
Free float (%)	87.7
12-month high/low	\$2.47/\$0.47
Average Daily Turnover (\$m)	2.33
% S&P/ASX200	0.05%
DDM Ranking	217
% All Ordinaries	0.04%
GICS Industry Group	Retail

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end December	2020A	2021F	2022F
Revenue (\$M)	752.6	831.3	932.3
EBITDA (\$M)	78.3	99.9	112.0
Reported NPAT (\$M)	8.4	49.1	71.2
Adjusted NPAT (\$M)	29.6	46.3	69.6
Reported EPS (c)	1.8	5.9	8.7
Adjusted EPS (c - FD)	6.4	6.1	9.7
Adjusted EPS growth (%)	-57.6	-3.6	57.6
Adjusted P/E (x)	18.4	19.1	12.1
Dividend (c/sh)	0.0	2.1	5.5
Gross yield (%)	0.0	2.6	6.6
Net yield (%)	0.0	1.8	4.6

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

Acceleration in Online Sales in FY20 Results

On 23 September Kathmandu Holdings (KMD) announced their FY20 results with the following highlights.

- **Acceleration in online sales**, with group online sales up 63% to \$106.4 million, now comprising 15.7% of direct to consumer sales
 - Rip Curl online sales up 52% to \$25.5 million; 10.6% of DTC sales
 - Kathmandu online sales up 67% to \$80.9 million; 18.5% of DTC sales
- Group sales up 48.7% to \$801.5 million, including 9 months of Rip Curl
- Statutory NPAT of \$8.9 million includes \$18.0 million of one-off transaction costs, \$4.6 million of restructuring costs and a \$2.6 million impact from the implementation of the IFRS 16 leasing standard;
- Group Underlying EBITDA down 15.3% to \$83.4m;
- Group Underlying NPAT down 44.5% to \$31.5m;
- Operating cash flow up 50.9% to \$93.1m;
- \$207 million capital raise provided balance sheet strength and optionality for future growth, with closing net debt of \$9.4m;

COVID-19 Impacts

- COVID-19 impact estimated at c. \$135 million of sales (\$80 million retail and \$55 million wholesale)
- Full global retail store network closures during initial Lockdowns
- During July, Melbourne stores continued to trade, but with impacted footfall due to a second wave
- Reduced demand for Kathmandu and Rip Curl travel-related products due to border restrictions
- Dividend suspended. No interim dividend paid, and no final FY20 dividend declared

Outlook

- COVID-19 has continued to impact some key markets at the start of FY21 with Melbourne, Auckland, Hawaii, Bali and airport store closures. Given post-lockdown retail store performance in FY20, we expect demand to return in these markets when stores reopen
- As a result of the COVID-19 disruption, the Group has experienced mixed same store sales performance over the first seven weeks of FY21
- Wholesale order books for both Rip Curl and Oboz are improving for 2H FY21

Earnings changes

KMD's announced FY20 results that were in line with market expectations. But, we are concerned about KMD's first seven weeks of trading in FY21. However, at this stage we don't expect any significant earnings revisions.

We are initiating cover on KMD with a 12-month price target of \$1.47 and with a BUY recommendation. The price target is underpinned by our DDM valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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