

BREVILLE GROUP LIMITED

July 29, 2024



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BREVILLE GROUP LIMITED

Equity Analysis

Kapitales Research Rating ★★★★★
Recommendation Buy
Current Market Price AU\$28.180
Risk Moderate

52 Week Range (AU\$)



Average volume	0.192 million	52 Week Range (AU\$)	21.000 - 29.020
Shares outstanding	143.43 million	Dividend amount (AU\$)	0.160
Free float	94.17 million	Dividend Yield	1.14%
P/E (TTM)	34.62	Ex-date	14 Mar 2024
Market cap (AU\$)	3.96 billion	Record date	15 Mar 2024
EPS (TTM)(AU\$)	0.798	Pay date	28 Mar 2024
ROE	20.34%	Franking	100%

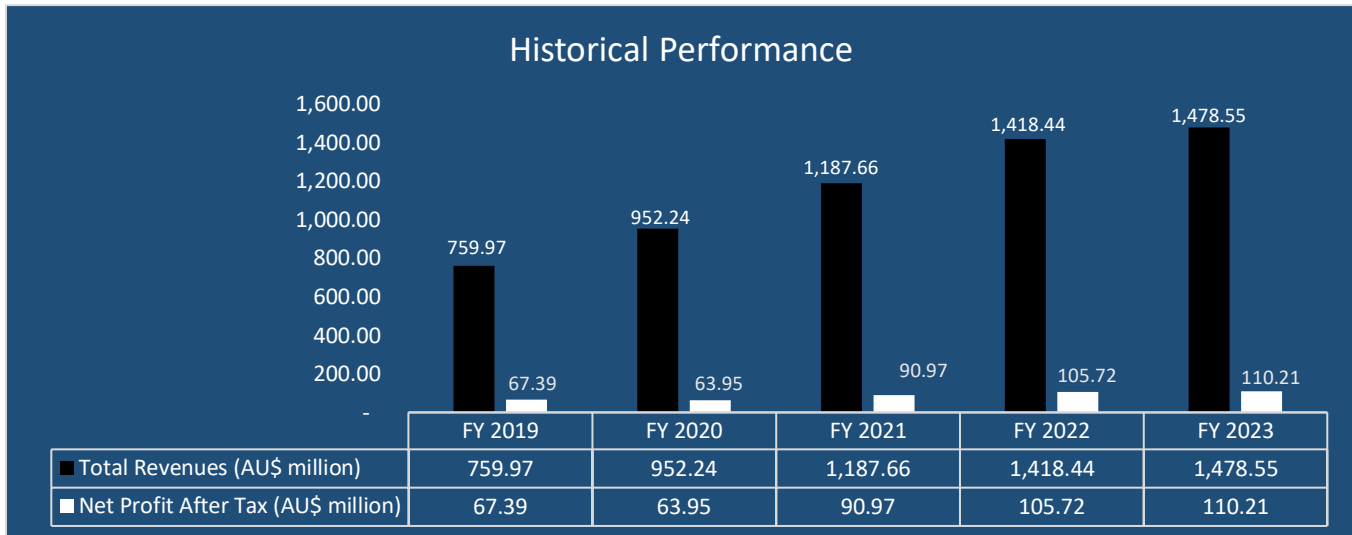
Source: (ASX and Koyfin), Analysis by Kapitales Research

Breville Group Limited (ASX: BRG) designs, develops, markets, and distributes small electrical kitchen appliances in the Americas, Europe, the Middle East, Africa, and the Asia Pacific. The company was formerly known as Housewares International Limited and changed its name to Breville Group Limited in November 2008. Breville Group Limited was founded in 1957 and is headquartered in Alexandria, Australia.

