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# Pental Limited (PTL)

## Stable Small Industrial with Earning Upside in Medium Term

### Key Points

- Pental (PTL) is well-known as the largest manufacturer of soap in Australia. Over the years, PTL has built a portfolio of 14 heritage brands covering household care, fabric care, personal care and fire need products.
- PTL has managed to achieve positive growth over the past 3 years, while overall industry demand has declined due to higher input costs.
- We believe PTL is able to maintain its dominant position via well-known brands, improved production automation, and actively exploring export opportunities.
- We initiate our coverage with a Buy recommendation and price target of \$0.84/share. Although the multiples are high (PE ~16x), we believe there are earnings upsides in the medium term.

### Highlights

#### PTL's sustainable strategy and action plan includes:

PTL started in 1954 as a manufacturer of soap, and was acquired by ASX-listed Symex Holdings Ltd in 2003. PTL acquired the No. 1 Bleach brand in Australia - White King in 2011, and has since enjoyed a dominant position in the bleach product category with ~80% market share in Australia.

In FY15 PTL successfully added 11 new products under the White King and Velvet brands with sales are made through the major supermarkets, Woolworths, Coles and ALDI in Australia giving direct access to a large consumer base.

PTL spent \$5.3m in capital investment on capacity expansion during FY15, including a number of measures to improve productivity. The automation of Bleach Production Line B (Stage 1) was completed in August, which is expected to increase minimum output rate to 70 bottles/minute from 50 bottles/minute, and reduce production costs by curbing 3.5 units of labour used. PTL also extended its marketing budget to improve awareness of its heritage brands, and thus boost market share and sales revenue.

**View:** We initiate with a Buy recommendation and a price target of \$0.84/share due to our DCF valuation, and 21.7% above current share price. We assume steady growth with lower cost base, and EBITDA margin is expected to increase to ~15% by FY2020.

#### Milestones:

**3QFY16** – Capex of \$5.3m in operation to improve productivity

**FY16** – Steady revenue growth at ~2.0% with a lower cost base, to achieve EBITDA growth of ~10% and reach ~\$11m

**FY17** – Establish strategic partnerships in Asia, and export revenues starts to flow through. We consider this could drive upside to the numbers significantly.

#### Risks:

- Private label products are eating up profitability
- Concentrated customer base, with the four major supermarkets accounting for ~85% of total revenue
- Heavy reliance on the White King brand
- Liquidity risk – at average ~\$0.5m trading value per month.

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### Recommendation

### Buy

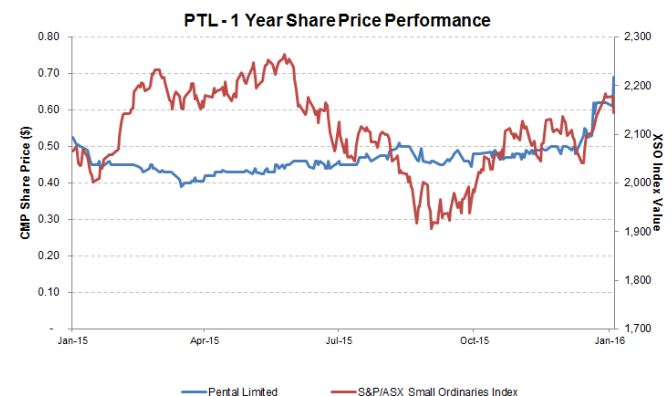
Previous Recommendation	Initiation Report
Risk Rating	Medium
Current Share Price	\$0.69
12 Month Price Target	\$0.84
Price Target Methodology	DCF
Total Return (Capital + Yield)	26%
DCF Valuation	\$0.84
Market Capitalisation	\$94m
Liquidity – Daily Value	\$0.02m

### Financial Forecasts & Valuation Metrics

Y/e (\$m)	FY15A	FY16F	FY17F	FY18F
Revenue	81.2	82.9	84.7	87.0
EBITDA	9.3	10.9	12.9	14.3
NPAT	5.1	5.8	6.5	7.3
EPS (cps)	4.1	4.2	4.8	5.4
EPS Growth	-20%	4%	13%	13%
DPS (c)	2.7	3.0	3.4	3.8
EV / EBITDA (x)	4.5	8.0	6.9	6.1
<b>PER (x)</b>	9.4	16.3	14.4	12.8
Dividend Yield	3.8%	4.3%	4.9%	5.5%
Cash Balance	11.0	7.8	5.3	8.0

