

Indoor Skydive Australia Group

Buy

Maiden EBITDA Positive Result as Penrith Holds its Own

Consumer Services

25 February 2016

Company Update

Ticker	IDZ
Stock Price	\$0.380
Target Price	\$0.54
Forecast Capital Return	42.1%
Forecast Dividend Yield	0.0%
Forecast Total Return	42.1%

Company market data

Market Cap.	\$45.7m
Enterprise Value	\$44.7m
52 week range	\$0.35 - \$0.60
Shares out.	120.2m

Estimates changes

	2015a	2016e	2017e	2018e
Core NPAT - <i>new</i>	(1.7)	(0.6)	4.1	6.4
Core EPS dil. (cents) - <i>new</i>	(1.7)	(0.5)	3.4	5.3
DPS (cents) - <i>new</i>	0.0	0.0	0.0	0.0

Share price performance

IDZ vs. ASX Small Industries (XSI) (rebased index)



Analysts

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All figures are in AUD unless otherwise specified.

Event

IDZ recorded their maiden EBITDA positive result of \$33k, as revenues from the Penrith centre increased 20% to \$3.7m for the half.

The Penrith centre delivered operational EBITDA of ~\$2m, representing an EBITDA margin of 55%. Average utilisation for the period was 66%, up from 64% in pcp. First timers percentage of flyers increased to 59%, from 53% in FY15.

Impact

Despite the delay in the opening of Gold Coast, IDZ's maiden EBITDA positive result highlights the point of inflection that the business has entered on the back of its high margin centres. We estimate a cost impact from the Gold Coast of ~\$0.5m before missed revenues.

The 20% revenue growth for Penrith is encouraging in our view, showing IDZ's ability to drive interest beyond the initial opening period and providing an earnings base expectation for future centres. We believe this de-risks the long term investment thesis.

In addition, IDZ's ability to increase the % of first timer flyers from 53% in FY15 to 59% provides some comfort around the ability to drive new business and potentially deliver a more sustainable earnings profile.

We have adjusted our earnings estimates to reflect 1H16 actuals as well as shift out the Perth opening to the end of CY16, impacting FY17 estimates.

Investment View

We retain our **BUY** rating and target price of \$0.54. In our view the current valuation appears to not reflect the upside potential related to the operating leverage from the high margin centre rollout.

With the launch of Gold Coast now complete, we anticipate some earnings uplift in 2H16, with FY17 benefiting from a third centre and a full year contribution from the Gold Coast.

Y/E June 30	2015a	2016e	2017e	2018e
EBITDA	(0.8)	0.6	5.9	7.8
EV/EBITDA	(47.5)x	80.5x	7.6x	5.7x
Core NPAT	(1.7)	(0.6)	4.1	6.4
Core EPS (Diluted) cents	(1.7)	(0.5)	3.4	5.3
P/E	(22.4)x	(70.3)x	11.2x	7.1x
EPS growth	(54.3)%	(68.1)%	(726.9)%	57.1%
DPS (cents)	0.0	0.0	0.0	0.0
Yield	0.0%	0.0%	0.0%	0.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%
Net Tangible Assets (\$/share)	0.24	0.23	0.27	0.32

All figures are in AUD.

Indoor Skydive (IDZ) Market Cap: \$046m Last Price: \$0.38 Target Price: \$0.54 **BUY**

Key Stock Data					
Year Ending Jun	2014a	2015a	2016e	2017e	2018e
EPS (Underlying) (€)	(3.7)	(1.7)	(0.5)	3.4	5.3
<i>Growth</i>	48%	-54%	-68%	-727%	57%
DPS (€)	-	-	-	-	-
<i>Growth</i>	0%	0%	0%	0%	0%
Yield (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0%	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%	0%
P/E (x)	-10.2 x	-22.4 x	-70.3 x	11.2 x	7.1 x
P/E Small Ind. (ex Fin's)	16.2 x	16.1 x	14.6 x	13.3 x	16.1 x
Premium (Discount)	-163%	-239%	-583%	-16%	-56%
EV/EBITDA (x)	-13.1 x	-53.6 x	80.5 x	7.6 x	5.7 x
EV/EBITDA Small Ind.	17.2 x	18.9 x	10.2 x	9.2 x	8.5 x
Premium (Discount)	-176%	-384%	687%	-17%	-33%
FCF/Share (\$)	- 0.18	- 0.08	- 0.07	0.03	0.06
Price/FCPS (x)	-2.1 x	-4.8 x	-5.2 x	13.8 x	6.0 x
Free Cash Flow Yield (%)	-47%	-21%	-19%	7%	17%

Profit and Loss (\$m)					
Year Ending Jun	2014a	2015a	2016e	2017e	2018e
Revenue	1.2	6.4	9.0	17.4	20.8
<i>Growth</i>	100%	430%	40%	94%	19%
EBITDA	(3.4)	(0.8)	0.6	5.9	7.8
<i>Growth</i>	10%	-76%	-167%	961%	33%
Dep'n & Amort	(0.5)	(1.0)	(1.3)	(1.5)	(1.5)
EBIT	(4.0)	(1.9)	(0.8)	4.4	6.3
<i>Growth</i>	407%	-53%	-58%	-662%	44%
Net Interest Expense	(0.1)	(0.1)	0.1	(0.3)	0.1
Profit Before Tax	(4.1)	(2.0)	(0.6)	4.1	6.4
Tax	1.4	0.2	0.0	0.0	0.0
Tax Rate (%)	34%	11%	0%	0%	0%
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	(2.7)	(1.7)	(0.6)	4.1	6.4
<i>Growth</i>	197%	-36%	-63%	-730%	57%
One-Off Items	0.0	0.0	0.0	0.0	0.0
NPAT (Reported)	(2.7)	(1.7)	(0.6)	4.1	6.4
EPS (Underlying) (€)	(3.7)	(1.7)	(0.5)	3.4	5.3
<i>Growth</i>	48%	-54%	-68%	-727%	57%
EPS (Reported) (€)	(3.7)	(1.7)	(0.5)	3.4	5.3

