

# Silk Laser Australia Limited

Smooth as

SLA have reported 1H21 underlying EBITDA of \$10.3m, representing 77% of prospectus forecasts. 1H21 pro-forma EBITDA was up 166%, with strong growth achieved behind a maturing network and increasing penetration of the injectables category. Momentum has continued in to the 1H, offering management sufficient comfort to upgrade guidance to underlying EBITDA of \$14m-\$15m (4% - 11%), we believe the top of that range is highly achievable and have upgraded our own forecasts to reflect that. We further expect site rollouts to accelerate, with 60+ to be opened this year, while M&A opportunities remain a live possibility with the balance sheet in good health (\$26.6m net cash). SLA is in an industry with some nice tailwinds (generational attitudes, injectable penetration, consolidation) while the business itself is benefitting from a multi-year network maturation and expansion profile. We maintain a Buy recommendation with a price target of \$5.06.

## Greater penetration of higher value categories continues

- In FY20 injectables accounted for 38% of sales across the network, while body was immaterial. We expect that penetration grew in the 1H and will continue to do over FY21 (41%) and beyond. This will drive a good LFL profile for mature clinics (>3) while the inclusion of Body, which the company has indicated is performing well, will do the same as well as drive margin expansion longer term.

## Changes to forecasts

- Following the upgrade of guidance we have
  - Increased network cash sales
  - Modestly reduced GP margins on product mix (inject)
  - Modestly increased opex forecast
- The result is EPS upgrades for FY21/22/23 of: +14%/+10%/+9%

## FY22 PE of 22.4x with 3yr EPS CAGR of 65%. Buy

- We maintain a Buy recommendation with a price target of \$5.06.

Year-end June (\$)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (\$m)	26.6	34.3	57.7	67.4	79.1
EBITDA (\$m)	1.5	6.6	14.9	17.5	21.2
EBIT (\$m)	(0.4)	3.8	11.6	13.5	16.5
Reported NPAT (\$m)	(2.0)	0.7	6.6	7.4	9.1
Reported EPS (c)	-	1.6	13.3	15.6	19.4
Normalised NPAT (\$m)	(0.3)	2.6	8.2	9.5	11.7
Normalised EPS (c)	-	5.5	17.3	20.2	24.8
EPS Growth (%)	-	-	215.4	16.9	22.6
Dividend (c)	-	-	-	-	-
Net Yield (%)	-	-	-	-	-
EV/EBITDA (X)	-	31.9	12.9	10.7	8.5
Normalised P/E (x)	-	82.5	26.2	22.4	18.3
Normalised ROE (%)	-	7.2	17.4	15.6	16.8

Source: OML, Iress, Silk Laser Australia Limited

## Last Price

**A\$4.53**

## Target Price

**A\$5.06** (Previously A\$4.61)

## Recommendation

**Buy**

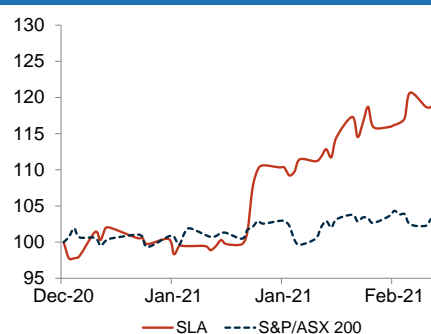
**Risk**

**Higher**

## Specialized Consumer Services

ASX Code	SLA
52 Week Range (\$)	-
Market Cap (\$m)	213.4
Shares Outstanding (m)	47.1
Av Daily Turnover (\$m)	1.5
3 Month Total Return (%)	-
12 Month Total Return (%)	-
Benchmark 12 Month Return (%)	-0.5
NTA FY21E (¢ per share)	62.5
Net Cash FY21E (\$m)	21.3

## Relative Price Performance



Source: FactSet

## Consensus Earnings

	FY21E	FY22E
NPAT (C) (\$m)	6.8	8.3
NPAT (OM) (\$m)	8.2	9.5
EPS (C) (c)	14.7	17.6
EPS (OM) (c)	17.3	20.2

Source: OML, Iress, Silk Laser Australia Limited

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## Strong trading to the end of year

