

23 August 2021

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# Michael Hill International Limited

## Consumer Discretionary

### BUY

**MHJ A\$0.86**      **TARGET PRICE A\$0.93**

Michael Hill International Limited (MHJ-NZ, formerly Michael Hill New Zealand Limited) operates in the retail sale of jewellery and related services sector in Australia, New Zealand and Canada.

#### Company Data

Number of shares	388.2 M
Market Capitalisation	\$320.3M
Free float (%)	49.3
12-month high/low	\$0.93/\$0.32
Average Daily Turnover (\$m)	0.0929
% S&P/ASX200	0.02%
DDM Ranking	100
% All Ordinaries	0.013%
GICS Industry Group	Retailing

Source: FactSet, Barclay Pearce Capital

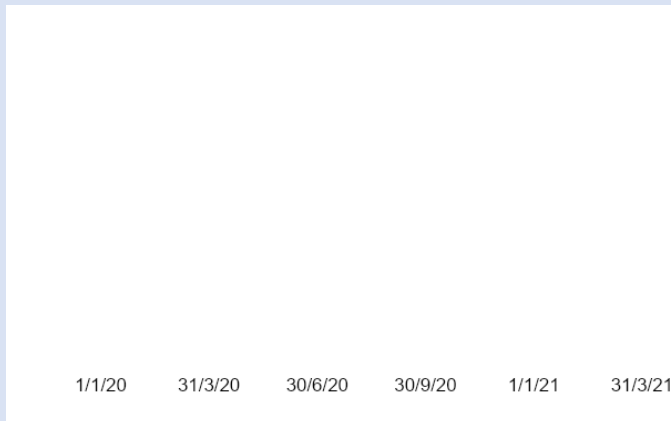
#### Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	556.5	624.3	635.6	658.0
EBITDA (\$M)	123.7	123.6	107.6	110.9
Reported NPAT (\$M)	45.3	54.7	37.9	38.9
Adjusted NPAT (\$M)	64.8	52.0	40.7	41.9
Reported EPS (¢)	11.7	8.5	9.6	10.9
Adjusted EPS (¢ - FD)	11.6	13.4	10.5	10.8
Adjusted EPS growth (%)	114.1	680.2	-24.8	3.4
Adjusted P/E (x)	7.1	7.9	10.1	9.8
Dividend (¢/sh)	4.5	5.4	6.2	6.3
Gross yield (%)	3.8	6.5	7.5	7.6
Net yield (%)	5.5	6.5	7.5	7.6
ROIC (%)	35.9	40.6	30.0	29.3

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 Financial Results

On 23rd August, Michael Hill International Limited (MHJ) released their results for the full year ended 27 June 2021 with the following highlights:

#### MHJ Highlights

- Statutory NPAT \$45.3 million (FY20: \$3.1million);
- Earnings before interest and tax (EBIT) increased to \$72.4m (FY20: \$14.1m)
- Group same store sales were up 8.6% for the year, with H1 +6.3% and H2 +13.2%.
- Group gross margin increased by 210bps to 62.7% (FY: 60.6%), underpinned by our strategic initiatives.
- Maintained target inventory levels at \$171.2m (FY20: \$178.7m).
- Strong balance sheet with a healthy net cash position of \$72.4m (FY20: \$0.5m),
- Final dividend of AU3.0 cents per share declared, resulting in total dividends for the year of AU4.5 cents per share.

#### Operational Performance

- Digital sales increased by 53.4% to a record \$34.8m, representing 6.3% of total sales, up from 5.0% last year.
- Loyalty strategy continues to deliver – Brilliance by Michael Hill now over 800,000 members.
- Product enhancements saw our unique to Michael Hill branded collection sales climb to 42.1% of total sales for full year.

#### Outlook

- Eastern Canada reopened in early July and has been delivering impressive trading results
- The company delivered same store sales growth of +17%.
  - Australia: +9%
  - New Zealand: +15%
  - Canada: +24%

Regarding the outlook, CEO Daniel Bracken said:

*“While I’m delighted to see incredibly strong results from Canada following its full reopening, and the resilience of our New Zealand business, the impact of extensive disruptions in Australia and now New Zealand are very concerning.*

*That being said, our strong financial position provides us with a stable platform to continue our transformation journey, elevate the brand and further explore new opportunities across all channels and markets.*

*With our strategic agenda progressing, we are placing a greater emphasis on digital, with the appointment of Keith Louie, as first Chief Digital Officer. His appointment, alongside the recent arrivals of Amy Sznicer, Chief Retail Officer, and Jo Feeney, Chief Marketing Officer, adds significant expertise to our already high calibre leadership team.”*

## Earnings changes

For FY21, MHJ reported statutory NPAT of \$45.3 million compared to market expectations of \$39.7m. Hence, we expect positive earnings revisions of 4% for FY21 and future periods.

## Valuation

We are updating our target price from \$0.84 to \$0.93 and retaining our 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** – Describes stocks that are neither a buy nor underperform.

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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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Buy	40.2%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	( 100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	( 0.0% of stocks with recommendations are Barclay Pearce clients)