Source: PAC Partners estimates

### Share Price Performance



Source: S&P Capital IQ

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## Summary Swot

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>A portfolio of Australian well-known heritage brands</li> <li>Strong connection with local dominant retailers</li> <li>Dominant player in the local bleach market with ~80% market share</li> </ul>	<ul style="list-style-type: none"> <li>Concentrated customer base with four major customers</li> <li>High marketing and distribution expenses</li> <li>Low share trading volume – average \$0.5m per month</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Exporting opportunities to Asia following FTA agreement</li> <li>Innovation in distribution channels - Bulk sales directly to end users</li> <li>Expansion through acquisitions</li> </ul>	<ul style="list-style-type: none"> <li>The Soap industry is expected to shrink over coming years</li> <li>Large local retailers eating up margin through private labelling</li> <li>Low disposable income – customers tend to buy cheaper products</li> </ul>

## Board and Executives

Directors	Comment
<ul style="list-style-type: none"> <li>Peter Robinson – Non-executive Independent Chairman</li> <li>Mel Sutton– Non-executive Vice-Chairman</li> <li>John Etherington – Non-executive Independent Director</li> <li>John Rishworth – Non-executive Independent Director</li> <li>Kimberlee Wells – Non- executive Director</li> <li>Charlie McLeish – CEO</li> <li>Albert Zago – CFO</li> </ul>	<ul style="list-style-type: none"> <li>- 2.9% shareholder, Industrial professional, joined the board in 2002</li> <li>- Extensive management experience, joined the board in 2013</li> <li>- Joined the board in 2013</li> <li>- Joined the board in 2004</li> <li>- Recently appointed in 2015, marketing professional</li> <li>- Industrial professional, jointed the company in 2011</li> <li>- Finance professional, joined the company in 2012</li> </ul>

Source: Pental FY15 Annual Report

### 2015 New Products



Source: Company Presentation

### Well-known Heritage Brands



Source: Company Presentation

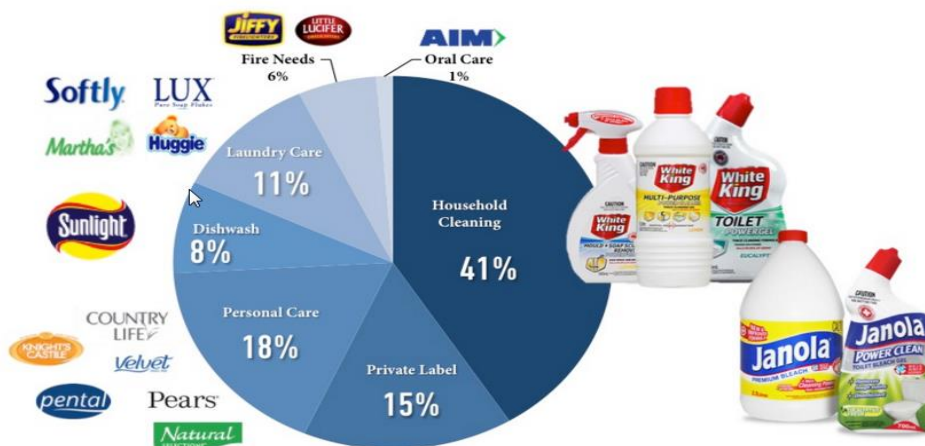
## Executive Summary and Risks

**PTL is the largest manufacturer of soap in Australia...**

Incorporated in 1983, PTL is engaged in the manufacturing of personal care, home care products including soaps, detergents, dishwashers, bleach and other Fast Moving Consumer Goods (FMCG). PTL primarily supplies to retailers in Australia (~83% of total sales) and New Zealand. Over the years, PTL has acquired many heritage brands in household care, fabric care, personal care and fire needs products. The company purchased the White King brand in 2011 - a market leader in Bleach.

