

Super Retail Group Ltd

1H21 Result - Strong Trading to Start Jan-2021 and Confident SUL Can Leverage COVID-19 Learnings

SUL has released a 1H21 result in line with its [January 2021 trading update](#) with NPAT and EBIT slightly above JPMf. Operating cash flow was above JPMf with cash conversion of 153% above JPMf (126%). LFL sales growth to start 2H21 was extremely strong, with SCA up 23.1%, Rebel up 18.4%, BCF up 71.2% and Macpac up 8.0%, although we note there was some boost from post-Christmas trading (1H21 ended 26-Dec-20). Retain Overweight due to valuation support (DCF A\$14.34) and greater confidence that SUL can leverage COVID-19 learnings going forward.

- SUL 1H21 result in-line with, with a strong start to 2H21 trading.** SUL has released a 1H21 result in line with its [January 2021 trading update](#). Reported NPAT of A\$172.8m was above JPMf (A\$171.2m). On an underlying basis (pre AASB16, OEI and significant items), NPAT of A\$177.1m was above JPMf (A\$175.3m), with EBIT of A\$256.0m at the higher end of guidance (A\$253-256m) and above JPMf (A\$254.7m) range provided, with divisional EBIT in-line as expected. Operating cash flow was above JPMf with cash conversion of 153% above JPMf (126%). A fully franked interim dividend of A33cps was below JPMf (A42cps) yet consistent with its 2H skew; 55-65% FY dividend payout ratio reiterated. LFL sales growth to start 2H21 was extremely strong, with SCA up 23.1%, Rebel up 18.4%, BCF up 71.2% and Macpac up 8.0%, although we note there was some boost from post-Christmas trading (1H21 ended 26-Dec-20).
- Earnings revisions.** Post this result, we increase our underlying EPS by 9.5%/6.7% for FY21/FY22 due to higher LFL sales growth for all divisions and higher EBIT margins for SCA, BCF and Macpac.
- Retain Overweight.** The 2019/2020 Australian bushfires and early COVID-19 pressures weighed on revenue and earnings, yet there has been a rapid recovery from May 2020 onwards as SUL leverages its attractive business mix. It is anchored by a resilient, low growth but consistent SCA business while Rebel enjoys industry (health & wellbeing) and market share (fragmented competitor set remains) growth. BCF and Macpac had been disappointing due to a previously subdued camping category and execution issues, yet BCF is showing improved LFL sales growth and competitive dynamics are improving, while Macpac has improved although is somewhat constrained due to the absence of international travel and recent lockdowns (Auckland, Melbourne). Looking ahead, and somewhat reflected in the strong 1H21 result, a skew to domestic vs. international travel, outdoor leisure (BCF, Macpac, SCA), DIY (SCA) and fitness (Rebel) support the outlook, while online growth is accelerating with digital investments resulting in less margin dilution. We believe valuation support remains on a DCF (A\$14.34) and P/E multiple basis (low vs. JBH).

Overweight

SUL.AX, SUL AU

Price (19 Feb 21): A\$11.94

▲ **Price Target (Dec-21): A\$14.00**
Prior (Dec-21): A\$12.75

Australia

Australian Consumer Sector

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Key Changes (FYE Jun)

	Prev	Cur
Adjusted PAT - 21E (A\$ mn)	263	289
Adjusted PAT - 22E (A\$ mn)	188	200

Half Yearly Forecasts (FYE Jun)

Adjusted PAT	(A\$ mn)			
	2020A	2021E	2022E	
H1	70	176A	99	
H2	78	113	101	
FY	148	289	200	

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top)			
		6M	1Y	3Y	5Y
Value	1	4	4	11	26
Growth	51	33	29	65	47
Momentum	26	29	58	68	47
Quality	36	36	15	51	33
Low Vol	61	61	76	54	47
ESGQ	15	8	23	1	8

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

See page 10 for analyst certification and important disclosures, including non-US analyst disclosures.

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Price Performance



Company Data

Shares O/S (mn)	226
52-week range (A\$)	12.89-2.99
Market cap (\$ mn)	2,121.79
Exchange rate	1.27
Free float(%)	63.3%
3M - Avg daily vol (mn)	1.07
3M - Avg daily val (\$ mn)	9.2
Volatility (90 Day)	41
Index	ASX 100
BBG BUY HOLD SELL	7 3 1

Key Metrics (FYE Jun)