- SLA have released their maiden 1H21 result recording Underlying EBITDA of \$10.3m, representing 77% of FY21 prospectus EBITDA.
- Reported EBITDA of \$10.6m was 166% ahead of the pcp with reported revenue growing 78% vs 1H20.
- Network cash sales were \$44.9m, 55% of full year forecasts with LFL sales growth of 47% as the maturation of existing clinics continues.
- GP margins (incl. franchise revenue) fell to 73.4% as the penetration of the injectables category continued, this is in line with what was foreshadowed at the IPO.
- Reported EBITDA margins of 34.6% were well ahead of prospectus forecasts and up materially on the pcp. We expect margin expansion to continue in FY22, however more moderately as expansion provides modest drag.
- To this end, 5 new clinics were opened in the 1H and the company now expect >60 by the end of FY21.
- Cash flows were strong with Net OCF conversion of 144% due to the upfront and prepaid nature of SLA's services.
- The company has \$26.6m in cash at the end of 1H21 with no debt.
- Following the strong end to the CY, SLA have now upgraded forecasts for FY21 to the following:
  - Network cash sales of \$82m - \$86m (from \$81m)
  - FY21 EBITDApf of \$15m - \$16m (\$14m)
  - FY21 Underlying EBITDA of \$14m - \$15m (\$13.5m)

**Figure 1: Result overview**

	1H20pf	1H21A	%Δ pcp	FY21pf	% of FY21pf
<b>Network cash sales</b>	<b>27.7</b>	<b>44.9</b>	<b>62%</b>	<b>81.0</b>	<b>55%</b>
<b>Reported revenue</b>	<b>17.2</b>	<b>30.6</b>	<b>78%</b>	<b>53.5</b>	<b>57%</b>
<b>Cash revenue</b>		<b>31.6</b>		<b>54.8</b>	<b>58%</b>
COGS	-3.9	-7.8	100%	-13.7	57%
<b>Reported GP</b>	<b>13.4</b>	<b>23.2</b>	<b>73%</b>	<b>39.8</b>	<b>58%</b>
<i>% margin</i>	<i>78.0%</i>	<i>73.4%</i>	<i>-5.9%</i>	<i>0.7</i>	
CODB	-9.5	-13.1	38%	-26.2	50%
<b>Reported EBITDA (pre-associates)</b>	<b>3.9</b>	<b>10.1</b>	<b>157%</b>	<b>13.6</b>	<b>75%</b>
<i>% margin</i>		<i>32.0%</i>			
Associates	0.0	0.5	888%	0.3	140%
<b>Reported EBITDA (pf)</b>	<b>4.0</b>	<b>10.6</b>	<b>166%</b>	<b>13.9</b>	<b>76%</b>
<i>% margin</i>	<i>23.2%</i>	<i>34.6%</i>	<i>49.4%</i>	<i>26.0%</i>	
Associate adj.		0.7		1.2	57%
Unearned revenue		0.6		1.3	43%
Cash rent		-1.5		-3.0	50%
<b>Underlying EBITDA</b>		<b>10.3</b>		<b>13.4</b>	<b>77%</b>
D&A	-1.1	-1.6	42%	-3.3	48%
ROU Amortisation	-1.0	-1.2	15%	-2.4	49%
D&A	-2.1	-2.8	29%	-5.7	48%
<b>Reported EBIT (pf)</b>	<b>1.8</b>	<b>7.8</b>	<b>325%</b>	<b>8.2</b>	<b>95%</b>
Net interest	0.0	0.0	80%	0.1	50%
Lease liability interest	-0.1	-0.2	48%	-0.5	35%
<b>Reported PBT (pf)</b>	<b>1.8</b>	<b>7.7</b>	<b>340%</b>	<b>7.8</b>	<b>99%</b>
Tax	-0.6	-2.1	282%	-2.3	93%
<b>Reported NPAT (pf)</b>	<b>1.2</b>	<b>5.6</b>	<b>367%</b>	<b>5.5</b>	<b>101%</b>

## Comments & Outlook

- SLA last provided an update to the market in Dec-20 upon listing, indicating they had achieved network cash sales of \$38m up until Nov-20. This implied cash sales of \$6.7m on average in October and November. At this result, SLA reported network cash sales of \$44.9m, implying conditions continued to be robust to the end of the year.
- December EBITDA did slow from the Oct/Nov rate however, though with 4 new clinics opened during the 1H we expect there was modest drag. The company have now reiterated that conditions were strong in February, with that factor the key catalyst in upgrading FY21 forecast.
- The company has also intimated that they expect to be at 60+ clinics by the end of FY21, with our forecasts implying 60. We have maintained our existing forecasts, with additional clinics likely to open later in the 2H, with only a modest contribution to FY21.
- With several of these clinics opening as JV's with established nurse injectors, we expect the typical ramp up profile to be somewhat accelerated, offering potential upside to our FY22 forecasts.
- The company also indicated that injectables were a key source of strength during the 1H, with this driver central to the long-term investment thesis. We expect this to come with modest incremental GP margin contraction, thought view this as entirely acceptable given the growth it facilitates at the top line.