**PTL holds a wide range of well-known heritage brands...**

PTL offers branded as well as private label products under the following broad categories:



Source: Company Presentation

### Difficult trading environment in 2012 was the trigger for change

**Near-death experience in 2012 was the trigger for change...**

During FY2012, PTL had an abnormally large decline in sales revenue of ~20%, due to the collapse of the global market in its former chemical production business, resulting in an operating loss of ~\$4m – the first time since listing in 2003. Significant impairments mainly on intangible assets (\$50m) has exacerbated the situation, and led to reported NPAT of \$60.7m, impacting the share price which fell to the all-time low of ~20 cents/share.

As a result, PTL replaced the old management team, and also came up with a three pronged approach focusing on the Customer Products comprising:

**Spending money in the right area is the key for the turnaround...**

1. Expand investments in power brands – White King, Velvet, Country Life
2. Increased production automation – improve efficiency and reduce production costs
3. Target offshore markets – actively exploring export opportunities.

### Risks:

**The main customers have become the enemies...**

- *Private label products are eating up profitability.* The majority of Pental's products are sold in supermarkets in Australia and New Zealand, which are dominated by two major participants in Australia – Coles and Woolworth, with combined market share of ~80%. These retailers have been competing aggressively through private label products, which have a significant lower price than branded products. As one of the manufactures of the private label products, PTL's gross margin has eroded by these retailers over the years.
- *Concentrated customer base,* with four customers accounting for ~85% of total revenue. In addition, these top four customers individually represent greater than 10% of total sales revenue. A direct implication is PTL has to sacrifice some of the margin in the form of rebates & discounts to maintain its long-term relationship with the dominant customers.
- *Reliance on White King brand,* PTL's financial performance is heavily reliant on the ongoing success of White King brand, which on average represents ~40% of total sales revenue.

**...PTL will need to mitigate the reliance**

### View

**Buy with PT \$0.84/share**

We initiate with a Buy recommendation with price target of \$0.84/share due to our DCF valuation.

Although local market conditions does not seem in favour of PTL, we believe PTL is able to achieve positive EPS growth in FY16 by maintaining current market position but with a lower cost base (~ 10% EBITDA margin in FY16). Further growth opportunities depend on whether PTL is capable of sourcing significant export distribution opportunities into Asia – which we have not factored this into our current model.

## Expansion of Investment in Power Brands

Keep investment in the power brands..

The key principal of PTL's growth strategy is to invest in its power brands through media advertising, catalogues, in-store promotions and driven by new innovative products. The Company is actively involved in several planned activities to achieve this strategic goal.

### PTL dominants the Bleach Market with White King

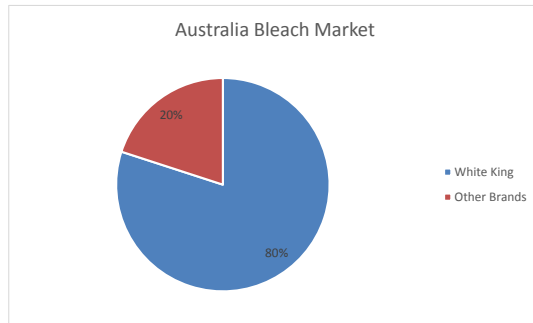
PTL acquired White King in 2011...

PTL acquired the No. 1 Bleach brand in Australia - White King in 2011, and has since enjoyed a dominant position in the bleach product category with a market share of ~80% in Australia.

### Next Focus – Targeting Young Customers

The newly launched White King "Ready To Use" Bleach has maintained its dominance in the market with a market share of 48% in 2014 and 49% in 2013. "Ready to use Bleach" is especially targeted at the younger generation and meets the growing need of convenience as it does not require any measuring or mixing.

PTL dominates the local Bleach Market with ~80% market share...



Source: Company Report and PAC Partners estimate



Source: Company website

... now targeting young population

### Moving into High Volume, High Growth Segments

Added 11 new products in FY15 to boost market share and sales...

PTL is focusing on expanding its product range to other home care categories. It recently introduced a range of new products and is refreshing existing product packages to boost sales in the highly competitive FMCG industry. Pental has introduced 11 new products in FY15, of which three have already started contributing to revenues.

Solid Growth in Number of Categories	Category
White King In-bowl Power Hanger Mystic Orchid	Toilet Cleaners
White King Household Cleaner	Household Cleaners
Little Lucifer wax firelighters	Fire Needs
Jiffy Firelighters	Fire Needs
Softly Wool Wash	Household Cleaners
Velvet Goat's Milk Body Wash	Personal Hygiene
Velvet Sorbolene Body Wash	Personal Hygiene

To date, \$1.8m revenue generated from the new range...

