Ardent Leisure 07/08/2018 **FAT-AUS-885**

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Fat Prophets take Profits

A recent update from Ardent Leisure (ASX.AAD) on its preliminary, unaudited full-year results, which include an estimated impact from non-cash valuation adjustments and impairment charges to be recorded in the second half of its fiscal year, were not well received by the market. Given the recovery in the Theme Park business after the tragic accident in 2016 is slow-going, we reassess our investment stance.

The weakness in the Australian Theme Park division has continued and the investigation into the 2016 tragedy on the Thunder Rapids Ride is ongoing. The Main Event business has significant blue-sky opportunity, but this year's results from that segment have also been impacted by various charges. New management is in place, but it is likely that significantly more time will be required to regain investor confidence. With earnings projections in the short term muted, we believe there are better investment opportunities elsewhere. **Accordingly, we recommend Members sell Ardent Leisure around current levels.**

30 July Update

Ardent Leisure's update on its preliminary, unaudited full-year results on 30 July has seen the shares sell-off from near 52-week highs prior to the announcement. Ardent Leisure intends to report full-year results for FY17 on 22 August 2018, so the numbers discussed in the update could change.

Preliminary group revenue of A$545 million to A$550 million for FY18 represents a modest fall from A$585 million in FY17. However, adjusted for disposed businesses, Ardent expects revenue to have been in the range of A$420 million to A$425 million, up from A$370 million in FY17, with the latter figure adjusted for businesses that have been sold since the year ago results.

			Ex Disposed Businesses	
Year ending (A$m)	26 June 2018	30 June 2017	26 June 2018	30 June 2017
Revenue	545 - 550	585	420 - 425	370
EBITDA	(50) – (55)	1	(91) – (96)	(72)
NPAT	(84) – (94)	(63)	(112) – (122)	(113)

Source: Ardent Leisure

As we discussed in prior coverage of Ardent, the company finalised the sale of its Bowling & Entertainment division ("B&E") division in April 2018. We viewed the transaction favourably, as the total consideration of A$160 million on a debt and cash free basis represented about 27.1x FY17 Core EBITDA and 32x FY17 Core EBIT for the business. The transaction will strengthen the company's balance sheet and free up capital to focus on the higher yielding Main Event centres and rebuild the Theme park brand in the wake of the 2016 tragedy that took the lives of four Dreamworld Theme Park guests.

The preliminary numbers show that revenue from the Main Event entertainment centres in the United States is expected to grow approximately 18% to A$355 million to A$357 million. On a like-for-like basis, revenue is expected to be up a modest 1.6% for the full year.

On the other hand, the company said revenue at the Australian Theme Parks division was “impacted by continued slow recovery post the Thunder River Rapids ride tragedy which occurred in October 2016, discounted ticket pricing, and some adverse weather conditions.” This has resulted in an estimated revenue range for the division of A$67 million to A$70 million, compared to A$71 million in FY17.

At the group level, last year Ardent squeezed out A$1 million in EBITDA (earnings before interest, tax, depreciation and amortisation). This year it’s expecting an EBITDA loss in the range of A$50 million to A$55 million. Adjusted for disposed businesses the estimated EBITDA loss of A$91 million to A$96 million compares well to A$72 million in FY17.

On the bottom line, FY18 NPAT (net profit after tax) is forecast to be a loss in the range of A$84 million to A$94 million, versus a A$63 million loss in FY17. Adjusted of the businesses since sold, the FY18 NPAT is estimated to be A$112 million to A$122 million compared to A$113 million in FY17.

Ardent’s FY18 preliminary numbers include substantial impairment charges and non-cash valuation adjustments. The heaviest impact was in the Australian Theme Parks business, with Dreamworld’s property valuation cut by A$75 million, following on from an A$89 million devaluation in FY17. Also, in FY18, Dreamworld incident costs, net of insurance recoveries were pinned at A$6 million. Non-cash adjustments to goodwill and an asset impairment were another A$5 million charge. Combined, the Australian Theme Parks charges were a pre-tax cost of A$86 million.

Year ending 26 June 2018 (A$m)	Theme Parks	Main Event	Disposed Businesses	Corporate	Total
Dreamworld property revaluation decrement	(75)	-	-	-	**(75)**
Dreamworld incident costs, net of insurance recoveries	(6)	-	-	-	**(6)**
Non-cash adjustments to goodwill	(4)	-	-	-	**(4)**
Non-cash asset impairment write-down	(1)	(38)	-	(1)	**(40)**
Non-cash loss on disposal of assets	-	(1)	(1)	-	**(2)**
Pre-opening costs	-	(5)	(1)	-	**(6)**
Net gain on sale of Bowling & Entertainment and Marinas divisions	-	-	25	-	**25**
Restructuring and other non-recurring items	-	(7)	-	(2)	**(9)**
Total	**(86)**	**(51)**	**23**	**(3)**	**(117)**

Source: Ardent Leisure

The Theme Parks business then is expected to post an EBITDA loss of A$91 million to A$95 million in FY18, following on from the A$98 million EBITDA loss in FY17.