## Changes to forecasts

- We have increased network cash sales across our forecasts, reduced GP margins and modestly increased opex

Figure 2: Changes to forecasts

	FY21			FY22			FY23		
	Prior	Current	Change	Prior	Current	Change	Prior	Current	Change
<b>Total cash sales</b>	<b>54.8</b>	<b>57.7</b>	<b>5.2%</b>	<b>65.2</b>	<b>67.4</b>	<b>3.2%</b>	<b>76.5</b>	<b>79.1</b>	<b>3.4%</b>
COGS	-13.7	-14.6	6.1%	-17.3	-17.9	3.3%	-20.8	-21.5	3.5%
<b>Cash GP</b>	<b>41.1</b>	<b>43.1</b>	<b>4.8%</b>	<b>47.9</b>	<b>49.5</b>	<b>3.2%</b>	<b>55.7</b>	<b>57.6</b>	<b>3.4%</b>
% margin	74.9%	74.7%	▼ 0.2%	73.5%	73.4%	▼ 0.0%	72.8%	72.8%	0.0%
Operating expenses	-29.1	-29.9	2.7%	-32.9	-33.8	2.8%	-37.4	-38.5	3.0%
Associates	1.7	2.1	21.3%	1.7	2.2	32.6%	2.0	2.5	28.3%
<b>Underlying EBITDA</b>	<b>13.5</b>	<b>14.9</b>	<b>10.7%</b>	<b>16.3</b>	<b>17.5</b>	<b>7.2%</b>	<b>19.9</b>	<b>21.2</b>	<b>6.7%</b>
% margin	24.5%	25.8%	▼ 1.3%	25.0%	26.0%	▼ 1.0%	26.0%	26.8%	0.8%
Depreciation	-5.7	-5.7	0.0%	-6.6	-6.6	0.0%	-7.6	-7.6	0.0%
<b>Operating EBIT</b>	<b>10.14</b>	<b>11.58</b>	<b>14.2%</b>	<b>12.32</b>	<b>13.49</b>	<b>9.5%</b>	<b>15.21</b>	<b>16.54</b>	<b>8.7%</b>
Net interest	-0.2	-0.2	-1.3%	-0.2	-0.2	-3.4%	-0.2	-0.2	-4.2%
<b>PBT</b>	<b>10.2</b>	<b>11.6</b>	<b>14.2%</b>	<b>12.4</b>	<b>13.6</b>	<b>9.5%</b>	<b>15.4</b>	<b>16.7</b>	<b>8.7%</b>
Tax	-3.1	-3.5	14.2%	-3.7	-4.1	9.5%	-4.6	-5.0	8.7%
<b>Underlying NPAT</b>	<b>7.1</b>	<b>8.2</b>	<b>14.2%</b>	<b>8.7</b>	<b>9.5</b>	<b>9.5%</b>	<b>10.7</b>	<b>11.7</b>	<b>8.7%</b>
eps	15.2	17.3	14.2%	18.5	20.2	9.5%	22.8	24.8	8.7%
Adjustments	-1.7	-1.9	▼ 7.4%	-1.7	-2.2	▼ 26.9%	-2.3	-2.5	8.3%
<b>Reported NPAT</b>	<b>5.4</b>	<b>6.3</b>	<b>16.3%</b>	<b>7.0</b>	<b>7.4</b>	<b>5.3%</b>	<b>8.4</b>	<b>9.1</b>	<b>8.8%</b>
eps	10.8	13.3	23.5%	14.8	15.6	5.7%	17.8	19.4	9.0%

Source: OML

## Valuation & Recommendation

We value SLA by using a discounted cash flow (DCF) method due to the highly cash generative nature of the business and include it alongside a target 1yr fwd PE multiple (24x FY22).