To date, the newly launched products have already generated \$1.8m revenue, with the campaign product – White King "In-bowl Power Hanger Mystic Orchid", contributing to 30% of the incremental revenue.

### Innovation in Distribution Channels

A possible solution to concentrated customer base...

To mitigate the reliance on the large retailers, PTL is now seeking to drive growth through non-retail channels, such as distributors, office suppliers, commercial cleaning companies etc.

... go directly to the end users

In addition, PTL plans to expand its customer reach through digital marketing, and partner with online platform providers to lift online sales. We see this as a great opportunity for PTL to grow sales, as Australians are increasing spending online, rather through traditional retail stores, as indicated by NAB as below:

We see partnership with online providers as a potential opportunity for PTL...



Source: NAB Business Research and Insights

## Improving Productivity – Lower Cost Base

### Aiming to be a Low Cost Producer

**\$5.3m capital investment in CY15 to improve productivity...**

The cost cutting strategies were initiated after the near death-experience in 2012. Since then, the company has continuously increased spending on production automation to achieve cost savings. In February 2015, PTL announced a capital investment of \$5.3m scheduled for CY15, which is on schedule and is expected to be operational by the third quarter of FY16.

### Improved Efficiency of Bleach Line B

**Improved Bleach line B can cost 3.5 units of labour...**

The automation of the Bleach Production Line B (Stage 1) was completed in August with the injection of \$5.3m capital investment.

#### BEFORE: BLEACH LINE B PRODUCTION

- Throughput rate of 50 bottles per minute
- Labour intensive, manual handling & process bottleneck

#### AFTER: AUTOMATED SOLUTION

(Wrap around case packer, robotic palletiser & stretch wrapper)

- Reduction of 3.5 units of labour
- Minimum throughput rate of 70 bottles per minute



### Capital Expenditure (Capex)

**Aggressive Capex to boost efficiency...**

PTL has also scheduled \$6.5m and \$7.5m Capex for FY16 and FY17 respectively, mainly aim to upgrade equipments and production pipelines.

**PTL has an option to buy back the Shepparton site...**

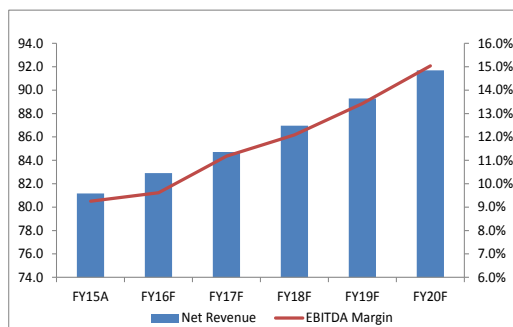
In PTL's current leasing agreement, PTL has an option to buy the Shepparton properties from the related entity (Mr Johnstone) at a price to be determined by reference to the costs of acquisition (\$6.0m) plus cost of any capital expenses incurred in respect of the site. The option is exercisable from 1 July 2017 to 30 June 2019. We see this as a great opportunity for PTL to cut operating costs significantly. The current lease is \$0.65m per annum (plus GST and outgoings) and subject to annual CPI reviews.

Such upgrades and enhancements of facilities would result in cost savings, drive margins and sales for PTL.

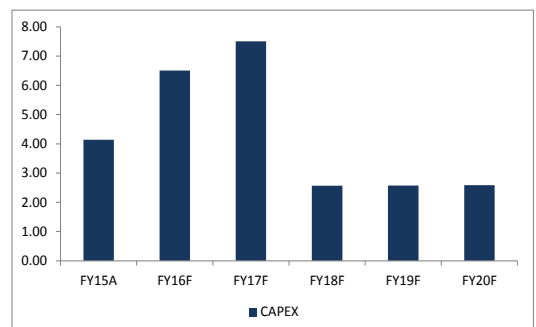
### PTL – Forecast Revenue and EBITDA (\$m)

We assume steady growth of 2~3% in net revenue, but with higher EBITDA margin reaching ~15% by FY2020.

