

Retail Food Group

Operating update positive

1H09 trading strong

- RFG reported strong trading in November and December, with weighted average weekly sales (AWS) across all outlets up 5.8%, vs 4% YTD reported in October
- Average Transaction Value (ATV) growth was also described as healthy
- The economic stimulatory package which aided retail sales across the market drove the required foot traffic which RFG's businesses benefit from
- AGM guidance for 1H09 NPAT of \$9.9m was re-affirmed. Adjusting for interest rate swap mark to market, NPAT is expected to be \$10.9m, an impressive 34.6% increase on pcp. (Michel's contributed only four months to 1H08).
- This compares to adjusted NPAT of \$15.4m in FY08.

Debt reduction on track

- Proceeds from the sale of the Central Manufacturing Facility (\$9.5m) as well as repayments out of cash flows, have reduced net debt by \$19m since mid June to approx \$98m, taking gearing (ND/E) to 90%
- Forecast gearing of 2.5 times FY09 EBITDA and net interest cover of 3.9 times is manageable for a strong cash generating business such as RFG. FCF yield/share of 16% underlines the limited capital needs post sale of the CMF

Maintain BUY and \$2.15 tp

- RFG is our favoured exposure to discretionary retail. We like the resilience of the products (low value food and drink items) as well as the strong brands, franchise model, supplier leverage and strong FCF generation
- We do not foresee the need for a capital raising, with FY10 interest cover of 4.6 times adequate. A 20% reduction in forecast FY10 EBIT would maintain interest cover at above 3.5 times
- We believe there are further improvements available through the integration of Michel's, both in cost and cashflow terms. The transition to a royalty based model will see further FCF improvements

RFG.ASX

BUY

Monday 19 January, 2009

Price	\$1.13
Target price	\$2.15
DCF valuation	\$2.09
Target valuation method	PER

GICS sector	Consumer Services	
Avg monthly t/o	m	2.2
Diluted mkt capitalisation	\$m	113
Shares on issue	m	98
Enterprise value	\$m	225
Previous rating	Buy	

Year Ended June 30		07A	08A	09E	10E
Sales revenue	\$m	29.5	124.6	139.3	143.9
EBITDA	\$m	12.0	33.4	37.4	38.3
EBITDA margin		40.6%	26.8%	26.9%	26.6%
EBIT	\$m	11.8	32.1	36.5	38.2
EBIT margin		40.0%	25.8%	26.2%	26.6%
Adjusted NPAT	\$m	7.3	15.4	18.9	21.0

EPS adj	c	9.9	17.3	18.9	21.0
EPS adj growth	%	19%	74%	10%	11%
DPS	c	6.3	8.5	9.0	9.0
Franking	%	100%	100%	100%	100%
PER	x	11.4	6.6	6.0	5.4
PER rel XSI	x	90%	52%	52%	54%
Dividend yield	%	5.5%	7.5%	8.0%	8.0%
NTA/share	\$	na	na	na	na

EV/EBITDA	x	18.8	6.7	6.0	5.9
P/OCF	x	17.3	8.3	6.1	5.4
ROA		15.2%	14.0%	16.6%	16.5%
ROE		19.9%	18.6%	18.0%	17.9%
Interest cover	x	9.5	3.2	3.9	4.6

RFG vs XSI



Source: IRESS

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Retail Food Group (RFG)

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Profit & Loss (\$m)

Year ending June	2007A	2008A	2009E	2010E
Revenue:				
Total Revenue	29.5	124.6	139.3	143.9
Expenses	17.5	90.3	101.9	105.6
EBITDA	12.0	33.4	37.4	38.3
D&A	-0.2	-1.3	-0.9	-0.1
EBIT	11.8	32.1	36.5	38.2
Net interest expense	1.2	10.0	9.5	8.3
EBT	10.6	24.4	27.0	29.9
Tax	3.2	6.7	8.1	9.0
Reported NPAT	7.3	17.6	18.9	21.0
Non-recurring items	0.0	2.2	0.0	0.0
Adjusted NPAT	7.3	15.4	18.9	21.0

Cashflow (\$m)

