HSBC Global Research

28 May 2021

Electra Private Equity (ELTA LN)

Buy: Roll on Fridays

Equities
Diversified Financial Srvcs

United Kingdom

- Exit price for Fridays (>80% of Group NAV) remains key; we believe the underlying market is becoming more attractive
- We increase our NAV assumptions, driven by better underlying market dynamics and improved business models
- We increase our TP to 840p (from 327p); maintain Buy

With this report, Ali Naqvi assumes primary coverage of Electra Private Equity*

Friday in focus: The market environment for survivors in the casual dining space has become significantly more attractive, especially as they benefit from stronger reopening, and fewer operators to compete with. Booking momentum for the sector looks encouraging, with many operators anecdotally reporting strong reservation data as restrictions ease. We believe that just like the first lockdown, Fridays will see a quick rebound in trading and should gain market share in the casual dining sector as the small independent players exit near term. CGA reported that 19.4% of the Casual Dining restaurant market was closed as at the end of April 2021 vs pre-pandemic levels and we expect more units to close as we continue to trade through the year.

Consumer demand: We believe that the propensity to eat out remains strong among consumers. Our latest *UK: Anatomy of the consumer 2021* (19 March 2021) report highlights that consumers maintained eating out as one of their 'Top 3' choices for leisure activities after paying all their household bills and expenses (64% of respondent's vs 65% in our January 2020 Survey).

NAV upgrade: In Electra's March update, the reported Group NAV increased 45% from September 2020 to GBP197m (514.3p per share). This includes the valuation of Fridays increasing 37% to GBP146.2m, Hotter Shoes increasing 300% to GBP19.2m, and the Sentinel business being sold for GBP22.2m (c2x its prior NAV). Electra calculates its new Group NAV on conservative assumptions of recovery to pre COVID-19 earning levels, but does not consider the improvements made to each business, or the reduction in competitors. This is especially important for Fridays, where Electra acknowledges that if industry sales return to FY19 levels, Fridays sales could grow more than 5% and EBITDA 28% higher than FY19 levels. We believe it more appropriate to use these assumptions (rather than a return to pre-pandemic earnings levels) to value Fridays. EBITDA 28% above pre-pandemic levels derives a much higher valuation for an asset that contributes >80% of Electra's Group NAV.

Valuation: Electra has said it will dispose of its investments by end-2021, via a demerger of Fridays in Q3 and listing of Hotter Shoes on the AIM market via reclassification of Electra in Q4. Consequently, we do not forecast results for FY21 onwards. We value Fridays and Hotter Shoes based on EV/EBITDA methodology and other businesses in line with the reported NAV, but believe the valuation for Fridays should be in line with hospitality peers. Our TP is now 840p (from 327p) and we maintain our Buy rating on Electra.

MAINTAIN BUY

TARGET PRICE (GBPp)	PREVIOUS TARGET (GBPp)
840	**327**
SHARE PRICE (GBPp)	**UPSIDE/DOWNSIDE**
640	**+31.3%**

(as of 26 May 2021)

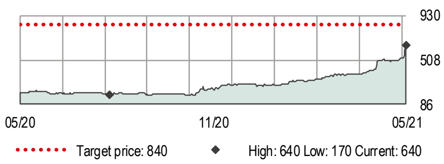
MARKET DATA

Market cap (GBPm)	245	Free float	70%
Market cap (USDm)	346	BBG	ELTA LN
3m ADTV (USDm)	0	RIC	ELTA.L

FINANCIALS AND RATIOS (GBPp)

Year to	09/2020a	09/2021e	09/2022e	09/2023e
HSBC EPS	-156.39	0.00	0.00	0.00
HSBC EPS (prev)	-156.39	-4.44	-5.22	na
Change (%)	0.0	nm	nm	na
Consensus EPS	-5.22	-4.44	-5.22	-
PE (x)	nm	nm	nm	nm
Dividend yield (%)	4.8	0.0	0.0	0.0
EV/EBITDA (x)	nm	nm	nm	nm
ROE (%)	-34.7	0.0	0.0	0.0