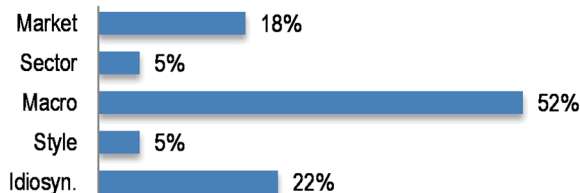
A\$ in millions	FY20A	FY21E	FY22E	FY23E
Financial Estimates				
Revenue	2,825	3,297	3,013	3,138
Adj. EBITDA	533	743	612	628
Adj. EBIT	265	451	322	341
Adj. net income	148	289	200	213
Adj. EPS	0.74	1.27	0.89	0.94
BBG EPS	0.73	1.23	0.85	0.87
Cashflow from operations	557	529	430	492
FCFF	528	459	355	417
Margins and Growth				
Revenue growth	4.2%	16.7%	(8.6%)	4.1%
Gross margin	45.0%	47.1%	46.3%	46.4%
EBITDA margin	18.9%	22.5%	20.3%	20.0%
EBIT margin	9.4%	13.7%	10.7%	10.9%
Adj. EPS growth	(2.8%)	71.4%	(30.5%)	6.6%
Ratios				
Adj. tax rate	29.4%	30.0%	30.0%	30.0%
Interest cover	9.7	19.5	17.0	17.6
Net debt/Equity	0.9	0.6	0.6	0.5
Net debt/EBITDA	1.7	0.9	1.1	1.0
ROCE	10.9%	14.8%	10.7%	11.0%
ROE	16.4%	26.4%	16.4%	16.6%
Valuation				
FCFF yield	22.2%	17.0%	13.2%	15.5%
Dividend yield	1.6%	7.0%	4.8%	5.0%
EV/Revenue	1.3	1.0	1.1	1.1
EV/EBITDA	6.7	4.5	5.5	5.3
Adj. P/E	16.1	9.4	13.5	12.6

Summary Investment Thesis and Valuation

Retain Overweight. The 2019/2020 Australian bushfires and early COVID-19 pressures weighed on revenue and earnings, yet there has been a rapid recovery from May 2020 onwards as SUL leverages its attractive business mix. It is anchored by a resilient, low growth but consistent SCA business while Rebel enjoys industry (health & wellbeing) and market share (fragmented competitor set remains) growth. BCF and Macpac had been disappointing due to a previously subdued camping category and execution issues, yet BCF is showing improved LFL sales growth and competitive dynamics are improving, while Macpac has improved although is somewhat constrained due to the absence of international travel and recent lockdowns (Auckland, Melbourne). Looking ahead, and somewhat reflected in the strong 1H21 result, a skew to domestic vs. international travel, outdoor leisure (BCF, Macpac, SCA), DIY (SCA) and fitness (Rebel) support the outlook, while online growth is accelerating with digital investments resulting in less margin dilution. We believe valuation support remains on a DCF (A\$14.34) and P/E multiple basis (low vs. JBH).

Our 31 December 2021 share price target has been raised from A\$12.75 to A\$14.00 per share. Our share price target is based on our DCF valuation, rolled forward at the cost of equity (11.5%), less forecast dividends, with a modest discount given extent investors seek recovery stories rather than continue to buy companies which have done well during COVID-19. We expect the share price to trade at a FY21E/FY22E P/E multiple of 11.0x/15.8x.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Australia	0.32	0.80
Sect: Cons Discretionary	0.30	0.46
Ind: Retailing	0.20	0.30
Macro:		
US 10yr Breakeven	-0.51	-0.21
Australia 10Yr Yield	0.28	-0.19
GS Australia FCI	-0.18	-0.19
Quant Styles:		
Value	0.02	0.24
Quality	0.37	0.18
Growth	0.10	0.16

Result Overview

- The result was in-line with the previously announced trading update.

Table 1: SUL – Group Result (post AASB 16)

A\$ in millions

	1H20A	2H20A	FY20A	1H21A	% pcip 1H on 1H	JPMf 1H21E	JPMf Var 1H21E
Sales	1,443.5	1,381.7	2,825.2	1,776.3	23.1%	1,776.4	0.0%
EBITDA	259.4	273.8	533.2	418.1	61.2%	401.2	4.2%
EBIT	128.2	136.8	265.0	272.0	112.2%	267.4	1.7%
NPAT ex sig. pre OEI	70.2	78.0	148.2	175.6	150.1%	171.2	2.6%
Reported NPAT	57.5	52.7	110.2	172.8	200.5%	171.2	0.9%
Underlying EPS (Acps)	35.2	39.1	74.4	77.9	121.2%	76.7	1.5%
Reported EPS (Acps)	28.8	26.5	55.3	76.7	165.9%	76.7	0.0%
DPS (Acps)	0.0	19.5	19.5	33.0	na	42.0	-21.4%

Source: Company reports, J.P. Morgan estimates. June year end.

