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BWX Limited (BWX)

Number 1 player in Pharmacy Skincare yet growth is still accelerating

Recommendation

Buy (unchanged)

Price

\$4.80

Target (12 months)

\$5.73 (unchanged)

Expected Return

Capital growth	19.4%
Dividend yield	1.6%
Total expected return	21.0%

Company Data & Ratios

Enterprise value	\$477m
Market cap	\$477m
Issued capital	99.3m
Free float	86%
Avg. daily val. (52wk)	\$2,049,877
12 month price range	\$3.75-\$5.70

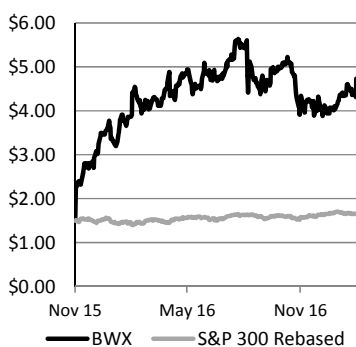
GLICS sector

Household & Personal Products

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	4.05	4.29	3.85
Absolute (%)	16.79	10.26	22.86
Rel market (%)	18.69	1.49	9.37

Absolute Price



SOURCE: IRESS

All about Sukin – Domestic and International growth strong

The BWX interim result (NPAT up 30% to \$8.2m vs BP estimate of \$8.5m) served to highlight the investment appeal of the stock based on the following key factors: 1) Sukin Domestic still appears to have plenty of growth left in it – Sukin Domestic sales increased 49% on pcp which we view as an excellent result given the brand already occupies the number one position in the Pharmacy Skincare category. The Company has focussed on improved execution and new product development as the key drivers of this growth and we expect this trend to drive continued strength in the Domestic sales numbers; 2) The Sukin International opportunity has the potential to move the dial – Sukin International sales increased 116% in 1H17 to \$6.7m with existing markets including the UK, USA, China, Canada, NZ, Singapore, Hong Kong and Malaysia. In the short-term we see material growth opportunities in the UK (Boots, Holland and Barrett deals), China and Canada with the Company making a conscious decision to accelerate efforts in these regions. We note the size of these markets relative to our forecast annual sales for Sukin International (circa \$17m) and Sukin Domestic (circa \$49m). This highlights the fact that if the Company gains significant traction in just one of these regions it has the potential to move the dial materially; and 3) Investment for future growth adversely impacted margins in 1H17 – The key reason for the slight miss at the EBITDA and NPAT lines in 1H17 was higher than expected operating costs based on a deliberate and considered investment in additional staff, marketing and promotional activities to enhance domestic and international capabilities. Despite this, the Company re-iterated FY17 EBITDA growth guidance of 30% and we consider it likely this will be achieved.

Investment View – Retain Buy PT \$5.73 (unchanged)

Our earnings estimates remain largely unchanged (upgrades to our revenue assumptions offset by higher costs). Our 12 month price target also remains unchanged at \$5.73 and is based on a DCF model (WACC 10.1% and terminal growth rate 3% unchanged). We retain our Buy rating as we remain confident in the growth outlook for Sukin both domestically and internationally.

Earnings Forecast

Year end June	2016	2017e	2018e	2019e
Sales (A\$m)	55.1	76.1	95.6	112.8
EBITDA (A\$m)	20.2	26.8	35.3	45.3
NPAT (reported) (A\$m)	12.0	17.7	23.9	31.1
NPAT (adjusted) (A\$m)	12.3	17.7	23.9	31.1
EPS (cps)	13.3	17.8	24.0	31.3
EPS growth (%)	6.9	34.0	35.0	30.4
PER (x)	36.1	27.0	20.0	15.3
EV/EBITDA (x)	23.6	17.8	13.5	10.5
Dividend (cps)	4.8	7.5	9.6	12.5
Yield (%)	1.0	1.6	2.0	2.6
Franking (%)	100.0	100.0	100.0	100.0
ROE (%)	16.5	19.5	23.0	26.3