52-WEEK PRICE (GBPp)



Source: Refinitiv IBES, HSBC estimates

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Financials & valuation: Electra Private Equity

Buy

Financial statements

Year to	09/2020a	09/2021e	09/2022e	09/2023e
Profit & loss summary (GBPm)				
Revenue	-57	0	0	0
EBITDA	-60	0	0	0
Depreciation & amortisation	0	0	0	0
Operating profit/EBIT	-60	0	0	0
Net interest	0	0	0	0
PBT	-60	0	0	0
HSBC PBT	-60	0	0	0
Taxation	0	0	0	0
Net profit	-60	0	0	0
HSBC net profit	-60	0	0	0
Cash flow summary (GBPm)				
Cash flow from operations	-63	-1	0	0
Capex	0	0	0	0
Cash flow from investment	17	0	0	0
Dividends	-12	0	0	0
Change in net debt	0	-2	0	0
FCF equity	-63	-1	0	0
Balance sheet summary (GBPm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	0	0	0	0
Current assets	8	18	18	18
Cash & others	1	3	3	3
Total assets	136	228	228	228
Operating liabilities	1	0	0	0
Gross debt	0	0	0	0
Net debt	-1	-3	-3	-3
Shareholders' funds	135	228	228	228
Invested capital	6	15	15	15

Ratio, growth and per share analysis

Year to	09/2020a	09/2021e	09/2022e	09/2023e
Y-o-y % change				
Revenue	-265.3			
EBITDA	-278.4			
Operating profit	-278.4			
PBT	-286.3			
HSBC EPS	-286.7			
Ratios (%)				
Revenue/IC (x)	-3.4	0.0	0.0	0.0
ROIC	-354.5	0.0	0.0	0.0
ROE	-34.7	0.0	0.0	0.0
ROA	-34.4	0.0	0.0	0.0
EBITDA margin	104.4	0.0	0.0	0.0
Operating profit margin	104.4	0.0	0.0	0.0
EBITDA/net interest (x)				
Net debt/equity	-0.9	-1.3	-1.3	-1.3
Net debt/EBITDA (x)	0.0			
CF from operations/net debt				
Per share data (GBPp)				
EPS Rep (diluted)	-156.39	0.00	0.00	0.00
HSBC EPS (diluted)	-156.39	0.00	0.00	0.00
DPS	31.00	0.00	0.00	0.00
Book value	353.24	595.57	595.57	595.57

Valuation data

Year to	09/2020a	09/2021e	09/2022e	09/2023e
EV/sales				
EV/EBITDA	nm	nm	nm	nm
EV/IC	20.7	2.1	2.1	2.1
PE*	nm	nm	nm	nm
PB	1.8	1.1	1.1	1.1
FCF yield (%)	-25.5	-0.4	0.0	0.0
Dividend yield (%)	4.8	0.0	0.0	0.0

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	09/2020a
GHG emission intensity*	[n/a]
Energy intensity*	[n/a]
CO_2 reduction policy	No
Social Indicators	**09/2020a**
Employee costs as % of revenues	[n/a]
Employee turnover (%)	[n/a]
Diversity policy	Yes

Governance Indicators	09/2020a
No. of board members	6
Average board tenure (years)	3.7
Female board members (%)	16.7
Board members independence (%)	16.7

Source: Company data, HSBC

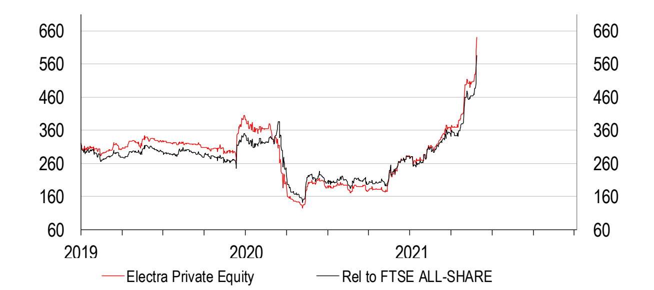
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (GBPp)	640
Target price (GBPp)	840
RIC (Equity)	ELTA.L
Bloomberg (Equity)	ELTA LN
Market cap (USDm)	346