SWOT Analysis

<p style="text-align: center;">Strength</p> <p>New product launches were successful, with solid sales from the Barista Touch Impress, the Vertuo Creatista, and the InFizz range in the Global Product segment. During COVID-19, new product launches increased, and a healthy pipeline is expected for the remainder of FY24 and FY25. New geographies also showed strong growth, with countries it entered during and since the COVID period growing at 73%. In the Americas, there was a positive impact on gross profit (+1.2%). US consumers responded well in vital promotional periods, with the strongest performances in Coffee and Cooking.</p>	<p style="text-align: center;">Weakness</p> <p>Total debt stood at AU\$320.69 million, which is 14.33% higher in 1HFY24 than AU\$280.49 million in 2HFY23, indicating weak capital management.</p>
<p style="text-align: center;">Opportunity</p> <p>The company's unwavering business strategy has led to continuous revenue growth across all regions while enhancing regional diversity. Over the past four years, its business has more than doubled, driven by its expansion into new geographic markets, innovative product development, and strategic marketing initiatives. The strength of its diverse portfolio is evident, with robust performance in the Americas partially counterbalancing a softer performance in EMEA during the second half of the year attributed to consumer responses to the Ukraine invasion. The company is confident its upcoming product launches will reignite growth for FY23-FY24.</p>	<p style="text-align: center;">Threat</p> <ol style="list-style-type: none"> 1. Operational risk 2. Strategic risk 3. Changing in economic conditions 4. Global supply chain 5. Financial risk

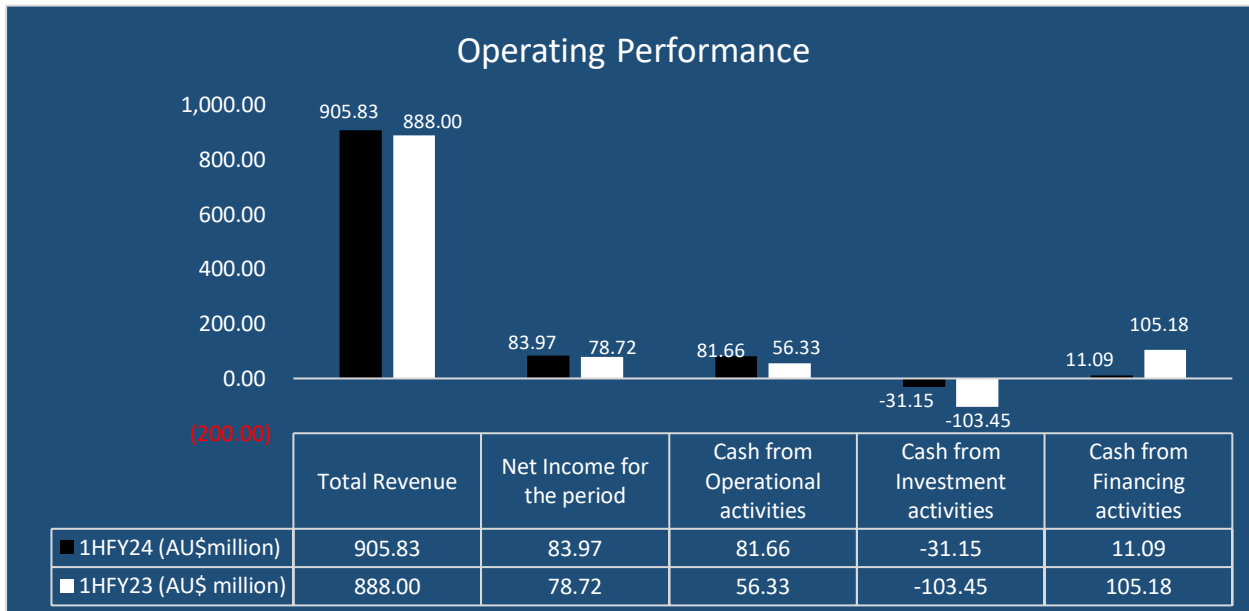
Historical Performance



Source: Koyfin, Analysis by Kapitaless Research

The company’s revenue stood at AU\$1,478.55 million in FY23, compared to AU\$759.97 million in FY19, indicating a CAGR of 18.1%. Its net profits stood at 110.21 million in FY23 versus a net profit of AU\$67.39 million in FY19.