Table 2: SUL – Divisional Result (pre AASB 16)

A\$ in millions

	1H20A	2H20A	FY20A	1H21A	% pcip 1H on 1H	JPMf 1H21E	JPMf Var 1H21E
Auto							
Revenue	550.7	569.0	1,119.7	661.9	20.2%	661.7	0.0%
LFL sales growth	2.4%	10.4%	6.3%	19.6%	1720bps	20.0%	-40bps
EBIT	57.3	77.6	134.9	104.1	81.7%	103.5	0.6%
EBIT margin	10.40%	13.64%	12.05%	15.73%	532bps	15.65%	8bps
BCF							
Revenue *	283.5	251.5	535.0	427.7	50.9%	427.7	0.0%
LFL sales growth	-0.5%	6.9%	3.0%	50.8%	5130bps	51.0%	-20bps
EBIT	12.1	3.6	15.7	62.0	412.4%	61.3	1.1%
EBIT margin	4.27%	1.43%	2.93%	14.50%	1023bps	14.34%	16bps
Macpac							
Revenue	66.5	65.4	131.9	63.0	-5.3%	63.0	0.0%
LFL sales growth	-7.0%	-11.2%	-9.1%	-3.3%	370bps	-3.0%	-30bps
EBIT	2.3	4.9	7.2	3.5	52.2%	3.0	17.0%
EBIT margin	3.46%	7.49%	5.46%	5.56%	210bps	4.75%	81bps
Sports							
Revenue	542.8	495.8	1,038.6	623.7	14.9%	624.0	0.0%
LFL sales growth	3.3%	2.1%	2.7%	17.1%	1380bps	17.0%	10bps
EBIT	53.7	42.9	96.6	99.6	85.5%	99.9	-0.3%
EBIT margin	9.89%	8.65%	9.30%	15.97%	608bps	16.01%	-4bps
Other EBIT (corporate)	(9.9)	(8.4)	(18.3)	(13.2)	33.3%	(13.0)	1.5%

Source: Company reports, J.P. Morgan estimates. June year end.

Trading and outlook

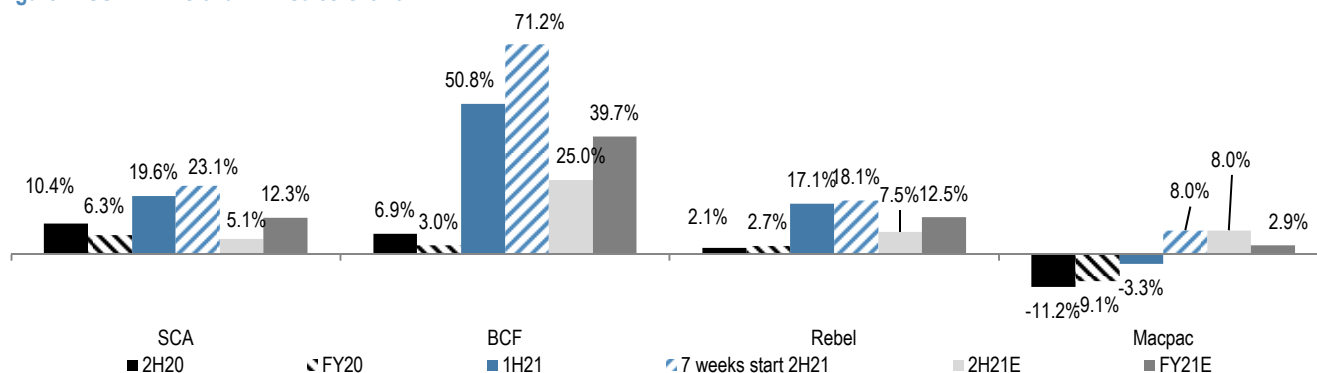
- The following outlook was provided, with the pcip included for reference. LFL sales growth for the start to 2H21 was strong for all divisions.

Table 3: Divisional Trading and 2H21 Outlook

Division	1 st 6wks 2H21 LFL gth	1H21	1 st 6wks 2H20 LFL gth	Store network outlook for 2H21
Auto	23.1%	19.6%	2.4%	22 refurbishments
BCF	71.2%	50.8%	-0.5%	
Rebel	18.4%	17.1%	3.3%	
Macpac	8.0%	-3.3%	-7.0%	5 new stores

Source: Company reports. June year end.

Figure 1: SUL – Divisional LFL Sales Growth



Source: Company reports. June year end.

