

Propel Funeral Partners Limited

Reversion to pre-COVID-19 trend drives growth

Propel Funeral Partners Limited (ASX:PFP) is the second-largest private provider of death-care services across Australian and New Zealand with 145 separate locations (78 of which are freehold with a book value at cost of \$132m), 32 cremation facilities and nine cemeteries. The network has both single- and multi-site brands retaining strong community awareness. The group was founded in 2012 and listed on the ASX in November 2017, raising \$131.2m at \$2.70/share for both greenfield developments and acquisitions. The group has undertaken acquisitions totalling \$150m since IPO and now has an estimated 7.0% market share across Australia, second only to major competitor and peer Invocare (ASX:IVC). The most recent capital raise was in October 2021, raising \$63.7m at \$4.10/share for debt reduction and growth initiatives. The group undertook an internalisation of management rights in July 2021 to simplify the operating structure, increase investor interest and better align the interests of both businesses. Not surprisingly, the key driver for PFP revenues is the number of deaths across Australia and New Zealand. FY21 saw a below-average death rate in part due to an almost non-existent flu season, but H1 FY22 has seen a reversion of this trend with volumes +7.8% on a like-for-like basis (+14.9% in total). Longer term, using the ABS datasets, the CAGR death rate between 2019 and 2030 is expected to be 2.7% against 0.9% between 1990 and 2019 as the population ages.

Business model

The group's business model has not changed since listing and that is to acquire social infrastructure and assets which operate in the death-care industry across Australia and New Zealand. From 80 locations, 19 crematoria and five cemeteries at listing in 2017, PFP has grown to 145 locations, 32 crematoria and nine cemeteries today. Such consolidation creates efficiencies through improved procurement, the sharing of human resources and career progression. PFP is founder-led, with the co-founders/senior executives owning 17% of the company. PFP completed an internalisation of management services in July 2021.

Pro-forma H1 FY22 strong on the pcp

The pro-forma H1 FY22 results contain material changes relative to the pcp in terms of the impacts of the management internalisation and government subsidies. In 1H FY22, revenue growth was 15%, EBITDA growth was 17.8% and NPAT growth was 30% on a pro-forma basis (i.e. adjusting for the management internalisation and government subsidies). Funeral volumes increased 14.9% in total and 7.8% on a like-for-like basis, while revenues per funeral increased 0.5% to \$5,902 on the pcp (an increase of 2.5% on the pre-Covid period). This metric is well below peer Invocare at ~\$8,191.

Invocare the clear and obvious peer

PFP is pursuing an acquisition-led growth strategy whereas rival and ASX-listed peer Invocare (IVC) has invested \$200m+ in its existing network via a "Protect & Grow" capex program over the last 4 years. IVC has a market-leading ~23% share of the Australia death-care market. IVC also has a large pre-paid funerals business and incorporates a funds management operation, and has operations in pet cremation and Singapore. A comparison of key financial metrics across the two groups suggests PFP is trading at an 8%-15% PER discount based on consensus estimates for FY22 and FY23 at current prices.

Historical earnings and ratios (In A\$m unless otherwise stated)

Year end	Revenue	EBITDA adj.*	NPAT adj.*	NPAT rep.	EPS adj. (c)*	EPS rep. (c)	EV/Revenue (x)^	EV/EBITDA (x)^	PER (x)^
06/18a	81.27	(1.03)	(11.75)	(14.27)	(0.16)	(0.20)	7.0	nm	nm
06/19a	95.44	23.14	13.20	12.34	0.13	0.13	6.0	24.6	34.7
06/20a	110.99	27.58	12.24	10.62	0.12	0.11	5.1	20.7	37.6
06//21a	120.54	32.52	12.88	14.44	0.13	0.15	4.7	17.5	34.7

Source: Company data; *EBITDA, NPAT and EPS adjusted for one-time, non-cash items
^calculated from current enterprise value and share price

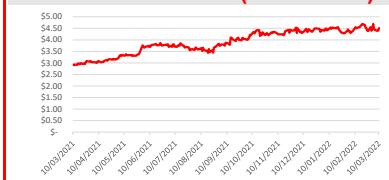
Consumer Services

11th March 2022

Share Details

ASX code	PFP
Share price	\$4.51
Market capitalisation	\$531.7M
Shares on issue	117.9M
Net debt at 31-Dec-2021	\$38.2M
Free float	64.6%

Share Performance (12 months)



Upside Case

- Further EPS-accretive acquisitions
- Added services increasing revenues per funeral
- Acceleration in death rates due to ageing population

Downside Case

- Rising interest rates impacting both borrowing costs and the WACC (for valuation)
- Increased life expectancy reducing death rates
- Pricing pressures

Catalysts

- Further EPS-accretive acquisitions
- FY22 result (late August)

Comparable Companies (Aust/NZ)

Invocare Limited (ASX:IVC)

Board and Management

Brian Scullin	Non-Executive Chair
Albin Kurti	Managing Director/CEO
Naomi Edwards	Non-Executive Director
Jonathan Trollip	Non-Executive Director
Fraser Henderson	Executive Director

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FINANCIAL SERVICES GUIDE

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