SOURCE: BELL POTTER SECURITIES ESTIMATES

Interim Result Snapshot

Profit and Loss

- NPAT up 30% to \$8.2m (BP estimate \$8.5m)
- Sales revenue up 36% to \$37.5m
- EBITDA up 31% to \$12.8m (EBITDA margin down 187 basis points to 34.1%)

Cashflow and Balance sheet

- Net operating cashflow up 19% to \$8.7m
- Net Cash \$0.2m as at 31 December 2016 vs Net Debt of \$4.4m as at 30 June 2016

Dividends

- Interim Dividend 2.5cps fully franked (No Dividend was declared in prior period)

FY17 guidance

- Re-iterated FY17 EBITDA guidance of 30% growth

Figure 1 – BWX 1H17 Interim Result Summary

	Result vs PCP			Result vs BP est		Comment
	1H17a	1H16a	Var	1H17e	Var	
Sales revenue	37.5	27.6	36%	36.0	4%	Strong growth in Sukin Domestic and International Revenue
EBITDA	12.8	9.8	31%	13.1	-2%	
....EBITDA margin*	34.1%	35.5%	-137	36.0%	-187	Material investment in marketing, promotional activities, domestic and export capabilities
Deprec. & amort	-0.4	-0.3	33%	-0.5	-20%	Modest D&A as expected
EBIT	12.4	9.5	31%	12.6	-2%	
Interest expense	-0.4	-0.5	0%	-0.4	n/a	Interest costs as expected
Non recurring items	0.0	0.0	n/a	0.0	n/a	
Pre-tax profit	12.0	9.0	33%	12.2	-2%	
Tax expense	-3.8	-2.7	41%	-3.7	4%	
....Tax rate*	31.7%	30.0%	167	30.0%	167	Tax rate higher than expected due to non deductible, non cash items
Minorities	0.0	0.0	n/a	0.0	-	
NPAT reported	8.2	6.3	30%	8.5	-4%	
NRI's post tax	0.0	0.0	n/a	0.0	-	
NPAT pre-NRI's	8.2	6.3	30%	8.5	-4%	
Norm adjs	0.0	0.0	n/a	0.0	n/a	
NPAT normalised	8.2	6.3	30%	8.5	-4%	Normalised NPAT 4% below expectations due to accelerated costs and effective tax rate
Core EPS (cps)	8.3	7.4	12%	8.6	-4%	
DPS (cps)	2.5	n/a	n/a	2.4	4%	Maiden Interim Dividend higher than expected

*Change in basis points

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Investment Summary (BWX)

Company Description

BWX is an established personal care business which owns five key skin care brands namely: Sukin, Derma Sukin, Renew Skincare, Edward Beale and Uspa. The company operates through a modern 8,500sqm purpose built facility in Dandenong Victoria which was built in 2013.

Investment Strategy

We rate BWX as a Buy with a 12-month target price of \$5.73. We consider BWX well placed to deliver strong earnings growth in the coming years underpinned by continued growth in the Sukin business within domestic pharmacies and significant potential for offshore expansion particularly in Asia.

Valuation

Our EPS estimates remain unchanged (upgrades to our revenue assumptions offset by higher costs). Our 12 month price target also remains unchanged at \$5.73 and is based on a DCF model (WACC 10.1% and terminal growth rate 3% unchanged).

Risks

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

- Reliance on the Sukin brand – BWX's financial performance is heavily reliant on the ongoing success of the recently acquired Sukin brand;
- Ability to achieve global business strategy – The future growth, profitability and cashflow of the BWX group depends upon the company's ability to successfully implement its global business strategy;
- Disruption in operations – The BWX group is engaged in manufacturing and distribution on a global scale and hence the company is exposed to the risks inherent in these activities including industrial accidents, strikes, safety or other potential regulatory issues;
- Competitive nature of the beauty industry – The beauty and skin care business is a highly competitive industry both in Australia and Internationally. BWX therefore has potential exposure to the actions of these competitors in the market;
- Change in consumer preferences – BWX operates in an industry that is impacted by what consumer demand or preferences favour. There is a risk that these preferences may change over time and adversely impact demand for BWX's products;
- Failure of third party suppliers – BWX manufactures and packages the majority of its products with the raw materials supplied by various third parties. The loss of multiple suppliers or a significant disruption in the supply chain has the potential to adversely impact BWX; Product liability and brand risk – The Company has the potential to be exposed to product safety or quality issues. These issues have the potential to tarnish the company's brand even if unfounded;
- Reliance on key management – BWX depends substantially on its senior management. The loss of the services of these individuals has the potential to adversely impact the business; and
- Counterparty risk – BWX is heavily reliant on its main customers and strategic partners, including any distribution or marketing partners engaged by BWX. A failure by any of these parties to comply with their commitments could lead to a loss of opportunities and adversely impact results.