Positives

- All divisions enjoyed strong LFL sales growth to start 2H21.** While 2H21 included elements of post-Christmas trade as 1H21 finished on 26 December 2020, the trading performance reflected a buoyant January 2021 and strong execution across SUL brands. The consumer was supported by fiscal and monetary policy, and a reallocation of spend away from experiences, with SUL brands key beneficiaries. Specifically, domestic outdoor, leisure and travel sectors were advantaged which is well suited to SUL brands. We note the pcp was quite undemanding given bushfires in 2019/2020 which weighed on regional stores, where SUL has a significant presence.
- Gross margins expanded in 1H21 with opportunity for some of this to be retained.** Gross margins expanded 267bps to 47.7% due to reduced promotional activity. SUL believes it can retain some of this benefit by way of improved sourcing, improved quantitative capability in the pricing strategy team, and ongoing inventory management & tailored ranging.
- High growth in online sales and active loyalty customers.** An 87% growth in online sales which have higher average transaction value and gross margin/dollar provide profitability and scalability. The Active Club loyalty program gained 700,000 active members with ongoing investment in customer segmentation and retention.
- BCF EBIT grew dramatically in 1H21 with some of this uplift able to be retained.** Significant sales growth, up 50.8%, was a function of increased demand due to greater domestic tourism, with EBIT margins expanding to 1030bps to 14.8% due to significant operating leverage and reduced markdowns. SUL is confident that a tailored offering, Macpac winter ranges, a broader apparel and footwear offer, ongoing network optimisation, increased exclusive offer with key trade partners, and better leveraging the existing BCF club member base, are factors that can support EBIT going forward.
- SUL focused on leveraging COVID-19 learnings in the future.** Across SCA, Rebel and especially BCF, SUL has enjoyed a boost from the external environment during COVID-19. The company is seeking to leverage this tailwind as per the figure below.

Table 4: SUL – SUL Identified Learnings from its Success During COVID-19

A\$ in millions

Opportunity	1H21 Achievement	How SUL can deliver on the opportunity
Rebase Group gross margin to above pre-COVID-19 levels	- Significant expansion in Group gross margin driven by reduced promotional activity	- Improve sourcing - Leverage quantitative capability in pricing strategy team - Discipline in inventory management and tailored ranging to minimise inventory write downs and obsolete stock
Harmonise profitability of online and in-store sales	- Pivoted to meet surge in online demand - Achieved 87% growth in online sales - Click & Collect proportion of online sales broadly stable at 45% - Successfully demonstrated ability of supply chain to handle significant online volume uplift - Delivered strong operating leverage	- Continue to invest in digital channels to grow sales and deliver cost fractionalisation - Improve supply chain efficiency to reduce split orders and optimise order fulfilment and delivery routing - Leverage store network to provide timely and convenient Click & Collect offering - Lift incremental in store spend from customers picking up Click & Collect orders
Rebase sales intensity in BCF to above pre-COVID-19 levels	- Record result for BCF driven by higher sales intensity due to unprecedented consumer demand and ability to flow significant volume increases through the network - Increased active club member base to 1.77m - Successfully trialled new small format regional stores - Successfully trialled local ranges across two States	- Deliver locally relevant ranges through a tailored offer refining range and reinvesting the right product in the right stores - Introduce Macpac winter range in BCF stores to mitigate seasonality - Broaden apparel and footwear offer in fishing and camping - Optimise network close underperforming stores, renegotiate leases on existing stores and capture new catchment opportunities - Broaden exclusive offering range with key trade partners - Leverage BCF's existing club member loyalty base - Continue to invest in brand awareness and grow active customer base

Source: Company reports.

Negatives

- **Promotional activity forecast to return somewhat in 2H21.** As inventory levels are restored, SUL expects promotional intensity levels to recover, moderating source of gross margin expansion.
- **Operating expenses to reflect reinvestment in the business and projects deferred due to COVID-19.** While variable costs are expected to reduce as and when sales growth rates moderate, costs are expected to increase in other areas especially in store refurbishments and openings.
- **Supply chain impacted by border closures and snap lockdowns.** Unprecedented changes to domestic and international border restrictions continue to impact supply chain and stock availability in the near term. The full shutdown in WA particularly impacted operations down the supply chain.

Earnings Revisions and Divisional Earnings Estimates

Earnings revisions

- We have adjusted our earnings estimates as per the tables below. The key changes are as follows:
 - LFL sales growth: Increased LFL sales growth in 2H21 due to the strong start across all divisions, albeit this reduces the growth rates in future periods.
 - EBIT margin: Increased EBIT margins in SCA, BCF and Macpac due to greater confidence that gross margins can remain elevated (fall less than expected) and CODB/Sales will remain a little lower (increase less than expected); Rebel EBIT margins are broadly flat as we had already assumed a strong outcome.
 - Corporate: Costs to be higher than previously forecast.

