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Ardent Leisure (AAD)

Main Event broken? We doubt it

Recommendation	
Buy (unchanged)	
Price	$2.48
Target (12 months)	$2.73 (previously $2.65)

Expected Return	
Capital growth	10.0%
Dividend yield	5.1%
Total expected return	15.1%
Company Data & Ratios	
Enterprise value	$1,392.3m
Market cap	$1,118.7m
Issued capital	451.1m
Free float	97%
Avg. daily val. (52wk)	$6.9m
12 month price range	$1.75-$3.19
GICS sector	Hotels Restaurants and Leisure

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	2.77	2.42	3.06
Absolute (%)	-10.47	2.48	-18.95
Rel market (%)	-11.42	10.78	-13.53

Trading update raises two key issues

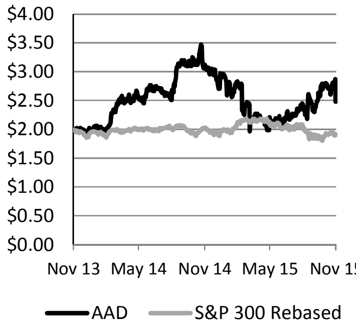
AAD reported 1Q16 divisional EBITDA of $37.2m up 8.9% based on a 19.3% increase in group revenue. In our view the update highlighted two key issues:

1. Uncertainty over like for like sales and earnings within Main Event – The Company stated that Main Event EBITDA increased 28.2% to US$8.33 but did not provide any information on like for like sales and EBITDA as it has done in the past. At face value the data points to slowing in like for like sales and EBITDA during the first quarter amplified by the fact that the Company appears to be deliberately moving away from detailed quarterly updates. In our view a sustained slowing in like for like earnings within Main Event would be cause for concern but at this point it appears premature to make this call particularly given the stellar performance in recent times. We also note the fact that it is not unusual for like for like sales for new sites to slow after an initial honeymoon period post opening and the first quarter is generally seasonally weak; and
2. Health Clubs circling peak comps – The Health Clubs Division reported a 27% decline in 1Q16 EBITDA to $6.45m. We note the fact that 1Q15 represented the recent peak in short term earnings following the issues which began to emerge in 2Q15. The 24/7 conversion in response to these issues appears to be delivering positive outcomes particularly memberships levels which are often a good leading indicator and the turnaround appears on track.

Investment View – Retain Buy PT $2.73 (prev $2.65)

Our FY16 EPS estimates have been downgraded by 9% (FY17 largely unchanged) due to the adoption of a higher effective tax rate (FY16 EBITDA estimates have declined 2% due to lower Main Event earnings). Our 1 year forward DCF based price target (WACC of 10.8% and terminal growth rate of 3.0%) has however increased 3% to $2.73 due to the roll forward of our model and a lower assessed discount rate. We re-iterate our Buy recommendation as we continue to believe Main Event and Theme Parks (Chinese visitors) have medium to long term earnings upside.

Absolute Price



SOURCE: IRESS

Earnings Forecast

Year end June	2015	2016e	2017e	2018e
Sales (A$m)	594.5	661.4	750.4	850.4
EBITDA (A$m)	114.9	131.6	160.1	198.5
NPAT (reported) (A$m)	32.1	40.3	55.2	66.8
NPAT (adjusted) (A$m)	56.2	61.6	76.5	86.2
EPS (cps)	12.8	13.6	17.0	19.1
EPS growth (%)	-10.1	6.2	24.3	12.6
PER (x)	19.3	18.2	14.6	13.0
EV/EBITDA (x)	12.1	10.6	8.7	7.0
Dividend (¢ps)	12.5	12.7	16.5	17.8
Yield (%)	5.0	5.1	6.7	7.2
Franking (%)	7.0	7.0	7.0	7.0
ROE (%)	11.1	10.6	13.6	15.9

SOURCE: BELL POTTER SECURITIES ESTIMATES

Ardent Leisure (AAD)

Company Description

AAD operates a range of leisure and entertainment businesses in Australia/NZ including theme parks, bowling, health clubs and marinas. The company also operates 17 indoor family entertainment centres in the United States which provide tenpin bowling, lastertag, food & beverage and other entertainment.

Investment Strategy

We rate AAD as a Buy with a 12-month target price of $2.73. We remain confident in growth outlook for the Main Event business and consider the company is attempting to address the key issues relating to its domestic businesses under a new strategic direction.

