

Indoor Skydive Australia Group

Interim exceeds expectations, indicating strong future growth

The result represented the optimising of Penrith VWT operations after 18 months' trading. With Penrith EBITDA covering tunnel operating costs and corporate costs, further EBITDA growth at Penrith and EBITDA from the Gold Coast in FY16 and Perth in FY17 will translate almost directly to the Group EBITDA line.

IDZ reported an Operating EBITDA from its Penrith tunnel of \$2.0m from Revenue of \$3.6m, driven by increased utilisation and an optimisation of its cost structure.

Positives from the result were:

- Tunnel Occupancy increased from 64% in 1H FY15 to 66% in 1H FY16.
- First timers contributed an increased 59% of revenue, increasing flyer yield, with a strong Professional participation (27% of revenue) and Merchandise (9%).
- Tunnel EBITDA margins increased from 43.3% in 1H FY15 to 55.5% for 1H FY16.
- After \$1.8m in Corporate costs to support the development of further wind tunnels in Australia, Group EBITDA (before One-Offs) was positive at \$0.2m. .

Cash Flow continued to Escalate

IDZ generated Cash Receipts of over \$4m with the improved Operating result and pre-sales, resulting in Operational Cash Flow of \$1.5m. Net Cash Outflow of \$3.8m was after Capex of \$6.3m related to the completion of the Gold Coast VWT and initial Capex on the Perth VWT, partly offset by a \$1m debt drawdown.

Balance Sheet remains solid

IDZ has a solid Balance Sheet, with Net Cash of \$1m (2.5¢ ps), undrawn debt facilities of \$5.2m (since reduced to \$3.7m) and escalating Cash Flow.

Gold Coast opened in February

While the Gold Coast VWT opened on 6/2/16 at a Capital Cost of around \$13m, 3 months late and over budget, trading to date has been strong in terms of occupancy rates, pre-sales and operations.

New Tunnel Development gains momentum

Perth – Completion expected in 2Q FY17, at a capital cost of around \$14m.

Other Australia – Potential for a further 3 tunnels directly or with SkyVenture.

Asia – Potential tunnels in SE Asia and/or Hong Kong.

Forecasts amended for delayed openings

Our forecasts for FY16 have been reduced to reflect the 3 month delay in the opening of the Gold Coast VWT and in FY17 to include only 6 months of Perth VWT.

We now expect Group EBITDA of \$3.2m and \$6.7m for FY16 and FY17 on Revenue growth of 67.4% and 65.2% to \$10.8m and \$17.8m, boosted by new tunnel openings. For FY18, the first year of full operation of the 3 tunnels, we expect a further 24.2% increase in Revenue to \$22.1m and 35.0% in EBITDA to \$9.0m.

Recommendation

We retain our BUY recommendation and Target Price of \$0.60 ps, based on:

- The success of Penrith provides proof of concept for the new Gold Coast and Perth tunnels and any proposed expansion in Australia and Asia.
- A quantum increase in profitability and escalating Cash Flow from the inclusion of Gold Coast in FY16 and Perth in FY17, each capable of generating investment returns similar to Penrith.
- The significant discount of the current share price to our Valuation of \$0.60ps and other key participants in the leisure market.

IDZ.ASX

BUY

1 March 2016

Price	\$0.40
Price Target	\$0.60
Valuation method	EVR
GICS sector	Consumer Services
12 Mth Price Range	\$0.36 - 0.75
Avg monthly share turnover	0.5m
Market Capitalisation	\$48m
Shares on Issue	119.0m
Enterprise Value	\$48m
Previous Rating	BUY