Free float	70%
Sector	Diversified Financial Services
Country/Region	United Kingdom
Analyst	Ali Naqvi
Contact	+44 20 7992 2176

Price relative



Source: HSBC

Note: Priced at close of 26 May 2021

Interim update

The Group's reported NAV on 31 March 2021 was GBP196.9m (514.3p per share), compared to the September 2020 valuation of GBP135.3m (353.4p per share), with the valuation of the three largest investments (Fridays, Hotter, and Sentimental) together now above pre COVID-19 levels.

Early indications of post reopening trading are very positive, with Fridays' Scottish stores recording 14% LFL sales growth vs 2019 levels in the three weeks following reopening on 26 April 2021, despite being unable to serve alcohol and closing at 8pm. The first 3 days of business following reopening across England and Wales on 17 May has shown LFL growth of +76% vs 2019, reflecting a release of pent-up demand following the national lockdown, as well as highlighting the opportunity from spreading demand throughout the week.

The group intends to demerge Fridays into the FTSE main market in Q3 and to bring Hotter shoes onto the AIM market through reclassification of Electra in Q4.

The sustainable development of the dine-in offering continues with the opening of Fridays in Lincoln and the first "63rd + 1st" in Cobham, resulting in a trading estate of 87 restaurants. A further three Fridays and four "63rd + 1st" are in the pipeline for opening over the coming months. The development of Fridays' Delivery and Digital channels accelerated during the pandemic and will continue to form part of Fridays' development strategy going forward.

Fridays NAV growth scenario

Electra expects to benefit from the contraction of competition and improved operating models as sites opens to trade again. Management has calculated what they believe sales and EBITDA growth could be if the sector were to trade at certain levels of LFL growth vs industry levels in FY19. In the table below we show the potential impact of management's scenarios on our valuation of the company:

Sensitivity

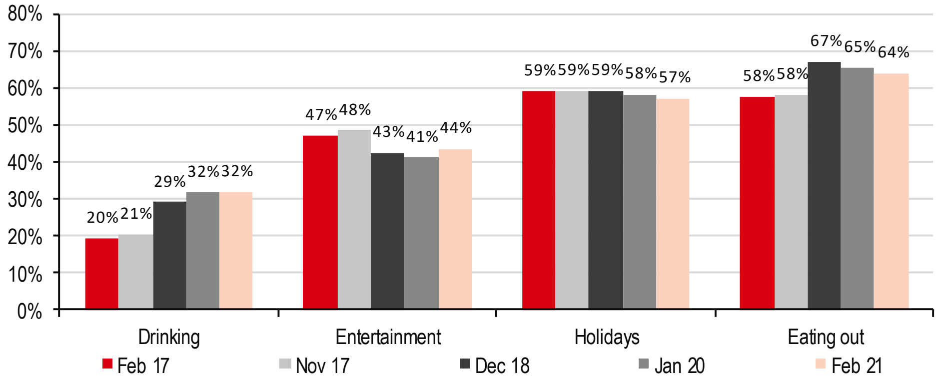
LFL sales vs 2019	Sales growth	EBITDA growth	Possible impact on valuation
0% (base case)	5%	28%	0%
5%	11%	43%	13%
8%	14%	52%	21%
10%	16%	61%	29%

Source: Company data, HSBC estimates

Latent demand

Our latest consumer survey, which was completed in February 2021 (*UK: Anatomy of the consumer 2021*, 19 March 2021), highlights that eating out trends remain strong, with consumers maintaining eating out as a 'Top 3' choice for leisure activities after paying all their household bills and expenses, as shown in the chart below. There was a marginal decline in selection of eating out vs our survey results last year. However, it still remains ahead of holidays, entertainment, and drinking out.