Table 1 - Financial summary

June Year end	2015*	2016	2017e	2018e	2019e	Price	\$4.80
Profit & Loss (A\$m)						Recommendation	Buy
Revenue	45.1	55.1	76.1	95.6	112.8	Diluted issued capital (m)	99.3
... Change	n/a	22.2%	38.1%	25.6%	18.0%	Market cap (\$m)	476.6
EBITDA	14.8	20.2	26.8	35.3	45.3	Target Price (A\$ps)	\$5.73
Deprec. & amort.	(0.5)	(0.6)	(0.7)	(0.8)	(0.9)		
EBIT	14.3	19.6	26.1	34.5	44.4		
Interest	(1.2)	(1.2)	(0.8)	(0.4)	0.1		
Non recurring items	-	(0.4)	-	-	-		
Pre-tax profit	13.1	18.0	25.3	34.1	44.5	June Year end	
Tax expense	(3.5)	(6.0)	(7.6)	(10.2)	(13.3)	Valuation Ratios	
... tax rate	26.7%	33.2%	30.0%	30.0%	30.0%	Reported EPS (cps)	2015 2016 2017e 2018e 2019e
Other	-	-	-	-	-	Core EPS (cps)	12.4 13.3 17.8 24.0 31.3
Net Profit Reported	9.6	12.0	17.7	23.9	31.1	... % change	n/a 6.9% 34.0% 35.0% 30.4%
NRI's post tax	-	0.3	-	-	-	PE (x)	38.6 36.1 27.0 20.0 15.3
Net Profit pre-NRI's	9.6	12.3	17.7	23.9	31.1	EV/EBITDA (x)	32.2 23.6 17.8 13.5 10.5
Normalisation adjs	-	-	-	-	-	EV/EBIT (x)	33.3 24.3 18.3 13.8 10.7
Net Profit Normalised	9.6	12.3	17.7	23.9	31.1	NTA (\$ps)	0.1 0.1 0.3 0.4 0.6
*Pro forma						P/NTA (x)	- - - - -
Cashflow (A\$m)						Book Value (\$ps)	0.75 0.91 1.05 1.19 1.38
Reconciliation						Price/ Book	- - - - -
Net Profit	9.6	12.0	17.7	23.9	31.1	DPS (cps)	- 4.8 7.5 9.6 12.5
Deprec. & amort.	0.5	0.6	0.7	0.8	0.9	... % pay-out	0.0% 36.1% 42.0% 40.0% 40.0%
Change in working capital	(2.2)	(2.8)	3.0	(0.6)	(1.7)	Franking (%)	100% 100% 100% 100% 100%
Other	0.3	-	-	-	-	Yield (%)	0.0% 1.0% 1.6% 2.0% 2.6%
Net operating cashflow	8.2	9.8	21.3	24.1	30.3		
Investing Cashflow						Performance Ratios	
Sale/purchase of PPE	(0.6)	(0.8)	(0.7)	(0.7)	(0.6)	EBITDA/sales (%)	32.8% 36.6% 35.2% 36.9% 40.2%
Payment for businesses	-	(5.9)	-	-	-	EBITA/sales (%)	31.7% 35.5% 34.3% 36.1% 39.4%
Other	1.6	-	-	-	-	OCF realisation (%)	81% 78% 116% 98% 95%
Net investing cash flow	1.0	(6.7)	(0.7)	(0.7)	(0.6)	FCF realisation (%)	45% 79% 118% 99% 96%
Financing Cashflow						ROE (%)	4.6% 16.5% 19.5% 23.0% 26.3%
Issue of shares	-	18.3	2.8	-	-	ROIC (% pre-tax)	17.8% 22.3% 27.9% 37.3% 47.6%
Buy backs	-	-	-	-	-	Asset Turn (years)	29.60 33.32 38.27 44.00 50.61