Year Ended June 30	14A	15A	16E	17E	18E
Operating Revenue \$m	1.1	6.4	11.3	20.4	22.4
EBITDA*	\$m -2.1	0.5	3.3	8.5	9.5
<i>Increase</i>	% na	na	547	159	11.9
<i>EBITDA margin</i>	% na	7.9	28.9	41.5	42.3
EBIT*	\$m -2.6	-0.4	1.8	6.6	7.8
<i>EBIT margin</i>	% -227	-6.8	15.6	32.3	34.9
NPAT (adjusted)	\$m -1.8	-0.3	1.9	7.0	5.9
<i>NPAT growth</i>	% na	na	-670	275.8	-16.3
NPAT (Reported)	\$m -2.7	-1.7	1.9	6.5	5.9
EPS*	¢ps -2.2	-0.3	1.6	5.9	4.9
<i>EPS growth</i>	%		-613	275.8	-16.3
DPS	¢ps 0.0	0.0	0.0	0.0	0.0
Franking	% 0.0	0.0	0.0	0.0	0.0
PER*	x 0.0	-131.1	25.6	6.8	8.1
Dividend yield	% 0.0	0.0	0.0	0.0	0.0
NTA/share	¢ps 16.7	24.0	25.8	31.4	36.4
EV/Revenue	x	6.5	4.2	2.0	1.3
EV/EBITDA	x	83.0	14.7	4.7	3.1
Gearing (D:E)	% 0.5	0.0	0.8	0.0	0.0
P/OCF	x	62.7	9.3	4.9	4.2
ROA	%	0.1	5.7	16.6	16.1
ROE	%	0.7	7.0	20.7	14.6
Interest cover (EBIT)	x	-1.8	na	na	na

* Excludes charges for Performance options

IDZ v XSO (S&P/ASX Ordinaries Index)



Activities

The operation of Indoor Skydiving Centres in Australia, Asia and New Zealand

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Indoor Skydive Aust Group (IDZ)

Current Price: \$0.40 ps

Target Price: \$0.60 ps

PROFIT & LOSS						
Year ended 30-Jun	2014A	2015A	2016E	2017E	2018E	
Sales Revenue	\$m	1.1	6.4	11.3	20.4	22.4
Expenses	\$m	-3.2	-5.9	-8.1	-11.9	-12.9
EBITDA*	\$m	-2.1	0.5	3.3	8.5	9.5
Depreciation	\$m	-0.2	-0.5	-1.3	-1.7	-1.6
Amortisation	\$m	-0.3	-0.5	-0.2	-0.1	-0.1
EBIT*	\$m	-2.6	-0.4	1.8	6.6	7.8
Interest (Net)	\$m	-0.1	-0.1	0.1	0.4	0.6
Pre Tax Profit*	\$m	-2.7	-0.5	1.9	7.0	8.4
Tax	\$m	1.0	0.2	0.0	0.0	-2.5
Minority Interests	\$m	0.0	0.0	0.0	0.0	0.0
Normalised Profit*	\$m	-1.8	-0.3	1.9	7.0	5.9
Significant Items (Net)	\$m	-1.0	-1.4	0.0	-0.5	0.0
Reported Profit	\$m	-2.7	-1.7	1.9	6.5	5.9

Growth					
	2014A	2015A	2016E	2017E	2018E
Revenue	%	530.0	76.1	80.2	9.7
Expenses	%	85.5	35.9	48.3	8.2
EBITDA	%		547.0	158.8	11.9
EBIT	%		-503.8	274.4	18.5
Normalised Profit	%			275.8	-16.3
EPS	%			275.8	-16.3

P&L Ratios					
	2014A	2015A	2016E	2017E	2018E
EBITDA / Sales	%	7.9	28.9	41.5	42.3
EBIT / Sales	%	-6.8	15.6	32.3	34.9
Effective Tax Rate	%	39.8	0.0	0.0	30.0
Interest Cover	x	-1.8	na	na	na

Per Share						
	2014A	2015A	2016E	2017E	2018E	
Issued Shares	m	87.3	119.0	119.0	119.0	
Issued Shares (Wt Avg)	m	78.7	107.1	119.0	119.0	
EPS*	¢ps	-2.2	-0.3	1.6	5.9	4.9
Operating Cash Flow ps	¢ps	-0.7	0.6	4.3	8.1	9.5
Free Cash Flow	¢ps	-16.6	-7.6	-4.9	6.5	9.0
DPS	¢ps	0.0	0.0	0.0	0.0	0.0

Parameters					
	2014A	2015A	2016E	2017E	2018E
PE Ratio	x	-131.1	25.6	6.8	8.1
Enterprise Value / Sales		6.5	4.2	2.0	1.3
Enterprise Value / EBITDA	x	83.0	14.7	4.7	3.1
Enterprise Value / Profit	x	-128.3	25.8	5.7	5.0
Cash Flow ratio	x	62.7	9.3	4.9	4.2
Dividend Yield	%	0.0	0.0	0.0	0.0