Valuation

Our FY16 EPS estimates have been downgraded by 9% (FY17 largely unchanged) due to the adoption of a higher effective tax rate (FY16 EBITDA estimates have declined 2% due to lower Main Event earnings). Our 1 year forward DCF based price target (WACC of 10.8% and terminal growth rate of 3.0%) has however increased 3% to $2.73 due to the roll forward of our model and a lower assessed discount rate.

Risks

We believe there are a number of key risks that have the potential to impact our investment thesis as follows:

- Main Event execution risk – The Company is expected to undertake a relatively rapid rollout of Main Event which is likely to test management capabilities. There is a risk that in these circumstances execution is compromised;
- Material economic downturns – The Company is a provider of entertainment services both in Australia and the US and hence any period of sustained economic weakness has the potential to adversely impact earnings;
- Adverse weather – The Theme Parks business is subject to adverse weather events and this has the potential to impact earnings; and
- Currency movements – The Company is expected to derive an increasing proportion of earnings from offshore markets and adverse currency movement therefore have the potential to impact earnings.

Ardent Leisure
as at 6 November 2015

Recommendation	Buy
Price	$2.48
Target (12 months)	$2.73

Table 1 - Financial summary

June Year end	2012	2013	2014	2015	2016e	2017e	2018e
Profit & Loss (A$m)							
Sales revenue	390.1	448.9	499.7	594.5	661.4	750.4	850.4
. . . Change	3.8%	15.1%	11.3%	19.0%	11.3%	13.4%	13.3%
EBITDA (adj)	77.3	90.0	103.2	114.9	131.6	160.1	198.5
Deprec. & amort.	(20.5)	(22.6)	(27.1)	(37.0)	(44.4)	(53.5)	(70.8)
EBIT	56.9	67.4	76.0	77.9	87.2	106.6	127.7
Interest	(12.9)	(12.3)	(11.1)	(11.2)	(13.3)	(15.5)	(23.2)
Normalisation adjs pre-tax	(28.8)	(16.2)	(13.0)	(27.6)	(27.6)	(27.6)	(27.6)
Pre-tax profit	15.2	39.0	51.9	39.1	46.3	63.5	76.8
Tax expense	(2.6)	(3.3)	(2.9)	(6.9)	(6.0)	(8.3)	(10.0)
. . . tax rate	16.9%	8.6%	5.5%	17.8%	13.0%	13.0%	13.0%
Minorities/Equity Acc	-	-	-	-	-	-	-
Net Profit Reported	**12.6**	**35.6**	**49.0**	**32.1**	**40.3**	**55.2**	**66.8**
Normalisation adjs post-tax	29.5	14.7	9.2	24.0	21.3	21.3	19.3
Net Profit pre-NRI's	**42.1**	**50.3**	**58.2**	**56.2**	**61.6**	**76.5**	**86.2**
Other adjs	-	-	-	-	-	-	-
Net Profit Normalised	**42.1**	**50.3**	**58.2**	**56.2**	**61.6**	**76.5**	**86.2**
Cashflow (A$m)							
Reconciliation							
Net Profit	12.6	35.6	49.0	32.1	40.3	55.2	66.8