Post AASB16

Table 5: SUL – Earnings Forecast Revisions – Post AASB16

Year To June 2021	Revised	Previous	% Change	% Growth
NPAT (A\$m)	286.3	262.9	8.9%	159.8%
NPAT ex one-offs (A\$m)	289.1	262.9	10.0%	95.1%
EPS (c)	126.3	116.9	8.0%	128.4%
EPS ex one-offs (c)	128.0	116.9	9.5%	70.7%
DPS (c)	83.0	76.0	9.2%	325.6%
Year To June 2022				
NPAT (A\$m)	200.1	188.2	6.3%	(30.1%)
NPAT ex one-offs (A\$m)	200.1	188.2	6.3%	(30.8%)
EPS (c)	88.6	83.1	6.7%	(29.8%)
EPS ex one-offs (c)	88.6	83.1	6.7%	(30.8%)
DPS (c)	57.0	56.0	1.8%	(31.3%)
Year To June 2023				
NPAT (A\$m)	213.4	202.0	5.6%	6.6%
NPAT ex one-offs (A\$m)	213.4	202.0	5.6%	6.6%
EPS (c)	94.5	89.2	6.0%	6.6%
EPS ex one-offs (c)	94.5	89.2	6.0%	6.6%
DPS (c)	60.0	60.0	0.0%	5.3%

Source: J.P. Morgan.

Pre AASB16

Table 6: SUL – Earnings Forecast Revisions – Pre AASB16

Year To June 2021	Revised	Previous	% Change	% Growth
NPAT (A\$m)	289.6	268.8	7.7%	149.3%
NPAT ex one-offs (A\$m)	292.4	268.8	8.8%	89.7%
EPS (c)	128.2	119.5	7.3%	118.2%
EPS ex one-offs (c)	129.5	119.5	8.3%	66.0%
DPS (c)	83.0	76.0	9.2%	325.6%
Year To June 2022				
NPAT (A\$m)	203.4	194.1	4.8%	(29.8%)
NPAT ex one-offs (A\$m)	203.4	194.1	4.8%	(30.4%)
EPS (c)	90.1	85.7	5.2%	(29.8%)
EPS ex one-offs (c)	90.1	85.7	5.2%	(30.4%)
DPS (c)	57.0	56.0	1.8%	(31.3%)
Year To June 2023				
NPAT (A\$m)	216.7	207.9	4.2%	6.5%
NPAT ex one-offs (A\$m)	216.7	207.9	4.2%	6.5%
EPS (c)	95.9	91.8	4.6%	6.5%
EPS ex one-offs (c)	95.9	91.8	4.6%	6.5%
DPS (c)	60.0	60.0	0.0%	5.3%

Source: J.P. Morgan.

Table 7: SUL – Earnings Forecast Revisions – Pre AASB16 - Divisional EBIT

Year To June 2021	Revised	Previous	% Change	% Growth
SCA - EBIT (A\$m)	196.8	180.5	9.1%	45.9%
Leisure - EBIT (A\$m)	97.8	85.7	14.1%	327.0%
Rebel - EBIT (A\$m)	147.5	147.9	(0.2%)	52.7%
Total EBIT (A\$m)	419.0	391.1	7.1%	77.5%
Year To June 2022				
SCA - EBIT (A\$m)	145.3	136.6	6.3%	(26.2%)
Leisure - EBIT (A\$m)	56.8	53.0	7.2%	(41.9%)
Rebel - EBIT (A\$m)	112.8	111.4	1.3%	(23.5%)
Total EBIT (A\$m)	289.7	279.8	3.5%	(30.9%)
Year To June 2023				
SCA - EBIT (A\$m)	153.4	141.7	8.2%	5.6%
Leisure - EBIT (A\$m)	61.5	60.4	1.8%	8.2%
Rebel - EBIT (A\$m)	119.2	117.2	1.7%	5.6%
Total EBIT (A\$m)	308.4	297.8	3.6%	6.5%

Source: J.P. Morgan.

Divisional estimates

- The following tables detail our forecasts for SUL by division.

Table 8: SUL – SCA Financials (pre AASB16)

	2017	2018	2019	1H20	2H20	2020	1H21E	2H21E	2021E	2022E	2023E
Sales Revenue	955.9	1,006.4	1,040.6	550.7	569.0	1,119.7	661.9	601.4	1,263.3	1,213.9	1,254.8
% growth	3.6%	5.3%	3.4%	3.7%	11.6%	7.6%	20.2%	5.7%	12.8%	-3.9%	3.4%
% LFL growth	3.5%	3.6%	2.3%	2.4%	10.4%	6.3%	19.6%	5.1%	12.3%	-4.9%	2.3%
EBIT	111.0	116.4	120.6	57.3	77.6	134.9	104.1	92.7	196.8	145.3	153.4
% growth	6.1%	4.9%	3.6%	0.4%	22.2%	11.9%	81.7%	19.5%	45.9%	-26.2%	5.6%
% EBIT Margin	11.6%	11.6%	11.6%	10.4%	13.6%	12.0%	15.7%	15.4%	15.6%	12.0%	12.2%

Source: Company reports, J.P. Morgan estimates. June year end. EBIT is pre AASB 16 accounting.