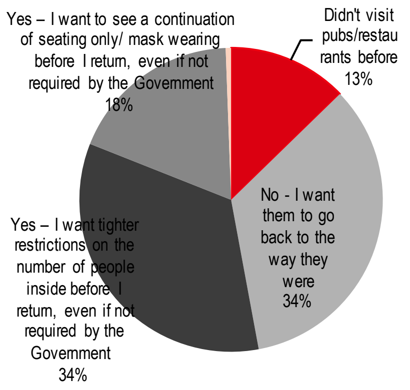
After you have paid all your household bills and expenses, which of the below do you most like spending money on? (Leisure Sector categories – Top 3 responses)



Source: HSBC, Toluna analytics survey

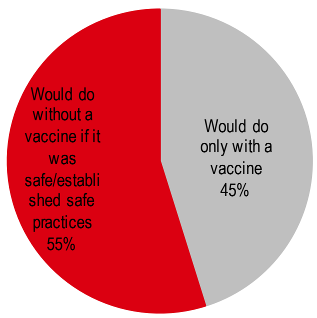
The willingness of people to return to pubs, restaurants, and bars shows no clear trend, with nearly third of respondents wanting to go back to the way things were before the pandemic and a broadly similar percentage of respondents preferring tighter restriction on the number of people allowed inside, even when not required by government. In terms of vaccinations, c55% of respondents who visit Pubs/Restaurants indicated that they would be comfortable visiting them without vaccination if proper safety standards are maintained.

When you return to pubs/bars and restaurants, would you expect to see modifications to the offer



Source: HSBC, Toluna analytics survey

Would you visit pubs/restaurants with/without a vaccine



Source: HSBC, Toluna analytics survey

Valuation & risks

We believe that market conditions for the hospitality industry have improved significantly over last few months. This is partially reflected in Electra's Group NAV, which increased 45% as of end-March (vs end-September). The reported NAV only includes the recovery towards 2019 levels, but not any improvement in Group businesses. This suggest a potential for further upside in the Group NAV, in our view.

In this report, we revise our valuation methodology. Previously, we valued the combined business based on the latest reported NAV. We now value Electra's businesses separately and continue to assume that the disposal of its assets will be actually completed by end-2021 (consequently, we make no changes to our estimates.

Valuation

GBPm	EBITDA	multiple	EV	net debt	valuation
Fridays	32.7	10	327	62	265.0
Hotter Shoes	5.4	7	37.8	12	25.8
Sentinel					22.2
Others					9.2
Total Valuation					323.2
Number of shares					38.3
TP - rounded off (p)					840.0

Source: HSBC estimates

Fridays: Management's conservative valuation approach for Fridays (assuming a return to pre-pandemic profitability) does not factor in the changes in Fridays business, new revenue initiatives, new operating model, or indeed the reduction in competition in the sector. However, Electra does acknowledge that Fridays will benefit from all these structural changes and believe that if industry sales were to return to FY19 levels, Fridays sales would grow over 5% and EBITDA by 28% (to GBP32.7m), even with 0% LFL growth vs 2019.

In our view, Fridays should be valued on its new business model. As a result, we value Fridays by multiplying management's estimate of pro-forma recovered EBITDA of GBP32.7m by a target EV/EBITDA multiple of 10x, which is broadly in in line with the average trading multiple for the following high quality leisure companies within the Hospitality sector: JD Wetherspoon (JDW LN, CMP 1,370p, Buy); Restaurant Group (RTN LN, CMP 126p, Buy); and Mitchell & Butlers (MAB LN, CMP 320p, Buy). Deducting Fridays net debt of GBP62m, we come to a valuation of 265m.