**Steady revenue growth with higher EBITDA margin...**



Source: Company reports and PAC estimates



Source: Company reports and PAC estimates



## Peer Review & M&A Activities

### ASX-listed Peers

We have identified Asaleo Care and McPherson's as comparable to PTL. The valuation seems to be dispersive, we believe PTL is able to achieve better growth by leveraging on its capital structure.

Company Name	Market Cap (A\$m)	Ent. Value (A\$m)	Revenue (A\$m)	EBITDA (A\$m)	EBITDA Margin %	NPAT (A\$m)	NPAT Margin %	EV/EBITDA x	P/E x	Dividend Yield %
McPherson's (ASX:MCP)	71.3	150.5	349.3	23.6	6.7%	8.8	2.5%	6.4x	8.1x	11.0%
Asaleo Care (ASX:AHY)	892.2	1131.2	632.2	86.5	13.7%	77.2	12.2%	13.1x	11.6x	3.5%
<b>Pental (ASX:PTL)</b>	<b>94.0</b>	<b>83.0</b>	<b>81.3</b>	<b>9.9</b>	<b>12.1%</b>	<b>5.1</b>	<b>6.3%</b>	<b>8.4x</b>	<b>18.5x</b>	<b>5.2%</b>

Source: S&P Capital IQ and PAC estimates

However, due to the raise of private labelling, the usual customers have now become competitors. In addition, current trend has indicated that large retails like Woolworths and Coles are shifting their shelf space from branded manufacturers (e.g. PTL) to private label products. In order to maintain shelf space, PTL has to sacrifice some of the margin in the form of rebates & discounts.

### Global Peers

There are total 27 manufacturers of cleaning products globally. We have selected 6 closest and profitable peers for comparison. Hong Kong-listed peer - China Ludaio technology (SEHK:2023), is a close peer operationally, however, its unreasonable valuation at 387 times P/E, which we believe is irrelevant for the comparison.

### PTL Global peers – Market Cap and Revenue as at Dec 2015 (A\$m)

Company Name	Market Cap (A\$m)	Ent. Value (A\$m)	Revenue (A\$m)	EBITDA (A\$m)	EBITDA Margin %	NPAT (A\$m)	NPAT Margin %	EV/EBITDA x	P/E x	Dividend Yield %
Farcet Enterprise (TSEC:1730)	76.2	79.0	82.6	9.9	12.0%	6.0	7.3%	8.0x	12.7x	4.9%
Nitaka (TSE:4465)	98.6	85.0	162.8	14.1	8.7%	6.7	4.1%	6.0x	14.6x	1.6%
The National Detergent Company (MSM:NDTI)	39.7	62.6	83.6	5.7	6.9%	2.2	2.6%	10.9x	18.2x	6.3%
SANO Bruno's Enterprises (TASE:SANO1)	427.2	335.6	535.1	64.9	12.1%	39.8	7.4%	5.2x	10.7x	3.3%
Novamex (ENXTPA:MLQUD)	46.4	48.3	52.2	5.5	10.5%	2.7	5.1%	8.8x	17.3x	0.0%
Ocean Bio-Chem (NasdaqCM:OBCI)	27.9	27.9	48.8	3.2	6.6%	1.3	2.6%	8.6x	21.7x	0.0%
<b>Pental (ASX:PTL)</b>	<b>94.0</b>	<b>83.0</b>	<b>81.2</b>	<b>9.9</b>	<b>12.1%</b>	<b>5.1</b>	<b>6.3%</b>	<b>8.4x</b>	<b>18.5x</b>	<b>5.2%</b>
<b>Average</b>	<b>115.7</b>	<b>103.0</b>	<b>149.5</b>	<b>16.2</b>	<b>9.8%</b>	<b>9.1</b>	<b>5.1%</b>	<b>8.0x</b>	<b>16.3x</b>	<b>3.0%</b>

Source: S&P Capital IQ and PAC estimates

We make a few observations from the comparison above:

- PTL achieved the highest EBITDA margin of 12.1% among the Peers (with an average of 9.8%). We believe the recent initiatives taken to improve productivity will further lift the EBITDA margin to ~15% by FY'2020.
- PTL pays the second highest dividend yield among Peers (5.2% to avg. of 3.0%). Especially, Novamex and Ocean Bio-Chem are trading at ~30% premium to PTL, while paying no dividend in the past year.
- Many Peers including PTL are negatively geared i.e. substantial amount of cash on hand. PTL's management team has expressed reservations with regard to possible acquisition opportunities in the FMCG sector, we believe there are significant opportunities for PTL to expand through M&A activities.