Parameters						
	2014A	2015A	2016E	2017E	2018E	
Revenue						
Penrith	\$m	1.2	6.4	7.1	7.4	7.9
Gold Coast	\$m			3.9	6.8	7.8
Perth	\$m			0.4	6.2	6.7
EBITDA						
Penrith	\$m	-0.3	3.1	3.7	4.0	4.3
Gold Coast	\$m			2.1	4.1	4.6
Perth	\$m			0.1	3.4	3.7
Corporate	\$m	-1.5	-2.6	-2.7	-3.0	-3.2
Margin						
Penrith	%		48.5	52.0	53.4	54.4
Gold Coast	%			54.3	59.9	59.5
Perth	%			36.4	54.5	55.7

VALUATION			
Valuation Method	\$	Premium(+)/Discount(-)	%
EVR	0.60	Current Price	-32.9
DCF	0.90	Current Price	-55.5
Market Capitalisation	\$60m	Enterprise Value	\$60.3m

CASH FLOW						
Year ended 30-Jun	2014A	2015A	2016E	2017E	2018E	
Operating EBITDA	\$m	-2.1	0.5	3.3	8.5	9.5
Net Interest Paid	\$m	-0.1	-0.1	0.1	0.4	0.6
Tax Paid	\$m	0.0	0.0	0.2	0.0	0.0
Chg WorkCap	\$m	0.6	0.4	0.8	-0.2	0.2
Other	\$m	1.0	-0.1	0.7	1.0	1.0
Operating Cash Flow	\$m	-0.7	0.7	5.1	9.7	11.3
Capex	\$m	-12.5	-8.9	-11.0	-2.0	-0.5
Capitalised D'ment Costs	\$m	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	\$m	-13.1	-8.1	-5.9	7.7	10.8
Acquisitions/Asset Sales	\$m	0.0	0.0	0.0	0.0	0.0
Dividends Paid	\$m	0.0	0.0	0.0	0.0	0.0
Equity Raised	\$m	9.8	13.8	0.0	0.0	0.0
Debt (change)	\$m	-0.5	-1.5	0.0	0.0	0.0
Change in Net Cash	\$m	-3.8	4.2	-5.9	7.7	10.8

BALANCE SHEET at 30/6						
	2014A	2015A	2016E	2017E	2018E	
Cash	\$m	1.4	5.6	-0.2	7.5	18.2
Receivables	\$m	0.3	0.8	1.5	2.6	2.9
Inventory	\$m	0.0	0.0	0.5	0.5	0.5
Other Current Assets	\$m	0.0	0.0	0.2	0.2	0.3
Current Assets	\$m	1.7	6.5	1.9	10.8	21.9
Property, Plant & Equipm	\$m	17.2	23.9	34.2	32.9	31.6
Intangibles	\$m	1.2	0.7	0.4	0.3	0.2
Other NC Assets	\$m	1.4	1.6	0.4	0.0	0.0
Non Current Assets	\$m	19.8	26.2	35.1	33.2	31.8
Total Assets	\$m	21.5	32.7	37.0	44.0	53.7
Payables	\$m	1.1	2.0	4.0	5.0	5.5
Current Debt	\$m	1.5	0.0	0.0	0.0	0.0
Pre-Sales	\$m	0.9	1.3	1.6	2.0	2.5
Other Current Liabilities	\$m	0.1	0.1	0.2	0.2	0.3
Current Liabilities	\$m	3.6	3.4	5.8	7.2	8.3
Non Current Debt	\$m	0.0	0.0	0.0	0.0	0.0
Prov for Site restoration	\$m	2.2	0.0	0.1	-0.9	1.9
Non Current Liabilities	\$m	2.2	0.0	0.1	-0.9	1.9
Total Liabilities	\$m	5.8	3.4	5.9	6.3	10.2
Shareholder Funds	\$m	15.7	29.2	31.1	37.6	43.5

