

21 September 2021

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Kathmandu Holdings Ltd

Retailing

BUY

KMD A\$1.43 **TARGET PRICE A\$1.94**

Kathmandu Holdings Ltd. engages in the design, market, retail and wholesale of clothing, footwear and equipment for travel and adventure. The firm's products include waterproof jackets, down jackets, thermals, fleece jackets, shirts and pants, merino apparel and thermals, footwear and socks and equipment such as packs, bags, sleeping bags, tents, travel accessories and camping accessories.

Company Data

Number of shares	709.0 M
Market Capitalisation	\$ 1013.9 M
Free float (%)	90.3
12-month high/low	\$1.545/\$1.075
Average Daily Turnover (\$m)	0.5
% S&P/ASX200	0.05%
DDM Ranking	217
% All Ordinaries	0.04%
GICS Industry Group	Retailing

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end July	2021A	2022F	2023F	2024F
Revenue (\$M)	893.7	993.1	1,054.3	1,094.2
EBITDA (\$M)	158.8	195.6	211.2	250.3
Reported NPAT (\$M)	61.1	78.7	87.9	98.5
Adjusted NPAT (\$M)	64.2	80.5	89.4	81.7
Reported EPS (c)	8.6	11.1	12.4	13.9
Adjusted EPS (c - FD)	9.0	11.3	12.6	13.8
Adjusted EPS growth (%)	508.5	40.2	11.1	9.8
Adjusted P/E (x)	15.9	12.6	11.3	10.3
Dividend (c/sh)	4.8	7.5	8.8	8.9
Gross yield (%)	4.8	7.5	8.8	8.9
Net yield (%)	3.4	5.3	6.2	6.2
ROIC (%)	7.8	10.4	11.4	10.4

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

Share price performance.



Source: FactSet, Barclay Pearce Capital

FY21 Year End Financial Results

On 21st September, Kathmandu Holdings Ltd (KMD) announced their results for the full year ended 31 July 2021 with the following highlights:

- Sales up 15.1% to \$922.8 million, including a full 12-month contribution from Rip Curl
- Gross margin up 40 bps to 58.7%;
- Underlying EBITDA up 35.9% to \$113.3 million (excluding the impact of IFRS 16 and one-off abnormal costs), driven by strong sales performance and focused management of operating expenses;
- Statutory NPAT of \$63.4 million, Underlying NPAT up 110% to \$66.3 million (excluding the impact of IFRS 16 and one-off abnormal costs);
- Strong balance sheet with \$37.0 million net cash, allows the Group to manage any short-term COVID-related challenges while supporting continued growth investment;
- Final dividend of 3.0 cents per share (fully franked for Australian shareholders); total FY21 dividend of 5.0 cents per share;

Financial Performance

- FY21 result includes a full twelve months of Rip Curl, compared to FY20 which includes nine months of Rip Curl post-acquisition;
- Exceptional sales performance from both Rip Curl and Oboz;
- Lease renewals completed for 14% of the retail store portfolio in FY21, delivering \$1.3m annualised savings;
- COVID related write down of Indonesia receivables provision \$2.7m;

FY22 Outlook

- Lost trading days due to COVID lockdown restrictions FY21 c. 13,000 vs FY20 c. 15,000;;
- COVID restrictions impacting supply chain:
 - Reduced factory capacity due to enforced closures stretching lead times;
 - Freight congestion leading to delivery delays
 - Increased freight costs;
- First half FY22 profit expected to be below first half FY21 due to ongoing COVID impacts;
- Both Rip Curl and Oboz wholesale order books are significantly above pre-COVID levels;
- All brands are well positioned to capitalise on growing participation in outdoor, beach and surfing activities;
- Capitalise on opportunities from the global COVID vaccination rollout:
 - Easing COVID restrictions in key growth markets: Europe (Rip Curl and Kathmandu) and North America (Rip Curl and Oboz); and
 - International travel restrictions expected to ease as FY22 progresses, benefiting the Kathmandu brand and emerging markets for Rip Curl.

Earnings changes

For FY21, KMD's underlying NPAT of \$61.7m was higher than market expectations by 15.2%. KMD also provided a positive outlook for FY22 with COVID restrictions easing. Hence, we don't expect any significant earnings revisions.

Valuation

We are initiating research coverage on KMD with a 12-month price target of \$1.94 and with a BUY recommendation. The price target is underpinned by our 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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Hold	22.1%	(0.0%	of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0%	of stocks with recommendations are Barclay Pearce clients)