The American Main Event business was also hit by a combined A$51 million in costs, the largest of which was a A$38 million non-cash impairment charge linked to five of the Main Event properties. This was attributed to "real estate quality and ongoing brand challenges associated with the former business that operated some of the locations."

That charge along with others totalling A$13 million in the Main Event business, have resulted in a predicted FY18 EBITDA range of A$12 million to A$13 million for the segment.

Main Event

Preliminary, unaudited results subject to the finalization of period end accounting entries

Year ending (A$m)	26 June 2018	30 June 2017
Revenue	355 - 357	299
EBITDA	12 - 15	46

Source: Ardent Leisure

That compares poorly to A$46 million in EBITDA generated by the segment in FY17, although we note the biggest charge was non-cash in nature. There was a A$7 million restructuring charge for the segment and A$5 million of pre-opening costs.

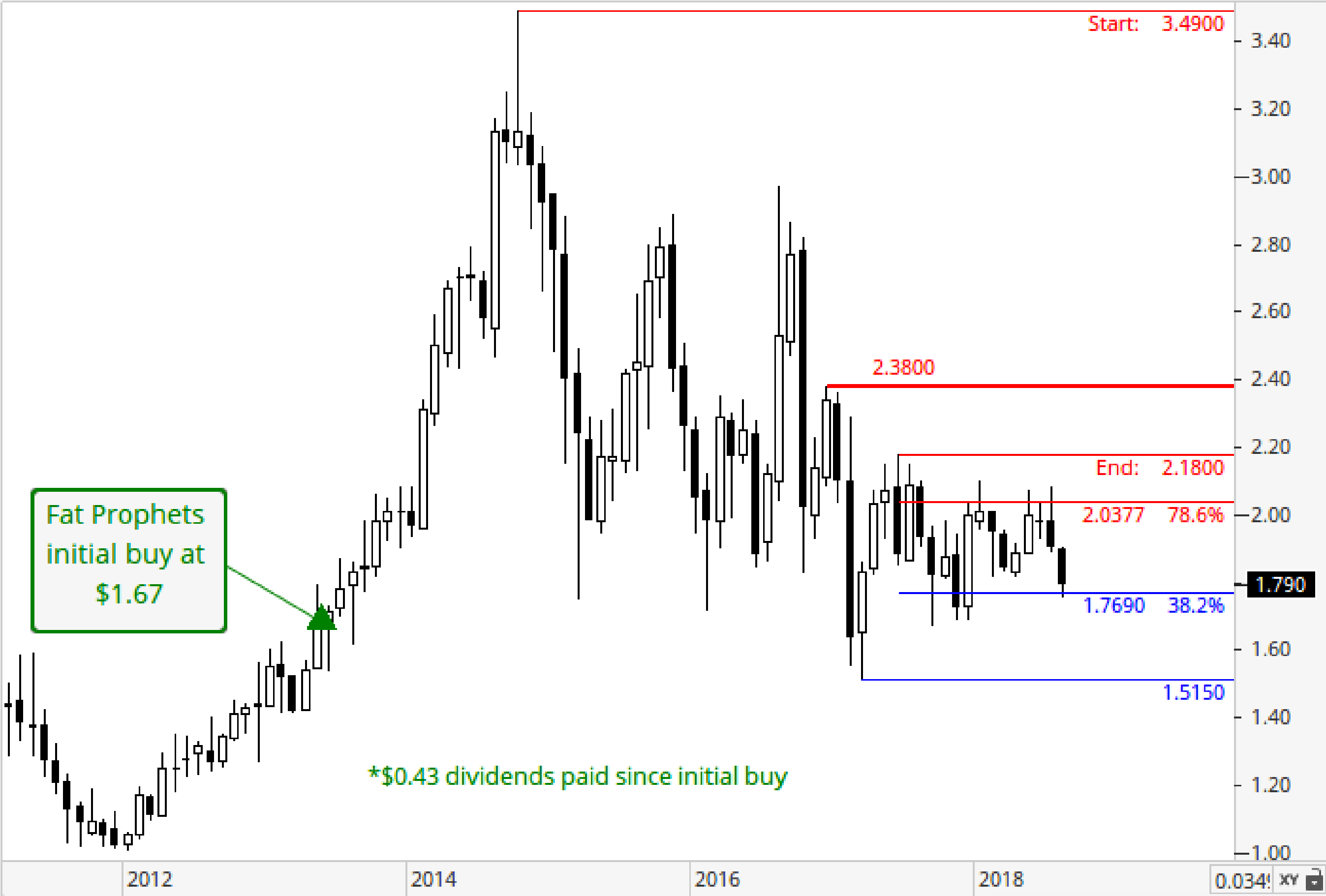
At the group level, the substantial charges taken were only partially offset by a A$25 million gain on the businesses sale. In these challenging times for the company, Ardent Leisure reported that excluding non-recurring items of A$4 million, FY18 pro-forma corporate costs are expected to be A$12 million, down from $16 million in FY17. Net debt at 26 June 2018 was roughly $11 million, with the proceeds from the sale of the disposed businesses used to pay down the current syndicated debt facility.