BALANCE SHEET Ratios						
	2014A	2015A	2016E	2017E	2018E	
Net Debt	\$m	0.1	0.0	0.2	0.0	0.0
Gearing (D:E)	%	0.5	0.0	0.8	0.0	0.0
Current Ratio (CA / CL)	x	0.5	1.9	0.3	1.5	2.6
Net Assets	¢ps	18.0	24.6	26.1	31.6	36.6
Net Tangible Assets	¢ps	16.7	24.0	25.8	31.4	36.4
Cash	¢ps	0.0	4.7	0.0	6.3	15.3
Return On Assets	%	-14.3	0.1	5.7	16.6	16.1
Return on Equity	%	-13.4	0.7	7.0	20.7	14.6

MAJOR SHAREHOLDERS**					
Excalib-Air et al	m	17.7	15%	Wayne Jones (CEO) & Daniel Hogan (COO)	
Birkdale Holdings	m	17.0	14%	Steve Baxter (NE Director)	
Greencape	m	13.9	12%	Institution	
Acorn	m	10.0	8%	Institution	
Paradice Investment M'mer	m	7.5	6%	Institution	
LHC	m	7.4	6%	Institution	
Top 20 (7/8/14)	m	101.6	85%		

DIRECTORS	
Kenneth Gillespie	Non-Exec Chairman
Wayne Jones	Managing Director
Daniel Hogan	Exec Director
Steve Baxter	Non-Exec Director
David Murray	Non-Exec Director

Source: IDZ (Actual) & Veritas (Estimate)

FY16 Interim result

Result was above expectations

The result was above our expectations, representing the optimisation of Penrith VWT operations after 18 months' trading. The feature was the covering of relatively fixed corporate costs by EBITDA currently generated by Penrith. Accordingly further EBITDA growth at Penrith and EBITDA from the Gold Coast in FY16 and Perth in FY17 will translate almost directly to the Group EBITDA line.

Profit & Loss				Cash Flow					
6 Mths to Dec (\$m)		1H 15	1H 16	% ch	6 Mths to Dec (\$m)		1H 15	1H 16	
Tunnel Revenue		3.0	3.6	19.6	Operating Cash Flow		0.2	1.5	542.1
Direct Costs		-1.7	-1.6	-6.1	Capex		-2.8	-6.3	
Tunnel EBITDA*		1.3	2.0	53.2	Investment/Acquisitions		0.0	0.0	
Head Office Costs		-1.5	-1.8	23.8	Equity		13.8	0.0	
Group EBITDA		-0.2	0.2		Debt		-2.2	1.0	
Depreciation		-0.3	-0.3		Dividends		0.0	0.0	
Amortisation		-0.3	-0.1		Net Cash Flow		9.1	-3.8	-141.7
EBIT		-0.8	-0.3		Balance Sheet		1H 15	1H 16	
Interest (Net)		-0.2	0.0		Current Assets		11.6	2.4	
Pre-Tax Profit		-0.9	-0.2		Non Current Assets		22.3	32.6	
Tax		0.4	0.2		Total Assets		33.9	35.1	3.6
Normalised Profit		-0.5	0.0		Current Liabilities		2.6	5.4	
One-off Items (Net)		-1.5	-0.1		Non Current Liabilities		2.2	0.7	
Reported Profit		-2.0	-0.2		Total Liabilities		4.8	6.0	25.0
Tunnel Margin (%)		43.3	55.5		Shareholder Funds		29.0	29.0	0.0
EBITDA Margin (%)		-5.3	5.0		Working Capital (\$m)		-0.7	-3.0	
Effective Tax Rate (%)		na	na		Cash (¢ ps)		9.6	1.7	
EPS (¢ ps)*		-0.6	0.0		Net Debt		0.0	0.0	
Cash Flow (¢ ps)		0.3	1.3	384.5	Gearing D:E (%)		0.0	0.0	
DPS (¢ ps)		0.0	0.0		NTAV (¢ ps)		23.9	23.8	-0.4
Tunnel Utilisation		64%	66%		Net Assets (¢ ps)		24.7	24.3	-1.7

Source: IDZ

Key Elements:

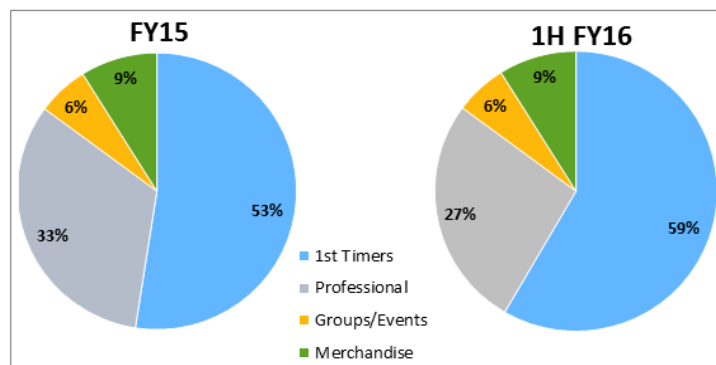
Tunnel Utilisation – Overall utilisation increased from 64% to 66% overall, with weekend rates of over 80% and a midweek rate of over 60%. Peak weekly utilisation during school holidays exceeded 75%.

The major age bracket was in the 10 to 19 year olds, at around 30% of the 20,900 unique flyers. Return flyers represent 8% of total flyers, helped by an increase in frequent flyer club membership.

Revenue – Total Tunnel Revenue increased by 19.6% to \$3.6m, with increased utilisation and flyer yield, due to a change in sales mix. Higher yielding first time flyers increased from 53% of average weekly revenue to 59%, with professional/military (falling from 33% to 27%) the main contributors, and Groups and Merchandise constant at 6% and 9% of revenue. This increased overall yield increased to around \$119 per flyer.

Achieves average tunnel utilisation of 66%

Tunnel Revenue of \$3.6m, with strong first timer and professional use



Deferred revenue (prepaid sales) increased by \$0.2m to \$1.5m, including some presales for the Gold Coast. We expect pre-sales to have further increased with the opening of the Gold Coast VWT.

Note: This excludes presales through Adrenalin and Red Balloon and other third party resellers.

EQUITY RESEARCH

EBITDA Progression			
\$m	1H 15	2H 15	1H 16
Tunnel Revenue	3.0	3.4	3.6
Direct Costs	-1.7	-1.6	-1.6
Tunnel EBITDA*	1.3	1.8	2.0
Margins (%)	43.3	52.5	55.5
Head office Costs	-1.5	-1.1	-1.8
Group EBITDA	-0.2	0.7	0.2

Tunnel EBITDA – Underlying Penrith Operational EBITDA increased by 19.6% to \$2.0m, with margins increasing from 43.3% to 55.5% (1H FY15 43.3%). The improvement in margins is due to a higher yield per flyer, lower electricity costs and the optimisation of the operations and cost structure at Penrith.

Head Office Costs – Increased by 23.8% to \$1.8m with an expansion of the development and support teams to develop the Gold Coast, Perth and other potential tunnels, and the inclusion of some Direct Costs from the Gold Coast, due to delays in its opening.

Group EBITDA – A \$0.4m improvement to \$0.2m (before share based payments of \$0.1m) with the improvement in Penrith EBITDA.

Amortisation – Relates to the amortisation of the Exclusive Joint Territory Agreement. However, it was below our forecasts, with IDZ no longer providing for the rehabilitation of the Penrith site.

One-off items – Covers the issue of \$0.1m in performance based shares to Executive Directors, based on the performance of Penrith. There remains 1.2m performance shares on issue, mainly related to 2 years' successful operation of the Gold Coast tunnel.

Cash Flow – Cash Receipts increased to \$4.0m with the improved result and a build-up of Deferred Revenue to \$1.5m (excluding Adrenalin and Red Balloon sales), resulting in an improvement in Operating Cash Flow of \$1.3m to \$1.5m.

Net Cash Flow fell to an Outflow of \$3.8m, with \$6.3m of Capex related to the Gold Coast and Perth VWTs, partly offset by a \$1.0m drawdown from the \$6.2m Westpac Debt Facility. IDZ has since drawn down a further \$1.5m.

Balance Sheet – Remains solid, with Net Cash of \$2.0m, a remaining \$3.2m under their Debt Facility (post drawdown of \$1.5m) and expanding Cash Flow.