### Figure 3: Valuation

Key DCF inputs		Key DCF outputs	
Risk free rate	3.0%	Explicit cash flows	71
Equity risk premia	6.0%	Terminal item	156
Beta	1.10	<b>Enterprise value</b>	<b>226</b>
Cost of Equity	9.6%	Less net debt (add cash)	-21
Cost of Debt - After tax	3.9%	<b>Equity value</b>	<b>248</b>
D/EV	0.0%	Diluted share count	47
<b>WACC</b>	<b>9.6%</b>	<b>Equity valuation p.s.</b>	<b>5.26</b>
Terminal growth	1.5%		

### Multiple Method

Target FY22 PE	24x
FY22 EPS	20.2
<b>Valuation p.s.</b>	<b>4.86</b>

### Valuation composite

DCF	5.26
PE	4.86
<b>Average</b>	<b>5.06</b>
Implied PE	25.0x
Current share price	4.53
Upside	11.6%

After the Dec-20 update it was clear that momentum had carried over into the later months of 1H21 and that an upgrade was becoming increasingly likely. It's encouraging to see that occur at this result, and for it to be based on management's confidence in the trajectory of the business.

We believe this industry has some strong tailwinds at its back (injectables, generational change etc) and SLA are well placed to benefit.

We maintain a Buy recommendation with a price target of \$5.06.

**Silk Laser Australia Limited**

<b>PROFIT &amp; LOSS (A\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Revenue	26.6	34.3	57.7	67.4	79.1
Operating costs	(25.1)	(27.7)	(42.8)	(49.9)	(57.9)
<b>Operating EBITDA</b>	<b>1.5</b>	<b>6.6</b>	<b>14.9</b>	<b>17.5</b>	<b>21.2</b>
D&A	(1.9)	(2.7)	(3.3)	(4.0)	(4.6)
<b>EBIT</b>	<b>(0.4)</b>	<b>3.8</b>	<b>11.6</b>	<b>13.5</b>	<b>16.5</b>
Net interest	(0.1)	(0.1)	0.1	0.1	0.2
<b>Pre-tax profit</b>	<b>(0.5)</b>	<b>3.7</b>	<b>11.6</b>	<b>13.6</b>	<b>16.7</b>
Net tax (expense) / benefit	0.1	(1.1)	(3.5)	(4.1)	(5.0)
Significant items/Adj.	(1.7)	(1.8)	(1.5)	(2.2)	(2.5)
<b>Normalised NPAT</b>	<b>(0.3)</b>	<b>2.6</b>	<b>8.2</b>	<b>9.5</b>	<b>11.7</b>
<b>Reported NPAT</b>	<b>(2.0)</b>	<b>0.7</b>	<b>6.6</b>	<b>7.4</b>	<b>9.1</b>
Normalised dil. EPS (cps)	-	5.5	17.3	20.2	24.8
Reported EPS (cps)	-	1.6	13.3	15.6	19.4
Effective tax rate (%)	30.0	30.0	30.0	30.0	30.0
DPS (cps)	-	-	-	-	-
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	-	-	-	-	-
Payout ratio (%)	-	-	-	-	-
Diluted # of shares (m)	-	47.1	47.1	47.1	47.1

<b>CASH FLOW (A\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Net Interest (paid)/received	(0.1)	(0.5)	0.1	0.1	0.2
Income tax paid	(0.2)	0.1	(1.0)	(3.2)	(3.9)
Other operating items	4.2	9.7	11.0	15.3	18.6
<b>Operating Cash Flow</b>	<b>3.8</b>	<b>10.6</b>	<b>13.8</b>	<b>12.3</b>	<b>14.8</b>
Capex	(7.1)	(5.1)	(6.5)	(7.0)	(7.5)
Acquisitions	(3.3)	-	-	-	-
Other investing items	(2.6)	(0.9)	(0.1)	-	-
<b>Investing Cash Flow</b>	<b>(12.6)</b>	<b>(6.0)</b>	<b>(6.6)</b>	<b>(7.0)</b>	<b>(7.5)</b>
Inc/(Dec) in equity	8.1	0.0	23.3	-	-
Inc/(Dec) in borrowings	0.5	-	-	-	-
Dividends paid	-	-	(6.9)	-	-
Other financing items	(0.3)	(2.1)	(6.9)	-	-
<b>Financing Cash Flow</b>	<b>8.3</b>	<b>(2.1)</b>	<b>9.5</b>	-	-
FX adjustment	-	-	-	-	-
Net Inc/(Dec) in Cash	(0.4)	2.6	16.7	5.3	7.3