Deprec. & amort.	20.5	22.6	27.1	37.0	44.4	53.5	70.8
Change in working capital	8.5	9.9	(0.7)	28.4	24.2	11.0	(8.7)
Other	17.3	(0.4)	7.2	-	-	-	-
Net operating cashflow	58.9	67.7	82.6	97.5	108.8	119.8	128.9
Investing Cashflow							
Sale/purchase of PPE	(48.0)	(62.8)	(86.3)	(134.0)	(128.1)	(136.6)	(149.3)
Payment for businesses	(10.3)	(67.5)	-	(33.3)	-	-	-
Other	29.3	0.5	(1.2)	42.3	-	-	-
Net investing cash flow	(29.0)	(129.7)	(87.6)	(124.9)	(128.1)	(136.6)	(149.3)
Financing Cashflow							
Issue of shares	-	70.6	(0.0)	69.0	-	-	-
Buy backs	-	-	-	-	-	-	-
Dividends paid	(22.5)	(36.6)	(40.1)	(39.0)	(57.2)	(74.6)	(80.2)
Debt	(2.2)	26.8	35.3	(22.0)	74.0	90.5	95.0
Others	(12.7)	(12.1)	(11.1)	-	-	-	-
Net financing cash flow	(37.3)	48.7	(15.9)	7.9	16.8	15.9	14.8
Effects of exchange rate	(0.3)	(0.1)	0.1	(0.4)	-	-	-
Net change in cash held	**(7.8)**	**(13.4)**	**(20.7)**	**(19.9)**	**(2.5)**	**(0.8)**	**(5.5)**
Balance Sheet (A$m)							
Cash	11.7	13.0	7.1	5.0	2.5	1.7	(3.8)
Receivables	5.7	7.0	7.4	10.9	6.6	8.3	23.4
Inventories & WIP	8.8	9.8	9.4	11.4	11.4	11.4	11.4
Other	10.2	14.2	19.6	12.7	12.7	12.7	12.7
Current Assets	**36.4**	**44.0**	**43.5**	**40.0**	**33.2**	**34.1**	**43.7**
Fixed assets	402.4	461.9	510.2	609.7	693.4	776.4	854.9
Intangibles	139.8	196.8	201.2	242.9	242.9	242.9	242.9
Other assets	97.3	97.1	98.1	103.9	103.9	103.9	103.9
Non current Assets	**639.5**	**755.8**	**809.5**	**956.6**	**1,040.3**	**1,123.3**	**1,201.8**
Total assets	**675.9**	**799.7**	**853.0**	**996.5**	**1,073.5**	**1,157.4**	**1,245.5**
Creditors	59.8	64.0	69.1	91.3	111.3	123.9	130.4
Short term debt	0.2	0.2	0.1	-	-	-	-
Other	6.7	8.3	6.3	7.3	7.3	7.3	7.3
Current Liabilities	**66.7**	**72.5**	**75.4**	**98.6**	**118.6**	**131.3**	**137.7**
Long term debt	193.2	227.6	260.2	278.6	352.6	443.1	538.1
Deferred Tax Liability	4.5	9.0	9.3	21.9	21.9	21.9	21.9
Other	4.8	3.3	2.6	17.9	17.9	17.9	17.9
Non current Liabilities	**202.5**	**239.9**	**272.1**	**318.4**	**392.4**	**482.9**	**577.9**
Total liabilities	**269.3**	**312.5**	**347.5**	**417.0**	**511.0**	**614.1**	**715.6**
Net assets	**406.7**	**487.3**	**505.5**	**579.5**	**562.6**	**543.2**	**529.9**
Share capital	421.9	501.4	513.9	605.2	605.2	605.2	605.2
Reserves	(45.5)	(45.8)	(45.9)	(30.7)	(30.7)	(30.7)	(30.7)
Retained earnings	30.3	31.7	37.5	5.0	(11.9)	(31.3)	(44.6)
Outside equity Interests	-	-	-	-	-	-	-
S/holders' funds	**406.7**	**487.3**	**505.5**	**579.5**	**562.6**	**543.2**	**529.9**
Net debt/(cash) ($m)	181.8	214.9	253.2	273.6	350.1	441.4	541.9