Table 9: SUL – Leisure/Outdoors Financials (pre AASB16)

	2017	2018	2019	1H20	2H20	2020	1H21E	2H21E	2021E	2022E	2023E
Sales Revenue	553.5	579.8	653.4	350.0	316.9	666.9	490.7	396.3	887.0	695.7	734.3
% growth	-4.9%	4.8%	12.7%	0.4%	3.9%	2.1%	40.2%	25.1%	33.0%	-21.6%	5.5%
BCF Revenue	479.7	498.3	514.6	283.5	251.5	535.0	427.7	320.6	748.3	541.2	570.6
% growth	7.3%	3.9%	3.3%	0.7%	7.8%	4.0%	50.9%	27.5%	39.9%	-27.7%	5.4%
% LFL growth	5.1%	1.1%	3.2%	-0.5%	6.9%	3.0%	50.8%	25.0%	39.7%		
Macpac Revenue		31.4	119.3	66.5	65.4	131.9	63.0	75.8	138.8	154.5	163.7
% growth			279.9%	29.4%	-3.7%	10.6%	-5.3%	15.9%	5.2%	11.3%	6.0%
% LFL growth			7.3%	-7.0%	-11.2%	-9.1%	-3.3%	8.0%	2.9%		
Rays Revenue	73.8	50.1	19.5								
% growth	-45.4%	-32.1%	-61.1%								
EBIT	25.4	29.6	33.8	14.4	8.5	22.9	65.5	32.3	97.8	56.8	61.5
% growth	36.6%	16.5%	14.2%	-37.1%	-22.0%	-32.2%	354.9%	279.7%	327.0%	-41.9%	8.2%
% EBIT Margin	4.6%	5.1%	5.2%	4.1%	2.7%	3.4%	13.3%	8.1%	11.0%	8.2%	8.4%
BCF EBIT	31.4	27.3	20.8	12.1	3.6	15.7	63.2	28.5	91.7	45.2	45.1
% growth	22.7%	-13.1%	-23.8%	-21.4%	-33.3%	-24.5%	422.3%	691.2%	484.0%	-50.7%	-0.2%
% EBIT Margin	6.5%	5.5%	4.0%	4.3%	1.4%	2.9%	14.8%	8.9%	12.3%	8.4%	7.9%
Macpac EBIT		7.8	15.4	2.3	4.9	7.2	2.3	3.8	6.1	11.6	16.4
% growth			97.4%	-73.6%	-26.9%	-53.2%	0.0%	-22.7%	-15.4%	91.0%	40.8%
% EBIT Margin		24.8%	12.9%	3.5%	7.5%	5.5%	3.7%	5.0%	4.4%	7.5%	10.0%
Rays EBIT	(6.0)	(5.5)	(2.4)								
% growth	-14.3%	-8.3%	-56.4%								

Source: Company reports, J.P. Morgan estimates. June year end. EBIT is pre AASB 16 accounting.

Table 10: SUL – Rebel Financials (pre AASB16)

	2017	2018	2019	1H20	2H20	2020	1H21E	2H21E	2021E	2022E	2023E
Sales Revenue	949.2	979.2	1,016.4	542.8	495.8	1,038.6	623.7	523.1	1,146.8	1,103.3	1,148.7
% growth	4.3%	3.2%	3.8%	3.6%	0.7%	2.2%	14.9%	5.5%	10.4%	-3.8%	4.1%
% LFL growth	4.4%	2.0%	3.3%	3.3%	2.1%	2.7%	17.1%	7.5%	12.5%	-3.1%	3.4%
EBIT	91.3	91.5	93.8	53.7	42.9	96.6	99.6	47.9	147.5	112.8	119.2
% growth	17.4%	0.2%	2.5%	-1.3%	8.9%	3.0%	85.5%	11.8%	52.7%	-23.5%	5.6%
% EBIT Margin	9.6%	9.3%	9.2%	9.9%	8.7%	9.3%	16.0%	9.2%	12.9%	10.2%	10.4%

Source: Company reports, J.P. Morgan estimates. June year end. EBIT is pre AASB 16 accounting.

Investment Thesis, Valuation and Risks

Super Retail Group Ltd (Overweight; Price Target: A\$14.00)

Investment Thesis

Retain Overweight. The 2019/2020 Australian bushfires and early COVID-19 pressures weighed on revenue and earnings, yet there has been a rapid recovery from May 2020 onwards as SUL leverages its attractive business mix. It is anchored by a resilient, low growth but consistent SCA business while Rebel enjoys industry (health & wellbeing) and market share (fragmented competitor set remains) growth. BCF and Macpac had been disappointing due to a previously subdued camping category and execution issues, yet BCF is showing improved LFL sales growth and competitive dynamics are improving, while Macpac has improved although is

somewhat constrained due to the absence of international travel and recent lockdowns (Auckland, Melbourne). Looking ahead, and somewhat reflected in the strong 1H21 result, a skew to domestic vs. international travel, outdoor leisure (BCF, Macpac, SCA), DIY (SCA) and fitness (Rebel) support the outlook, while online growth is accelerating with digital investments resulting in less margin dilution. We believe valuation support remains on a DCF (A\$14.34) and P/E multiple basis (low vs. JBH).