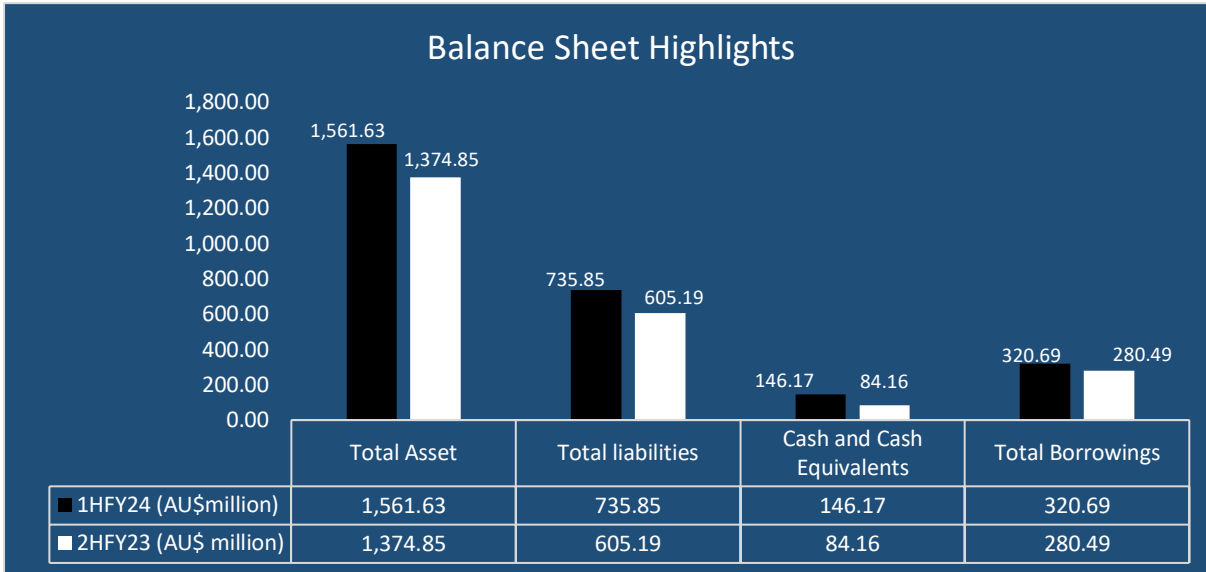
Operating Performance (period ended 31 December 2023)



Source: Company Reports, Chart Prepared by Kapitaless Research

- The Group's revenues for the half-year ending on 31 December 2023 totaled AU\$905,832,000, marking a 2.0% increase from the previous corresponding period. This growth was primarily propelled by the resilient constant currency revenue increase of 18.0% in the Global Product segment, following a 37.0% surge in the previous corresponding period. The company has a consistent business strategy, resulting in sustained revenue growth across all regions and enhanced regional diversification.
- NPAT increased by 6.7% to AU\$ 83,970,000 compared to the previous corresponding period, AU\$ 78,719,000, due to higher interest rates affecting borrowing costs during peak season.