	2007A	2008A	2009E	2010E
EBITDA	12.0	33.4	37.4	38.3
Change in Working Capital	-1.1	-6.1	-1.8	-0.5
Net Interest paid	1.4	9.9	9.5	8.3
Income taxes paid & other	3.1	4.2	8.1	9.0
Cashflow from operations	6.4	13.3	18.0	20.5
Capex	-5.1	-0.2	8.7	-1.3
Total free cashflows	1.3	13.0	26.7	19.2
Other investing cashflows	-7.6	-82.2	0.0	0.0
Proceeds/(repay) of borrowings	7.4	33.7	-20.0	0.0
Equity raisings/(buybacks)	-0.2	41.9	0.0	0.0
Dividends paid	-0.9	-3.9	-8.8	-8.8
Net change in cash	-0.1	2.6	-2.1	10.4

Balance Sheet (\$m)

	2007A	2008A	2009E	2010E
Cash	1.5	4.1	2.0	12.5
Debtors	5.8	15.0	15.1	15.5
Other current assets	0.6	6.7	6.7	6.7
Current assets	7.9	25.7	23.8	34.8
PPE	7.4	9.2	2.2	3.0
Intangibles	42.0	192.5	192.5	192.5
Other non-current assets	20.2	1.2	1.1	1.1
Non-current assets	69.7	202.9	195.8	196.6
Total assets	77.6	228.6	219.6	231.4
Payables	1.6	10.0	8.3	8.3
Short term borrowings	2.2	1.6	1.6	1.6
Other current liabilities	12.5	7.1	7.1	7.1
Total current liabilities	16.3	18.6	16.9	16.9
Long term borrowings	24.4	115.2	95.2	95.2
Other non-current liabilities	0.1	0.2	0.2	0.2
Total non-current liabilities	24.5	115.4	97.4	97.4
Total liabilities	40.8	134.0	114.3	114.3
Net assets	36.8	94.6	105.3	117.1

Market Measures

Year ending June		2007A	2008A	2009E	2010E
EPS reported	cps	9.9	19.8	18.9	21.0
EPS adjusted	cps	9.9	17.3	18.9	21.0
EPS growth		19%	74%	10%	11%
PE multiple	x	11.4	6.6	6.0	5.4
PE rel (XSI ex-fins)		90%	52%	52%	54%
EBITDA per share	cps	12.3	34.3	38.3	39.2
EBITDA growth		16%	179%	12%	2%
P/OCF	x	17.3	8.3	6.1	5.4
FCF per share	\$	0.01	0.13	0.27	0.20
DPS	cps	6.3	8.5	9.0	9.0
Dividend yield		5.5%	7.5%	8.0%	8.0%
Franking		100	100	100	100
EV/EBITDA	x	18.8	6.7	6.0	5.9

Profitability & Liquidity Ratios

Year ending June		2007A	2008A	2009E	2010E
ROE		19.9%	18.6%	18.0%	17.9%
ROA		15.2%	14.0%	16.6%	16.5%
NPAT/sales		24.8%	14.2%	13.6%	14.6%
EBITDA/sales		40.6%	26.8%	26.9%	26.6%
Interest cover	x	9.5	3.2	3.9	4.6
Gearing (ND/E)		68%	119%	90%	72%
NTA/share	\$	na	na	na	na

Valuation

	\$m	\$/share
NPV of Cash Flows	165.4	1.69
Terminal Value	133.2	1.36
Net Cash (Debt)	-94.7	-0.97
Total	203.9	2.09
Price target*		\$2.15
Upside/downside		90%
*PER based		

WACC

Risk free rate of return	6.8%
Post-tax cost of debt	6.1%
Equity risk premium	5.5%
Beta target	1.00
Cost of Equity	12.3%
Terminal Growth Rate	3.0%
WACC	11.0%

Company Statistics

Current share price	\$ps	1.13
Ordinary shares	m	97.6
Options	m	2.1
Diluted market capitalisation	\$m	\$112.7
Enterprise value	\$m	225.4

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RATING

BUY – anticipated stock return is greater than 10%
 SELL – anticipated stock return is less than -10%
 HOLD – anticipated stock return is between -10% and +10%
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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