Valuation

SUL – DCF Valuation Summary

A\$ in millions

PV of Cash Flows	\$1,898
Terminal Value	\$1,142
Enterprise Value	\$3,040
Net Debt	-\$210
Valuation	\$3,250
Per Share (A\$)	\$14.34

Source: J.P. Morgan estimates.

Our 31 December 2021 share price target has been raised from A\$12.75 to A\$14.00 per share. Our share price target is based on our DCF valuation, rolled forward at the cost of equity (11.5%), less forecast dividends, with a modest discount given extent investors seek recovery stories rather than continue to buy companies which have done well during COVID-19. We expect the share price to trade at a FY21E/FY22E P/E multiple of 11.0x/15.8x.

Risks to Rating and Price Target

Downside risks to our rating and price target include:

- Changes in the rate of expected store growth.
- Changes in the rate of improvement, or not, in BCF and Macpac.
- Changes to the macroeconomic environment, impacting the position of the consumer in both Australia and New Zealand.
- Changes in the competitive environment and growth in underlying product categories.
- Changes in the AUD/USD exchange rate.

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Asia Pacific Equity Research
21 February 2021

J.P.Morgan

Super Retail Group Ltd

Relative recommendation:

Overweight

A\$ in millions, year end Jun

Profit And Loss	FY19	FY20	FY21E	FY22E	FY23E	Valuation Summary	A\$m	ps			
Revenue	2,710	2,825	3,297	3,013	3,138	Current mkt capitalisation	2,696.37	11.94			
Revenue growth	5.4%	4.2%	16.7%	(8.6%)	4.1%						
COGS	(1,488)	(1,555)	(1,745)	(1,619)	(1,682)	Price Target		14.00			
Operating Expenses	(910)	(737)	(810)	(783)	(829)	Capital growth to price target		17.3%			
EBITDA	315	533	743	612	628						
EBITDA growth	5.6%	69.4%	39.3%	(17.7%)	2.6%	Trading Multiples	FY19	FY20	FY21E	FY22E	FY23E
EBITDA margin	11.6%	18.9%	22.5%	20.3%	20.0%	PE Pre-abnormals	15.6	16.1	9.4	13.5	12.6
Amortisation	(30)	(208)	(217)	(217)	(217)	PE Reported	17.1	21.6	9.5	13.5	12.6
Depreciation	(56)	(60)	(75)	(73)	(70)	EV/EBITDA	10.0	6.7	4.5	5.5	5.3
EBIT	228	265	451	322	341	EV/EBIT	13.7	13.6	7.5	10.5	9.7
EBIT growth	3.4%	16.2%	70.2%	(28.6%)	5.8%						
EBIT margin	8.4%	9.4%	13.7%	10.7%	10.9%	Key Ratios	FY19	FY20	FY21E	FY22E	FY23E
Net Interest	(21)	(55)	(38)	(36)	(36)	Dividend Yield	4.2%	1.6%	7.0%	4.8%	5.0%
Net Associates	0	0	0	0	0	Franking	100.0%	100.0%	100.0%	100.0%	100.0%
Pre-Tax Profit	207	210	413	286	305	Return on Assets (%)	8.6%	6.5%	10.5%	7.3%	7.7%
Tax	(54)	(62)	(124)	(86)	(91)	Return on Equity (%)	19.1%	16.4%	26.4%	16.4%	16.6%
Tax Rate	26.3%	29.4%	30.0%	30.0%	30.0%	ROIC (%)	-	-	-	-	-
Minorities	(0)	0	0	0	0						
Abnormals (post tax)	(13)	(38)	(3)	0	0	Leverage	FY19	FY20	FY21E	FY22E	FY23E
Reported NPAT	139	110	286	200	213	Gearing (Net Debt / Equity)	0.5	0.9	0.6	0.6	0.5
						Gearing (ND / (ND + E))	34.8%	47.6%	36.1%	35.5%	31.3%