Balance Sheet (\$m)					
Year Ending Jun	2014a	2015a	2016e	2017e	2018e
Cash	1.4	5.6	5.6	5.6	5.6
Inventory	0.0	0.0	0.0	0.0	0.0
Current Receivables	0.3	0.8	1.2	2.2	2.7
PPE	17.2	23.9	32.7	35.4	35.0
Intangibles	1.2	0.7	0.5	0.4	0.3
Other	1.4	1.6	1.6	1.6	1.6
Total Assets	21.5	32.7	41.7	45.2	45.2
Current Payables	1.1	2.0	2.9	5.5	6.6
ST Debt	1.5	0.0	0.0	0.0	0.0
LT Debt	0.0	0.0	8.8	5.5	(2.1)
Provisions	2.3	0.1	0.2	0.3	0.4
Other	0.9	1.3	10.1	6.7	(0.8)
Total Liabilities	5.8	3.4	13.1	12.6	6.1
Net Assets	15.7	29.2	28.6	32.7	39.1
Equity & Reserves	19.6	34.8	34.8	34.8	34.8
Retained Profits	(3.8)	(5.6)	(6.2)	(2.2)	4.2
Shareholders Equity	15.7	29.2	28.6	32.7	39.1
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	15.7	29.2	28.6	32.7	39.1
Metrics					
Working Capital	- 1.8	- 2.6	- 3.1	- 4.9	- 5.6
Working Capital/Sales (%)	-148%	-41%	-35%	-28%	-27%
NTA	14.5	28.5	28.1	32.3	38.8
NTA/Share (\$)	0.2	0.2	0.2	0.3	0.3

Cashflow (\$m)					
Year Ending Jun	2014a	2015a	2016e	2017e	2018e
EBIT	(4.0)	(1.9)	(0.8)	4.4	6.3
Dep'n & Amort	0.5	1.0	1.3	1.5	1.5
Net Interest	(0.1)	(0.1)	0.1	(0.3)	0.1
Tax	0.0	0.0	0.0	0.0	0.0
Change in WC	0.6	0.4	0.5	1.6	0.6
Other	2.3	1.3	0.0	0.1	0.1
Operating Cash Flow	(0.6)	0.7	1.2	7.3	8.6
<i>Growth</i>	-15%	-217%	77%	504%	17%
Capex	(12.5)	(8.8)	(10.0)	(4.0)	(1.0)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0
Other	(0.4)	(1.1)	0.0	0.0	0.0
Investing Cash Flow	(12.9)	(9.9)	(10.0)	(4.0)	(1.0)
Equity Raised	9.8	13.8	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	(0.5)	(1.5)	8.8	(3.3)	(7.6)
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	9.3	12.3	8.8	(3.3)	(7.6)
FX / Non Cash Items	0.0	0.1	0.0	0.0	0.0
Change in Cash	(4.1)	3.1	0.0	0.0	0.0
Metrics					
FCF	(13.0)	(8.1)	(8.8)	3.3	7.6
Gross Cash Conversion	15%	-100%	195%	130%	109%
Capex/Sales (%)	-1028%	-136%	-111%	-23%	-5%
Capex/Depreciation (x)	23.0 x	9.9 x	7.5 x	2.7 x	0.7 x

1H/2H Results (\$m)					
Item	1H14	2H14	1H15	2H15	1H16
Revenue	0.0	1.2	3.1	3.3	3.7
EBITDA	(1.1)	(2.3)	(1.6)	0.8	0.0
EBIT	(1.1)	(2.9)	(2.2)	0.3	(0.4)
NPAT (Underlying)	(1.2)	(1.5)	(2.0)	0.3	(0.2)
EPS (€)	(2.0)	(2.1)	(1.9)	0.3	(0.2)
DPS (€)	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	0.0	(0.6)	0.2	0.4	1.5
Capex	(5.3)	(7.1)	(2.8)	(6.0)	(6.3)
FCF	(5.3)	(7.7)	(2.6)	(5.5)	(4.8)
Skew (% Full Year)					
% Sales	0%	100%	48%	52%	41%
% EBITDA	32%	68%	192%	-92%	6%
% NPAT	43%	57%	112%	-19%	29%

Margins, Leverage & Returns					
Year Ending Jun	2014a	2015a	2016e	2017e	2018e
Margins (%)					
EBITDA	-282%	-13%	6%	34%	38%
EBIT	-326%	-29%	-9%	25%	30%
NPAT	-224%	-27%	-7%	23%	31%
Leverage					
Net Debt (Cash) (\$m)	0.1	(5.6)	3.1	(0.2)	(7.7)
Net Debt/EBITDA (x)	0.0 x	6.8 x	5.7 x	0.0 x	-1.0 x
ND/(ND + Equity) (%)	1%	-24%	10%	-1%	-25%
Interest Cover (x)	-9.5x	-2.2x	1.8x	7.9x	22.6x
Returns (%)					
ROA	-17%	-6%	-2%	9%	14%
ROE	-20%	-6%	-1%	9%	12%
ROIC	-28%	0%	-3%	14%	20%

Source: Company data, IRESS, Moelis & Company research estimates

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4.29%	31.43%	64.29%

Rating and Price Target History: Indoor Skydive Australia Group (IDZ) as of 24/02/2016



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