### Industry M&A Transactions

The local FMCG sector has been quiet in terms of number of M&A activities in recent years. However, we believe the global mergers and acquisitions wave will eventually drag the industry along.

Date	Target	Buyer	EV	EV/Revenue	EV/EBITDA	Description Target	Description Buyer
Sep-15	Jalco Group	Pact Group	A\$80m	0.5x	6.5x	FMCG contact manufacturer in Australia	manufacturer of packaging and other products
May-15	Colgate Plamolive (Australia/NZ)	Henkel	A\$245m	2.0x	-	manufactures and markets consumer products	global market giant in laundry&home care, beauty care, and adhesive technology businesses
Jun-14	Spotless Group	Henkel	US\$1.3b	3.36x	12.1x	laundry aids , insect control and household care in Western Europe.	As above
May-13	Associated Hygienic Products	Domtar Corporation	US\$272m	0.9x	8.8x	manufacturer of infant diapers	Canadian paper maker

Source: S&P Capital IQ and Company websites

## Management/Directors

### Charlie McLeish – Chief Executive Officer



Charlie joined PTL in 2011 as Chief Operating Officer of Pental Products Pty Ltd. Previously, Charlie spent over 30 years in the Fast Moving Consumer Goods (FMCG) industry including 20 years managing major bakeries within Bunge Australia (Goodman Fielder). After Goodman Fielder, Charlie spent 10 years at George Weston Foods in the position of Finance Manager of Tip Top Bakeries Victoria where he implemented the business turnaround from negative EBIT of \$6m to positive EBIT of \$12m within an eight year period. Charlie then transitioned to National Sales Director of Don Smallgoods.

### Albert Zago – Chief Financial Officer



Albert has been the Chief Financial Officer at PTL since June 2012. Previously Albert held various management positions with Price Waterhouse Coopers and in ASX listed and unlisted public companies such as GUD Holdings Ltd and Mitre 10 Australia Ltd. Albert is a qualified Chartered Accountant with over 25 years finance and business management experience in retail, distribution and manufacturing operations. Albert Zago is an experienced leader in challenging customer focus and changing/complex environments, where operations are in need of pro-active transformation.

### Newly Appointed Director

#### Kimberlee Wells – Non - Executive Director



Kimberlee was recently appointed as Independent Director at PTL joining in November 2015. Kimberlee serves as Chief Executive Officer of TBWA Group Melbourne - a Tier 1 global creative digital marketing agency having joined the agency in 2011. Her role involves overseeing the agency's total digital offering as well as championing the Group's future vision. In a career spanning 2 decades, her rounded understanding of the communication process and strategic ability has seen her develop and execute campaigns for brands in almost every category, including FMCG, automotive, travel and tourism, and general insurance. Kimberlee's extensive experience in marketing, advertising, and use of digital media will be a great benefit to the Company.

**Pental Limited****NFPOS****136 m****Price \$ 0.69****Market Cap \$94 m****PROFIT & LOSS (\$m)**

Y/e Jun	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
<b>Revenue</b>	<b>80.7</b>	<b>81.2</b>	<b>82.9</b>	<b>84.7</b>	<b>87.0</b>	<b>89.3</b>	<b>91.7</b>
Adj. EBITDA	9.7	10.3	10.9	12.9	14.3	16.2	18.6
Depreciation & Amortisation	1.8	2.1	2.6	3.5	3.7	3.7	3.7
<b>Adj. EBIT</b>	<b>7.9</b>	<b>8.2</b>	<b>8.3</b>	<b>9.4</b>	<b>10.6</b>	<b>12.5</b>	<b>14.9</b>
Net Interest	(1.0)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Income tax	(2.0)	(1.9)	(2.5)	(2.8)	(3.1)	(3.7)	(4.4)
<b>Adj. NPAT underlying</b>	<b>4.9</b>	<b>6.1</b>	<b>5.8</b>	<b>6.5</b>	<b>7.3</b>	<b>8.7</b>	<b>10.3</b>
Less non-controlling Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Abnormal items	0.4	(1.0)	0.0	0.0	0.0	0.0	0.0
<b>NPAT Reported.</b>	<b>5.3</b>	<b>5.1</b>	<b>5.8</b>	<b>6.5</b>	<b>7.3</b>	<b>8.7</b>	<b>10.3</b>