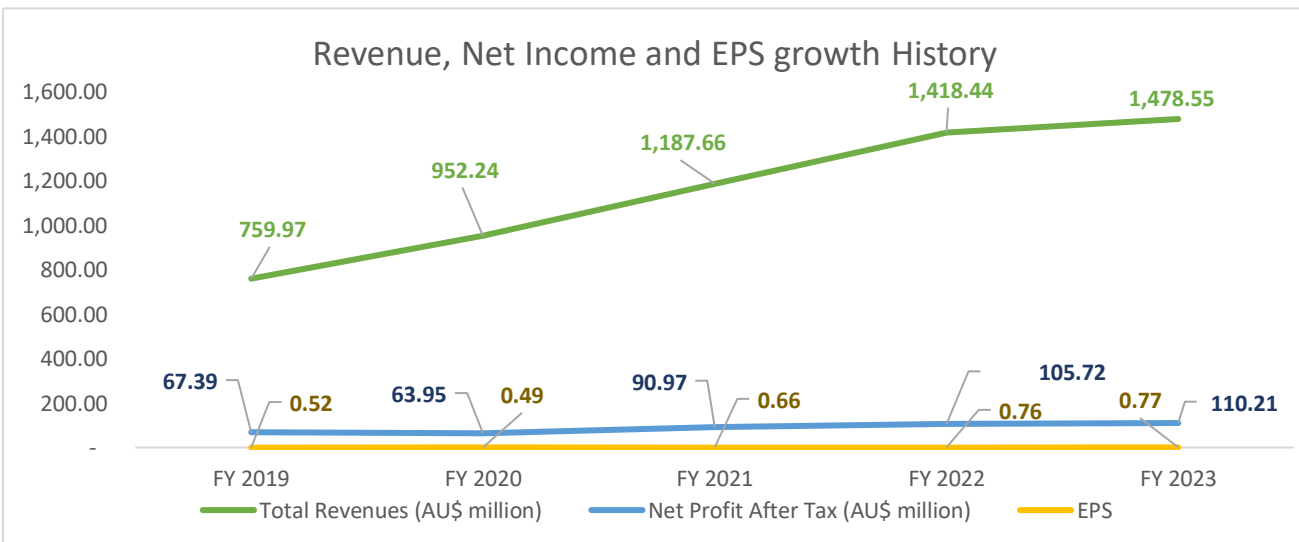
Balance Sheet Highlights (period ended 31 December 2023)



Source: Company Reports, Chart Prepared by Kapitaless Research

1HFY24 total assets surged by 13.59% to AU\$1,561.63. Total liabilities increased to AU\$735.85 million. There is a higher cash balance of AU\$146.17 million in 1HFY24, compared to AU\$84.16 million in 2HFY23. Total debt stood at AU\$320.69 million, which is 14.33% higher in 1HFY24 than AU\$280.49 million in 2HFY23, indicating weak capital management.

Revenue, Net Income and EPS growth History



Source: Koyfin, Analysis by Kapitaless Research

Fiscal Years	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Growth Trend
Total Revenues (AU\$ million)	759.97	952.24	1,187.66	1,418.44	1,478.55	▲▲▲▲
Net Profit After Tax (AU\$ million)	67.39	63.95	90.97	105.72	110.21	▲▲▲▲
EPS	0.52	0.49	0.66	0.76	0.77	▲▲▲▲