Trade Payables increased by \$1.4m to \$3.4m, with a \$1m investment by SkyVenture into the Gold Coast Tunnel, to be offset against equipment purchases. On completion of the Gold Coast, SkyVenture will hold a minority interest in the Gold Coast Operating subsidiary in proportion to its investment level.

PPE (mostly Wind Tunnels) on the Balance Sheet increased by \$10.6m to \$30.2m with ongoing development of the Gold Coast and Perth. The final cost of the Gold Coast will be around \$13m, with our estimate of Capex on Perth of over \$3.0m to date, with the site cleared, the deposit on the tunnel and the VWT fabricated, and other planning costs.

Gold Coast - Opened on 6/2/16 after a 3 month delay, at an increased capital cost of \$13.0m with operations to date in line with expectations. IDZ is charging a flat \$99 for 2x50 second first timer flights, compared to \$89 weekday and \$109 weekend rates at Penrith. We expect IDZ to lease the 6 areas adjacent to the tunnel, which will help offset overall lease costs.

SkyVenture will hold a minority stake in proportion to its investment and will be entitled to a share of Net Profit after Tax for the Gold Coast subsidiary.

Balance Sheet has financing capacity

SkyVenture invests \$1.0m in Gold Coast Tunnel

Gold Coast tracking well, despite opening delays

Proposed Perth tunnel



Source:IDZ

Tunnels under Development

Perth - IDZ is developing a third tunnel in Perth, on a 3,931 m² site on the Great Eastern Highway between the Burswood Casino and the Perth Airport. IDZ will construct a 14ft tunnel using the latest technology at a cost between \$13m and \$14m, with over \$3m already spent. The tunnel construction is expected to take 37 weeks, with completion and opening expected towards the end of Q2 FY17.

Adelaide

IDZ has an agreement with developers in Adelaide, to fund the construction of a 12 ft tunnel as part of the Kings Point Shopping and Entertainment Complex. Commercial terms are expected to be agreed in mid CY16.

Other - Further wind tunnels are under consideration in Australia and SE Asia, including Hong Kong.

Exclusive Territory Development Agreement (ETDA)

Under the ETDA, SkyVenture has commenced construction of a tunnel in Melbourne, scheduled to be completed in mid-2016, to be marketed under the iFly brand. IDZ has the right to invest \$1m in the tunnel, with an option to increase the investment to 50% of total build cost, for a similar return.

Outlook

Penrith

A stronger FY16 is expected from Penrith

A strong 2H FY16 and FY17 revenue results are expected with increased tunnel occupancy to exceed the 66% in FY16, from:

- Continued growth in First Timers, with unique visitors of 20,890 in the 1H FY16, from a large catchment area covering a population of over 1.8m within a 25 km radius. This is based on continued awareness through Social Media, including Facebook and Instagram, word-of-mouth and continued media coverage.
- Continued growth in repeat flyers, running at 8%, with changes to processes and conversion of First Timers.
- The addition of Red Balloon and other third party resellers.
- Unearned Revenue at over \$1.5m, which will convert to revenue when flights are undertaken (excluding sales through third party resellers).
- A new focus on local corporate and interest groups and continued growth in functions, such as Kids' Parties.

A continued improvement in EBITDA margins above 55% with any further increases in utilisation or change in flyer yield.

Gold Coast

Gold Coast operating model has strong emphasis on retail

The VWT opened on 6/2/16, three months late, with IDZ missing the peak Christmas period and resulting in a shortfall against our previous forecasts of Revenue and EBITDA of around \$1.3m and \$0.5m.

However, trading to date has been strong, boosted by:

- A high level of tourist traffic, both domestic and international, helped by a lower A\$ and direct flights. The building has high visibility, with the Gold Coast Light Rail running past.
- Extensive media coverage and a wide promotional campaign across local TV and Radio, print, outdoor and transit, especially ahead of the key Easter period and first term school holidays.
- Pre-sales of 600 hours (\$0.4m) to professional skydivers late in 1H FY16

FY17 onwards will be further boosted by Christmas school holidays and peak usage with special events, such as the Gold Coast V8 Supercars and schoolies. FY18 will be boosted by the Commonwealth games staged on the Gold Coast.