<b>BALANCE SHEET (A\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Cash	2.1	4.6	21.3	26.6	33.9
Receivables	1.8	3.8	3.9	4.6	5.4
Inventory	1.1	2.1	2.9	3.4	4.0
Other current assets	0.1	0.8	0.8	0.8	0.8
PP & E	11.1	13.3	16.4	19.4	22.3
Intangibles	27.4	27.6	27.6	27.6	27.6
Other non-current assets	3.5	19.3	22.0	22.6	23.3
<b>Total Assets</b>	<b>47.1</b>	<b>71.6</b>	<b>95.1</b>	<b>105.2</b>	<b>117.4</b>
Short term debt	1.0	-	-	-	-
Payables	2.4	5.9	6.9	7.4	7.9
Other current liabilities	7.1	13.9	16.0	17.5	19.4
Long term debt	0.8	-	-	-	-
Other non-current liabilities	1.4	14.8	15.1	15.5	15.8
<b>Total Liabilities</b>	<b>12.7</b>	<b>34.7</b>	<b>38.1</b>	<b>40.4</b>	<b>43.1</b>
<b>Total Equity</b>	<b>34.4</b>	<b>36.9</b>	<b>57.0</b>	<b>64.7</b>	<b>74.3</b>
Net debt (cash)	(0.2)	(4.6)	(21.3)	(26.6)	(33.9)

**Buy**

<b>DIVISIONS</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>KEY METRICS (%)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Revenue growth	113.5	28.7	68.2	16.8	17.5
EBITDA growth	-	333.1	127.3	17.4	21.2
EBIT growth	-	-	202.2	16.5	22.6
Normalised EPS growth	-	-	215.4	16.9	22.6
EBITDA margin	5.7	19.1	25.8	26.0	26.8
OCF /EBITDA	274.6	147.6	100.0	96.2	95.8
EBIT margin	-	11.2	20.1	20.0	20.9
Return on assets	-	4.5	9.7	9.4	10.4
Return on equity	-	7.2	17.4	15.6	16.8

<b>VALUATION RATIOS (x)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Reported P/E	-	285.2	34.0	29.0	23.3
Normalised P/E	-	82.5	26.2	22.4	18.3
Price To Free Cash Flow	-	38.4	29.0	40.4	29.1
Price To NTA	-	22.9	7.2	5.7	4.6
EV / EBITDA	-	31.9	12.9	10.7	8.5
EV / EBIT	0.6	54.5	16.6	13.8	10.9

<b>LEVERAGE</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
ND / (ND + Equity) (%)	(0.7)	(14.2)	(59.5)	(69.5)	(83.9)
Net Debt / EBITDA (%)	(15.1)	(70.3)	(142.9)	(151.9)	(159.9)
EBIT Interest Cover (x)	-	27.6	-	-	-
EBITDA Interest Cover (x)	19.4	47.1	-	-	-

<b>SUBSTANTIAL HOLDERS</b>	<b>m</b>	<b>%</b>
Advent Partners	13.3	28.2%
HSBC Custody	7.1	15.0%
JPM Custody	3.2	6.8%

<b>VALUATION</b>	
Cost of Equity (%)	9.6
Cost of debt (after tax) (%)	3.9
D / EV (%)	-
<b>WACC (%)</b>	<b>9.6</b>

Forecast cash flow (\$m)	70.8
Terminal value (\$m)	155.7
Enterprise Value (\$m)	226.5
Less net debt / add net cash & investments (\$m)	21.3
<b>Equity NPV (\$m)</b>	<b>247.8</b>
<b>Equity NPV Per Share (\$)</b>	<b>5.26</b>
Multiples	4.9
Target Price Method	DCF
Target Price (\$)	5.06
Valuation disc. / (prem.) to share price (%)	11.6

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Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

<b>SPECULATIVE BUY</b>	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
<b>BUY</b>	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
<b>ACCUMULATE</b>	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
<b>HOLD</b>	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
<b>LIGHTEN</b>	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
<b>SELL</b>	We expect the total return to lose 15% or more.
<b>RISK ASSESSMENT</b>	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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