Price	$2.48
Recommendation	Buy
Diluted issued capital (m)	451.1
Market cap ($m)	1,118.7
Target Price (A$ps)	$2.73

June Year end	2012	2013	2014	2015	2016e	2017e	2018e
Valuation Ratios							
Reported EPS (¢ps)	3.8	9.2	12.0	7.4	8.9	12.2	14.8
Core EPS (¢ps)	12.8	13.1	14.3	12.8	13.6	17.0	19.1
. . . % change	2.0%	2.2%	9.6%	-10.1%	6.2%	24.3%	12.6%
PE (x)	19.4	19.0	17.3	19.3	18.2	14.6	13.0
EV/EBITDA (x)	18.0	15.5	13.5	12.1	10.6	8.7	7.0
EV/EBIT (x)	24.5	20.7	18.3	17.9	16.0	13.1	10.9
NTA ($ps)	0.81	0.75	0.75	0.77	0.71	0.67	0.64
P/NTA (x)	3.1	3.3	3.3	3.2	3.5	3.7	3.9
Book Value ($ps)	0.90	1.08	1.12	1.28	1.25	1.20	1.17
Price/ Book	2.75	2.30	2.21	1.93	1.99	2.06	2.11
DPS (¢ps)	11.7	12.0	13.0	12.5	12.7	16.5	17.8
. . . % pay-out	91.6%	91.9%	90.9%	97.3%	92.9%	97.5%	93.1%
Franking (%)	3%	7%	7%	7%	7%	7%	7%
Yield (%)	4.7%	4.8%	5.2%	5.0%	5.1%	6.7%	7.2%
Performance Ratios							
EBITDA/sales (%)	19.8%	20.1%	20.6%	19.3%	19.9%	21.3%	23.3%
EBITA/sales (%)	14.6%	15.0%	15.2%	13.1%	13.2%	14.2%	15.0%
OCF realisation (%)	178%	116%	108%	141%	129%	110%	94%
FCF realisation (%)	452%	190%	82%	4%	48%	44%	37%
ROE (%)	10.0%	12.4%	11.9%	11.1%	10.6%	13.6%	15.9%
ROIC (%) EBIT pre-tax	9.5%	10.4%	10.4%	9.7%	9.9%	11.2%	12.4%
Asset Turn (years)	3.78	3.98	3.80	3.11	2.97	2.99	2.80
Capex/Depn (x)	0.08	0.00	1.55	2.90	2.31	2.11	1.82
Interest cover (x)	4.4	5.5	6.8	6.9	6.6	6.9	5.5
Net debt/EBITDA	2.35	2.39	2.45	2.38	2.66	2.76	2.73
Net debt/equity (%)	44.7%	44.1%	50.1%	47.2%	62.2%	81.3%	102.3%

Divisional	2012	2013	2014	2015	2016e	2017e	2018e
Revenue $A							
Main Event	55.2	72.7	98.1	177.1	233.9	310.8	398.2
Health Clubs	102.6	140.7	164.1	178.4	177.1	180.7	184.3
Theme Parks	93.7	97.1	100.1	99.6	106.6	112.0	117.7
Bowling	114.2	115.2	113.9	116.5	120.1	122.5	124.9
Marina	23.7	23.1	23.5	23.0	23.6	24.3	25.3
Other	0.7	0.1	-	-	-	-	-
Total Revenue	390.1	448.9	499.7	594.5	661.4	750.4	850.4
EBITDA $A							
Main Event	12.3	17.5	24.7	45.7	61.5	88.3	122.0
Health Clubs	20.0	30.3	34.0	28.2	27.1	29.3	32.5
Theme Parks	28.9	30.5	32.8	32.0	34.4	35.9	37.7
Bowling	14.8	12.8	13.8	14.0	15.5	15.8	16.3
Marina	10.7	10.7	10.4	10.2	10.5	10.9	11.4
Corp/Other	(9.5)	(11.8)	(12.4)	(15.1)	(17.5)	(20.1)	(21.5)
Total	77.2	90.0	103.2	114.9	131.6	160.1	198.5

Half yearly	1H13	2H13	1H14	2H14	1H15	2H15
Sales revenue	219.7	229.2	250.6	249.1	285.9	308.6
. . . Change vs pcp	9.8%	20.6%	14.1%	8.7%	14.1%	23.9%
EBITDA	46.7	43.4	54.4	48.8	58.0	56.9
Deprec. & amort.	(10.5)	(12.1)	(13.0)	(14.2)	(17.2)	(19.8)
EBIT	36.1	31.3	41.4	34.6	40.8	37.1
Interest	(5.8)	(6.5)	(5.6)	(5.5)	(5.5)	(5.7)
Non recurring items (NRI's)	(7.4)	(8.7)	(12.0)	(1.0)	(16.4)	(11.2)
Pre-tax profit	22.9	16.0	23.8	28.1	18.8	20.3
Tax expense	(1.6)	(1.8)	(1.3)	(1.6)	0.0	(7.0)
. . . tax rate	6.8%	11.0%	5.6%	5.5%	0.0%	34.3%
Minorities	-	-	-	-	-	-
Net Profit Reported	**21.4**	**14.3**	**22.5**	**26.5**	**18.8**	**13.3**
NRI's post tax	-	14.7	-	9.2	13.4	10.6
Net Profit pre-NRI's	**21.4**	**29.0**	**22.5**	**35.7**	**32.2**	**23.9**
Normalisation adjs	8.1	(8.1)	11.0	(11.0)	-	-
Net Profit Normalised	**29.5**	**20.8**	**33.5**	**24.7**	**32.2**	**23.9**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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