With a higher proportion of First Timers, higher yields and merchandise sales are expected. While there will be lower professional usage and fees, and no military, the local parachute operator is incorporating tunnel time within its parachute courses. IDZ will also lease the 6 tenancies in the existing building to offset overall lease costs.

We now expect the VWT to contribute Revenue of \$3.2m and EBITDA of \$1.7m for the remaining 4½ months of FY16, with initial margins of around 53%, although higher margins of between 55% and 60% are expected in the first full year of operation. We have built-in forecasts for Revenue and EBITDA for FY17 of \$7.0m and \$3.9m, with margins increasing to 55.9%, with further increase in FY18, with the Commonwealth Games.

SkyVenture contributing \$1m in funding

We have also built into our forecasts an assumed minority interest for SkyVenture of around 8%, following its \$1.0m investment under the ETDA.

Perth

Perth to open in Q2 FY17

Development of the Perth 14 foot VWT is well underway, with fabrication complete, DA approved, site established and Project Manager appointed. Construction will commence in March for an opening in Q2 FY16 at a cost of around \$14.0m.

Our Forecasts now include Perth for only 6 full months of FY17, assuming completion in December 2016, with EBITDA of \$1.4m on Revenue of \$3.0m at margins of around 48%. However, Perth is expected to generate Revenue of \$6.4m and EBITDA of \$3.3m at margins of around 51.0% on a Full Year's operations in FY18,

Perth may also generate sub-lease rental, although full site development plans are yet to be finalised. No decision has been announced on SkyVenture's intention with respect to its investment option under the ETDA.

Adelaide

Due to the reliance on the timetable of the developer, Adelaide will not be included in the forecasts until construction commences.

Revenue of \$22.1m and EBITDA of \$12.2m to be reached in FY18 with full operation of the 3 tunnels

Combined Tunnel Forecasts

The combined forecasts for FY16 below include:

FY16 - A full 12 months from Penrith and 4½ months' contributions from the Gold Coast. The delayed opening has reduced our forecast Revenue and EBITDA for the Gold Coast by around \$1.3m and \$0.5m.

FY17 –An extra 7½ months from the Gold Coast and an initial 6 months from Perth.

FY18 – A full 12 months' contribution from all 3 VWTs.

Combined Results		FY14	FY15	FY16	FY17	FY18
Combined Revenue	\$m	1.1	6.4	10.8	17.8	22.1
<i>Increase</i>	%		481.8	68.2	65.2	24.2
<i>Direct Expenses</i>		-1.5	-3.3	-4.9	-8.2	-9.9
			na	47.8	66.9	21.0
Combined Facility EBITDA	\$m	-0.3	3.1	5.9	9.6	12.2
<i>Increase</i>	%		na	89.6	63.9	26.9
<i>Margin</i>	%		48.4	54.6	54.1	55.3
Group Corporate Costs	\$m	-1.5	-2.6	-2.7	-3.0	-3.2
Group EBITDA	\$m	-2.1	0.5	3.2	6.7	9.0
<i>Increase</i>	%		-124.6	538.7	107.0	35.0
<i>Group Margin</i>	%		7.9	30.0	37.6	40.8
Total Depreciation & Amortisation	\$m		-1.0	-0.8	-1.1	-1.0
EBIT	\$m	-2.6	-0.4	2.4	5.6	8.0

Source: Veritas

Note: The above Net Profit (before One-offs) forecasts exclude the costs associated with the issue and exercise of performance rights, which are treated as One-off items.

Valuation

We have a valuation for IDZ of \$0.60 ps on a fully diluted basis, based on an EVR model, including:

- Enterprise Value to EBITDA ratio of 7.5x for FY18, the first year of full operation of all 3 tunnels. This is below the weighted average ratio for the key participants in the leisure sector.
- Expected cash of \$3.5m at the end of FY17, with completion of capex on the 3 tunnels. If forecast cash at the end of FY18 is included, the Price Target increases to \$0.65 ps.

Valuation of \$0.60 ps

VALUATION				
EVR	2018	Breakup Valuation		
	EBITDA	Multiple	\$m	¢ ps
Operations	9.0	7.5	67.7	56
Net Cash/ Debt Adjustment FY17			3.5	3
Valuation	\$m		71.2	60
Current Price	cps		40	
Discount			33%	

Source: Veritas

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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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