Source: Koyfin, Analysis by Kapitaless Research

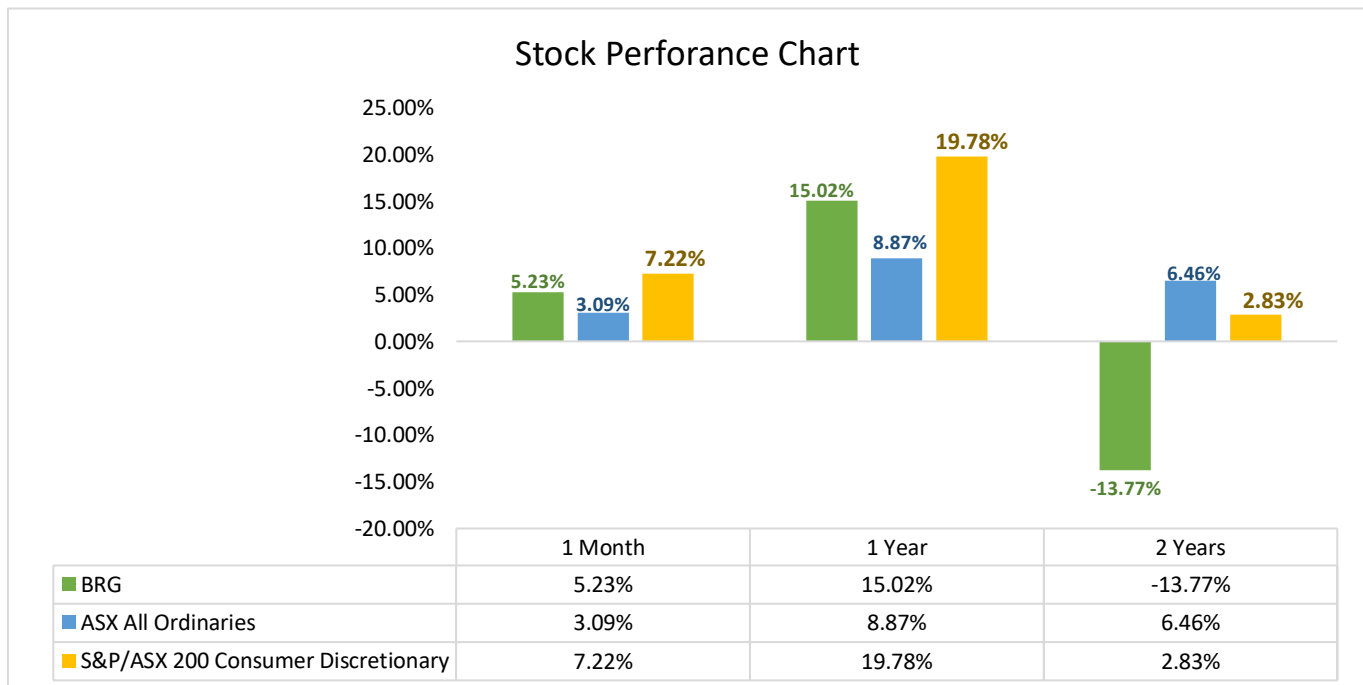
Ratio Analysis

Fiscal Quarters	2Q FY2023	3Q FY2023	4Q FY2023	1Q FY2024	2Q FY2024
Return on Assets %	9.9%	4.3%	4.5%	11.1%	10.5%
Return On Equity %	21.3%	8.4%	8.2%	21.1%	20.3%
Return on Total Capital %	13.2%	5.7%	5.9%	14.9%	14.3%
EBITDA Margin %	16.0%	10.2%	9.4%	17.6%	17.6%
Gross Profit Margin %	35.1%	34.8%	34.8%	36.7%	36.7%
Net Income Margin %	8.9%	5.3%	5.3%	9.3%	9.3%
Asset Turnover	1.2	0.8	0.9	1.2	1.2
Days Outstanding Inventory (Avg)	148.4	211.6	207.9	131.4	121.8
Current Ratio	2.2	2.6	2.6	1.9	1.9
Days Sales Outstanding (Average Receivables)	80.6	96.4	75.1	70.4	91.4
Days Payable Outstanding (Avg)	96.9	152.4	123.6	120.5	107.0
Cash Conversion Cycle (Average Days)	132.1	155.5	159.4	81.4	106.2

Source: Koyfin, Analysis by Kapitaless Research

- The company Gross Profit Margin from the previous quarter stood at 36.7%, indicating that the company can generate profits from its products or services with a high margin of revenue left after deducting the direct costs.
- The company’s profitability margins, such as EBITDA margin and net margin, improved in 2QFY24 compared to the previous corresponding period’s performance, implying an improvement in the company's fundamentals.

Price Performance



Source: Investing.com, Analysis by Kapitaless Research

Outlook

The company is well-positioned for substantial growth with promising developments on the horizon. The company's strategic financial management is evident in the forecasted improvements in net debt and inventory. This will lead to cash inflow as receivables are collected and normal inventory flow is sustained. Moreover, the company's commitment to shareholder value is reflected in the 6.7% increase in the dividend per share, now at 16.0 cents. The company achieved modest revenue growth despite a challenging consumer environment. Gross profit grew well, with cost savings offsetting promotional spending. EBIT growth was sustained despite increased depreciation and amortization costs. Net profit after tax rose by 6.7% despite higher interest costs. Receivables increased due to solid sales growth, with aging consistent with the prior year.

The company's unwavering business strategy has led to continuous revenue growth across all regions while enhancing regional diversity. Over the past four years, its business has more than doubled, driven by its expansion into new geographic markets, innovative product development, and strategic marketing initiatives. The strength of its diverse portfolio is evident, with robust performance in the Americas partially counterbalancing a softer performance in EMEA during the second half of the year attributed to consumer responses to the Ukraine invasion. The company is confident its upcoming product launches will reignite growth for FY23-FY24.