**BALANCE SHEET (\$m)**

Y/e Jun	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Cash	0.5	11.0	7.8	5.3	8.0	10.5	13.5
PP&E	13.7	15.3	19.6	24.1	23.5	23.0	22.6
Debtors & Inventory	33.7	31.5	32.2	33.0	34.4	35.6	36.8
Goodwill	25.1	25.1	25.1	25.1	25.1	25.1	25.1
Other Intangibles	15.2	15.2	15.2	15.0	14.8	14.5	14.2
Other Assets	2.0	0.7	0.6	0.7	0.7	0.7	0.7
<b>Total Assets</b>	<b>90.3</b>	<b>98.8</b>	<b>100.4</b>	<b>103.1</b>	<b>106.5</b>	<b>109.3</b>	<b>112.9</b>
Borrowings	0.5	0.0	0.5	0.8	1.2	0.9	1.0
Trade Creditors	15.1	15.4	15.1	15.4	15.6	16.2	16.2
Other Liabilities	1.6	1.7	2.6	2.5	2.6	2.8	3.0
<b>Total Liabilities</b>	<b>17.3</b>	<b>17.1</b>	<b>18.3</b>	<b>18.7</b>	<b>19.4</b>	<b>19.9</b>	<b>20.2</b>
<b>NET ASSETS</b>	<b>73.0</b>	<b>81.7</b>	<b>82.1</b>	<b>84.4</b>	<b>87.1</b>	<b>89.5</b>	<b>92.6</b>
<b>Issued Capital</b>	<b>84.0</b>	<b>90.7</b>	<b>90.7</b>	<b>90.7</b>	<b>90.7</b>	<b>90.7</b>	<b>90.7</b>

**Cash Flow (\$m)**

Y/e Jun	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
<b>Operating EBITDA</b>	<b>10.1</b>	<b>9.3</b>	<b>10.9</b>	<b>12.9</b>	<b>14.3</b>	<b>16.2</b>	<b>18.6</b>
Interest & Tax	(3.0)	(2.1)	(2.5)	(2.9)	(3.3)	(3.8)	(4.5)
Change in Working Cap. & Others	(0.1)	4.6	(1.1)	(0.4)	(0.6)	(0.4)	(0.2)
<b>Operating Cash Flow</b>	<b>7.0</b>	<b>11.8</b>	<b>7.3</b>	<b>9.6</b>	<b>10.5</b>	<b>11.9</b>	<b>13.8</b>
Capex	(5.0)	(4.1)	(6.5)	(7.5)	(2.6)	(2.6)	(2.6)
<b>Free Cashflow (FCF)</b>	<b>2.0</b>	<b>7.7</b>	<b>0.8</b>	<b>2.1</b>	<b>7.9</b>	<b>9.4</b>	<b>11.3</b>
Asset Sales	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Ord Dividends	0.0	(3.3)	(4.0)	(4.6)	(5.1)	(6.9)	(8.3)
Equity, (Debt Paydown)	(6.9)	6.7	0.0	0.0	0.0	0.0	0.0
<b>Net Cashflow</b>	<b>(4.3)</b>	<b>11.0</b>	<b>(3.3)</b>	<b>(2.5)</b>	<b>2.8</b>	<b>2.4</b>	<b>3.0</b>

**DIRECTORS**

Peter Robinson	Non-exec Chairman
Mel Sutton	Non-exec Vice Chairman
John Etherington	Non-exec Director
John Rishworth	Non-exec Director
Kimberlee Wells	Non-exec Director

**MAJOR SHAREHOLDERS**

	%
Alan Johnstone	21.91%
Orbis Investment Management	13.83%
Ace Property Holdings	13.03%
Elevation Capital Management	8.16%
<b>Top 20</b>	<b>81.50%</b>