Hotter Shoes: We use pro-forma EBITDA of GBP5.4m (based on management expectations of what Hotter Shoes' new operating model could deliver) and a target multiple of 7x (a 30% discount to our target multiple for Fridays as this is a typical multiple that private equity asset trade at). This results in a valuation of GBP26m after subtracting Hotter Shoes net debt of GBP12m.

Sentinel: We use the sale value for Sentinel of GBP22.2m, while we value Other (SPC, Others, cash & cash equivalents, and other net liabilities) equal to March NAV at GBP9.2m.

Remaining assets: We arrive at a net asset valuation of GBP301m after subtracting GBP10m (26p per share) M&A fees and operating costs we expect until the wind-down of Electra.

Our adjusted NAV-based TP increases to 840p (from 327p), which implies 31% upside and we maintain our Buy rating.

Downside risks include: (1) disposal of TGI Fridays at a price below NAV value; (2) disappointing performance of TGI Fridays due to lack of recovery in consumer spending in the UK, and/or further negative consequences from the COVID-19 pandemic or any other reasons, (3) Electra's inability to realise a significant proportion of its portfolio value in the planned timeframe.

Disclosure appendix

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Important disclosures

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 27 May 2021, the distribution of all independent ratings published by HSBC is as follows:

Buy	58%	(29% of these provided with Investment Banking Services)
Hold	34%	(28% of these provided with Investment Banking Services)
Sell	8%	(25% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see "Stock ratings and basis for financial analysis" above.

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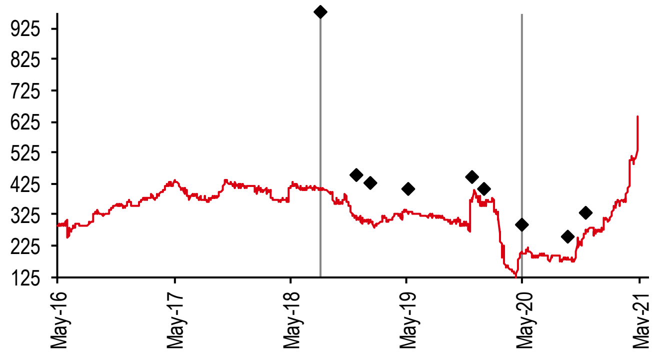
Share price and rating changes for long-term investment opportunities

Electra Private Equity (ELTA.L) share price performance GBp Vs HSBC rating history



Source: HSBC

Rating & target price history

From	To	Date	Analyst
Restricted	Hold	28 Aug 2018	Pierre Bosset
Hold	Buy	22 May 2020	Pierre Bosset
Target price	**Value**	**Date**	**Analyst**
Price 1	975	28 Aug 2018	Pierre Bosset
Price 2	450	20 Dec 2018	Pierre Bosset
Price 3	423	01 Feb 2019	Pierre Bosset
Price 4	407	04 Jun 2019	Pierre Bosset
Price 5	441	18 Dec 2019	Pierre Bosset
Price 6	404	27 Jan 2020	Pierre Bosset
Price 7	290	22 May 2020	Pierre Bosset
Price 8	250	15 Oct 2020	Pierre Bosset
Price 9	327	14 Dec 2020	Pierre Bosset

Source: HSBC

To view a list of all the independent fundamental ratings disseminated by HSBC during the preceding 12-month period, please use the following links to access the disclosure page:

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HSBC & Analyst disclosures

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Company	Ticker	Recent price	Price date	Disclosure
ELECTRA PRIVATE EQUITY	ELTA.L	6.40	26 May 2021	2, 5, 7

Source: HSBC

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2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

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10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.

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2 All market data included in this report are dated as at close 26 May 2021, unless a different date and/or a specific time of day is indicated in the report.

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1. This report was produced and signed off by the author on 27 May 2021 21:57 GMT.
2. In order to see when this report was first disseminated please see the disclosure page available at https://www.research.hsbc.com/R/34/x2PkbcL

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