Key Risks and Uncertainties

- Operational risk
- Strategic risk
- Changing in economic conditions
- Global supply chain
- Financial risk

Technical Analysis



Source: TradingView, Analysis by Kapitales Research

Company Name	Ticker	Sector	CMP (AU\$)	Advisory date	Rating	Target 1 (AU\$)	Target 2 (AU\$)	Stop Loss (AU\$)
Breville Group Limited	BRG	Consumer Discretionary	28.180	29 July 2024	Buy	32.440	35.290	23.940

The stock of household durables company BRG settled at AU\$28.180 on 29 July 2024 after a gain of nearly 1.99% from previous day’s closing. It is currently trading between its 52-week price levels.

The stock is trading above the significant exponential moving averages (EMA) of 20, 50, and 200 weeks on a weekly time frame, indicating bullishness for the midterm.

The stock is trading near its pivot resistance R1 (AU\$30.390), holding a bullish momentum on a weekly time frame chart.

RSI (14 weeks) is at 58, holding a bullish momentum in the index.

Based on these facts, buying can be initiated at the current market price (CMP) level for the potential targets of AU\$32.440 (Previous swing resistance) and AU\$35.290 (~25% upside) in the coming days. Investors can book either full or partial profits at target one and wait for the stock to achieve target two (depending on their risk appetite).

Investors are advised to keep a strict stop loss at or below AU\$23.940 (Previous swing support) to protect their investments in case of an unfavourable movement in the stock due to any uncertain event.

Please Note: It would be in the best interest of investors to trail their stop-loss upward if the stock is moving in our favourable direction.

Investment Summary

New product launches were successful, with solid sales from the Barista Touch Impress, the Vertuo Creatista, and the InFizz range in the Global Product segment. During COVID-19, new product launches increased, and a healthy pipeline is expected for the remainder of FY24 and FY25. New geographies also showed strong growth, with countries it entered during and since the COVID period growing at 73%. In the Americas, there was a positive impact on gross profit (+1.2%). US consumers responded well in vital promotional periods, with the strongest performances in Coffee and Cooking. The reported sales growth number for the half is dampened by the presence of Bed Bath and Beyond in the prior period, partially compensated for by its launch into Target. This positive outlook signals Breville Group Limited's continued strength and potential expansion within the industry.

Hence, after considering the facts mentioned above facts, investors are advised to have a "Buy" rating on the stock of BRG at the closing price of AU\$28.180 on 29 July 2024.

Note: Kapitales Research Rating Star has been decided over the quantitative analysis of the stock. Maximum number of stars can be 5, with 5 for the top rating and 1 for the lowest rating.

Technical Indicators Defined:

EMA: Exponential Moving Average is the moving average that puts more weight on the most recent data points. $EMA = \text{Closing price} * \text{multiplier} + EMA(\text{previous day}) * (1 - \text{multiplier})$. For a 200-day exponential moving average, the multiplier can be calculated with the formulae i.e. $[2/(200+1)] = 0.0095$.

RSI: Momentum indicator, Relative Strength Index is used to evaluate the overbought or oversold nature of an asset by measuring the magnitude of its recent price changes.

Bollinger Band: A technical analysis tool that uses two parameters i.e. period (default is 20) and standard deviations, forming a kind of price envelope depicting a range of upper price band and lower price band. This price band shifts according to the volatility swings, and it helps in identifying whether the underlying asset is in the overbought zone or oversold zone.

Support: This is a level or zone where the stock finds good demand indicating the buyer's strength.

Resistance: This is a level or zone where the stock finds a good supply indicating the seller's strength.

Stop-loss: This is the level from where the investors should exit their positions to prevent any further losses in case of unfavorable movement in the stock prices.

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Disclosure: The information mentioned above has been sourced from the company reports and a third-party database, i.e., Koyfin. Investors are advised to use strict stop-loss to protect their investments in case of any unfavorable/uncertain market events.

Kapitales Research, Level 13, Suite 1A, 465 Victoria Ave, Chatswood, NSW 2067, Australia | 1800 005 780 | info@kapitales.com.au