**REGIONAL SUMMARY (A\$m)**

Y/e Jun	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
<b>Revenue</b>							
Australia	66.4	67.3	68.9	70.7	72.8	75.0	77.2
New Zealand	14.3	13.9	14.0	14.0	14.2	14.3	14.5
<b>Total</b>	<b>80.7</b>	<b>81.2</b>	<b>82.9</b>	<b>84.7</b>	<b>87.0</b>	<b>89.3</b>	<b>91.7</b>



**Pental Limited**

Date:

7-Jan-16

Model Updated:

7-Jan-16

## KEY RATIOS

Y/e Jun	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
EBITDA Margin (%)	8.9%	9.3%	9.6%	11.2%	12.1%	13.4%	15.0%
NPAT Margin (%)	4.5%	5.5%	5.1%	5.7%	6.2%	7.2%	8.3%
ROE (%) y/e	6.8%	7.4%	7.0%	7.7%	8.4%	9.7%	11.1%
ROI (%) y/e	9.4%	10.3%	9.9%	10.9%	12.7%	15.4%	19.0%
NTA per share (\$)	0.46	0.46	0.44	0.46	0.48	0.51	0.54
Eff Tax Rate (%)	28.9%	24.3%	30.0%	30.0%	30.0%	30.0%	30.0%
Interest Cover (x)	8.2	53.1	148.3	99.1	76.3	109.6	120.0
Net Gearing (%)	0.0%	-13.5%	-8.9%	-5.3%	-7.9%	-10.6%	-13.4%

## VALUATION PARAMETERS

Y/e Jun	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
EPS (cps)	5.1	4.1	4.2	4.8	5.4	6.4	7.6
<b>PE Adj (x)</b>	<b>9.7</b>	<b>9.4</b>	<b>16.3</b>	<b>14.4</b>	<b>12.8</b>	<b>10.9</b>	<b>9.1</b>
Enterprise Value (\$m)	47.6	45.8	86.7	89.5	87.1	84.5	81.6
EV / EBITDA (x)	4.9	4.5	8.0	6.9	6.1	5.2	4.4
EV / EBIT (x)	6.0	5.6	10.5	9.5	8.2	6.8	5.5
Price / NTA	1.0	1.0	1.6	1.5	1.4	1.4	1.3
DPS (cps)	0.0	2.7	3.0	3.4	3.8	5.1	6.1
Dividend Yield (%)	0.0%	3.8%	4.3%	4.9%	5.5%	7.4%	8.8%
Free Cash / Share (c)	1.5	5.6	0.6	1.5	5.8	6.9	8.3
Price / FCF PS (x)	47.6	12.3	123.6	45.2	11.9	10.1	8.4

## DCF VALUATION &amp; SENSITIVITY

PV of Cashflows 2015 to 2022	36	Risk Free Rate	3.0%
		Equity Risk Premium	8.0%
PV of Term Year Cashflow	68	Equity Beta	0.94
		Cost of Equity	10.6%
Cash and Equivalents	11	Terminal Growth	2.0%
Debt	0		
<b>PV of Equity</b>	<b>115</b>	<b>After Tax WACC</b>	<b>10.5%</b>
PV of Equity per share	<b>\$ 0.84</b>		

## Term. WACC

		9.5%	10.5%	11.5%	12.5%	13.5%
Term. Growth	1.0%	\$ 0.88	\$ 0.78	\$ 0.70	\$ 0.64	\$ 0.59
	1.5%	\$ 0.92	\$ 0.81	\$ 0.73	\$ 0.66	\$ 0.60
	2.0%	\$ 0.96	<b>\$ 0.84</b>	\$ 0.75	\$ 0.67	\$ 0.61
	2.5%	\$ 1.00	\$ 0.87	\$ 0.77	\$ 0.69	\$ 0.63
	3.0%	\$ 1.06	\$ 0.91	\$ 0.80	\$ 0.72	\$ 0.65

## GROWTH PROFILE (YoY)

Y/e Jun	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Sales Revenue	2%	1%	2%	2%	3%	3%	3%
EBITDA	1%	6%	6%	19%	11%	13%	15%
EBIT	-8%	4%	1%	14%	13%	17%	19%
NPAT	112%	23%	-5%	13%	13%	18%	19%
EPS	2050%	-20%	4%	13%	13%	18%	19%
DPS			12%	13%	13%	35%	19%

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## Recommendation Criteria

### Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

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