Normalised NPAT	152	148	289	200	213	Net Debt / EBITDA	1.4	1.7	0.9	1.1	1.0
Growth	5.6%	(2.8%)	95.0%	(30.7%)	6.6%	EBIT Interest Cover (x)	10.7	4.8	11.8	9.0	9.5
End of Period Shares	197	220	226	226	226	Balance Sheet	FY19	FY20	FY21E	FY22E	FY23E
EFPOWA	199	199	227	226	226	Cash	8	285	210	202	283
						Receivables	38	26	32	32	33
Reported EPS	0.71	0.56	1.27	0.89	0.94	Investments	-	-	-	-	-
Normalised EPS	0.77	0.74	1.28	0.89	0.94	Inventories	560	502	585	608	632
Growth	5.5%	(2.8%)	71.5%	(30.5%)	6.6%	Other Current Assets	5	0	0	0	0
						Total Current Assets	610	814	827	841	947
DPS	0.50	0.20	0.83	0.57	0.60	Net PPE	268	228	224	214	207
Growth	2.0%	(61.0%)	325.6%	(31.3%)	5.3%	Total Intangibles	894	874	867	867	867
						Other Non Current Assets	7	859	809	809	809
DPS/EPS payout	71.5%	35.3%	65.7%	64.3%	63.5%	Total Non Current Assets	1,169	1,961	1,899	1,890	1,883
						Total Assets	1,779	2,775	2,726	2,731	2,831
Cash Flow Statement	FY19	FY20	FY21E	FY22E	FY23E	Creditors	363	442	421	419	430
Net Profit for Cashflow	139	110	286	200	213	Current Borrowings	3	178	188	188	188
Depreciation & Amortisation	56	236	255	253	250	Current Tax Provisions	-	-	-	-	-
Non Cash Items	-	-	-	-	-	Other Current Provisions	-	-	-	-	-
Working Capital Changes	(9)	130	(110)	(25)	(13)	Other Current Liabilities	114	130	195	175	180
Other Operating Cashflows	36	81	98	2	42	Total Current Liabilities	480	751	804	782	798
Cashflow from Operating Activities	223	557	529	430	492	Non Current Creditors	-	-	-	-	-
						Non Current Borrowings	440	1,009	698	698	698
Net Capex	(90)	(68)	(97)	(100)	(100)	Employee Obligations	10	10	11	11	11
Net Acquisitions	(1)	(0)	0	0	0	Deferred Tax Liabilities	-	-	-	-	-
Other Investing cashflows	0	0	0	0	0	Other Non Current Provisions	10	15	15	0	0
Investing Cash Flow	(91)	(68)	(97)	(100)	(100)	Other Non Current Liabilities	23	0	0	0	0
						Total Non Current Liabilities	483	1,033	724	709	709
Inc/(Dec) in Borrowings	(40)	(140)	(250)	0	0	Total Liabilities	963	1,784	1,528	1,490	1,507
Equity Issued	0	157	41	0	0	Equity	542	698	741	741	741
Dividends Paid	(97)	(56)	(119)	(158)	(131)	Other Equity	0	0	(0)	(0)	(0)
Other Financing Cashflows	(3)	0	0	0	0	Reserves	8	8	5	5	5
Financing Cash Flow	(140)	(211)	(508)	(338)	(311)	Retained Profits	266	286	453	495	578
						Outside Equity Interests	(0)	0	0	0	0
Net Cash Flow	(8)	278	(75)	(8)	81	Total Shareholders Equity	816	991	1,199	1,241	1,323
						Net Debt	436	902	676	684	603

Source: Company reports and J.P. Morgan estimates.

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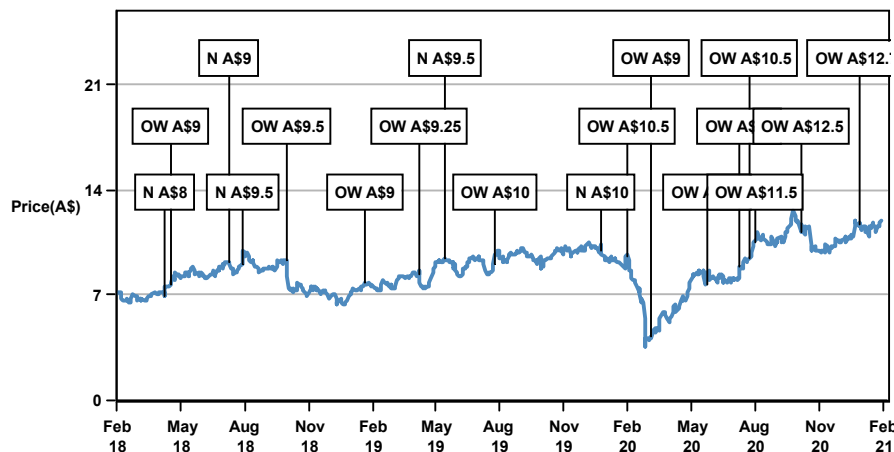
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Super Retail Group Ltd (SUL.AX, SUL AU) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jul 17, 2013. All share prices are as of market close on the previous business day.

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