The technical picture of Ardent has deteriorated sharply since our last review. On the daily chart, overhead resistance situated at the January intra-month high of $2.10 has proven too stern. Indeed prices have corrected with some force back in the past month, with the 50 day and 200 day moving averages giving way. Support at $1.77 (the 38.2% Fibonacci) is also looking vulnerable.

Ardent Leisure Group - AAD (ASX) - 1 Day CandleStick Chart - AUD

With reference to the monthly chart, resistance at the 78.6% Fibonacci retracement of $2.04 has held firm. In order for the technical outlook to improve, a decisive clearance of resistance at $2.18, the June 2017 high, is needed. This seems unlikely at this point, with the 38.2% Fibonacci retracement at $1.77 now being tested. A fall below here would bring the 2017 low of $1.52 into play.

Ardent Leisure Group - AAD (ASX) - 1 Month CandleStick Chart - AUD



Summary

A recent update from Ardent Leisure on its preliminary, unaudited full-year results, were not well received by the market. The weakness in the Australian Theme Park division has continued and the investigation into the 2016 tragedy on the Thunder Rapids Ride is ongoing. The Main Event business has significant blue-sky opportunity, but this year's results from that segment have also been impacted by various charges. New management is in place, but it is likely significantly more time will be required to regain investor confidence.

With earnings projections in the short term muted, we believe there are better investment opportunities elsewhere. **Accordingly, we recommend Members sell Ardent Leisure around current levels.**

Group, Cairn Energy, Centamin Egypt, China Life Insurance, China Mobile, China Overseas, China Taiping, China Vanke, Country Garden, Daejan Holdings, Development Securities, Dragon, Enquest, Esure, Euronext, FedEx, Fresnillo, Ibiden, Infosys, Glaxosmithkline, Glencore International, Goldbridges Global Resources, Google (Alphabet), Grainger, Gulf Keystone Petroleum, Highland Gold Mining, HSBC,ICICI Bank, Ironveld, iShares Physical Metals, J Sainsbury, JKX Oil & Gas, John Wood Group, Kazakhmys, Legal & General, Lloyds, Low and Bonar, Market Vectors Junior Gold Miners, Market Vectors Oil Services, Market Vectors Vietnam, Marstons, Medusa Mining, Mitchells & Butlers, Mitsubishi Tokyo Financial, Mitsubishi UFJ, National Grid, Nippon Telegraph and Telephone, Panasonic, Paragon Group of Companies, Petra Diamonds, Petrofac, Petropavlovsk, PICC Property & Casualty, PPHE Hotel Group, Randgold Resources, Rank Group, Reckitt Benckiser, Royal Dutch Shell, Solgold, Sony Corporation, Standard Chartered, STV Group, Sylvania Platinum, Tata Motors, Tencent, Tertiary Minerals, Teva Pharamaceutical, Toyota Motor, Tullow Oil, Unilever, Vedanta Resources, Vodafone, Walt Disney, Zillow.

Snapshot AAD

Ardent Leisure

Latest Closing Price: $1.75

Ardent Leisure is one of Australia's biggest owners and operators of leisure assets including the Dreamworld, WhiteWater World & SkyPoint theme parks and attractions. The company also operates AMF and Kingpin Bowling, d'Albora Marinas, Goodlife Health Clubs, as well as Main Event, which is a growing portfolio of family entertainment assets in the United States.

Market Capitalisation:$824.85m

	FY1	FY2
Dividend Yield (%)	1.6	3.8
Price to Book	1.7	1.7