Dividends paid	-	(22.2)	(7.4)	(9.5)	(12.5)	Capex/Deprn (x)	13.23 1.45 0.93 0.87 0.61
Debt	3.7	-	-	-	-	Interest cover (x)	11.9 17.0 31.1 97.1 n/a
Others	-	-	-	-	-	Net debt/EBITDA	0.36 0.22 -0.44 -0.73 -0.95
Net financing cash flow	3.7	(3.8)	(4.6)	(9.5)	(12.5)	Net debt/equity (%)	7.2% 4.8% -11.3% -21.6% -31.4%
Effects of exchange rate	-	-	-	-	-		
Net change in cash held	12.9	(0.7)	16.1	13.9	17.3		
*Pro forma						Half Year	1H15 2H15 1H16 2H16 1H17 2H17e
Balance Sheet (A\$m)						Sales revenue	22.0 23.1 27.6 27.5 37.5 38.6
Cash	4.3	2.7	18.8	32.6	50.0	... Change vs pcp	
Receivables	7.4	11.6	14.5	17.2	20.3	EBITDA	6.4 8.4 9.8 10.4 12.8 14.0
Inventories & WIP	6.6	11.3	11.3	11.3	11.3	Deprec. & amort.	(0.2) (0.3) (0.3) (0.3) (0.4) (0.3)
Other	-	-	-	-	-	EBIT	6.2 8.1 9.5 10.1 12.4 13.7
Current Assets	18.3	25.5	44.5	61.1	81.5	Interest	(0.5) (0.7) (0.5) (0.7) (0.4) (0.4)
Fixed assets	2.3	3.2	3.2	3.1	2.7	Non recurring items (NRIs)	- - (0.4) - - -
Intangibles	70.1	76.9	76.9	76.9	76.9	Pre-tax profit	5.7 7.4 9.0 9.0 12.0 13.3
Other assets	0.5	0.6	0.6	0.6	0.6	Tax expense	(1.8) (1.7) (2.7) (3.3) (3.8) (3.8)
Non current Assets	72.9	80.7	80.7	80.6	80.2	... tax rate	31.6% 23.0% 30.0% 36.4% 31.7% 28.5%
Total assets	91.2	106.2	125.1	141.6	161.7	Minorities	
Creditors	6.0	3.1	9.8	11.9	13.4	Net Profit Reported	3.9 5.7 6.3 5.7 8.2 9.5
Short term debt	9.6	6.5	6.5	6.5	6.5	NRI's post tax	- - 0.3 - - -
Other	0.4	5.2	4.3	4.3	4.3	Net Profit pre-NRI's	3.9 5.7 6.3 6.0 8.2 9.5
Current Liabilities	16.0	14.7	20.6	22.8	24.2	Normalisation adjs	- - - - -
Long term debt	0.1	0.6	0.6	0.6	0.6	Net Profit Normalised	3.9 5.7 6.3 6.0 8.2 9.5
Deferred Tax Liability	-	-	-	-	-		
Other	0.2	0.2	0.2	0.2	0.2		
Non current Liabilities	0.3	0.7	0.7	0.7	0.7		
Total liabilities	16.3	15.4	21.3	23.5	24.9		
Net assets	74.9	90.8	103.9	118.2	136.9		
Share capital	76.5	80.2	83.0	83.0	83.0		
Reserves	0.4	0.6	0.6	0.6	0.6		
Retained earnings	(2.0)	10.0	20.2	34.5	53.2		
Outside equity interests	-	-	-	-	-		
S/holders' funds	74.9	90.8	103.9	118.2	136.9		
*Pro forma							
Net debt/(cash) (\$m)	5.4	4.4	(11.7)	(25.6)	(42.9)		

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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