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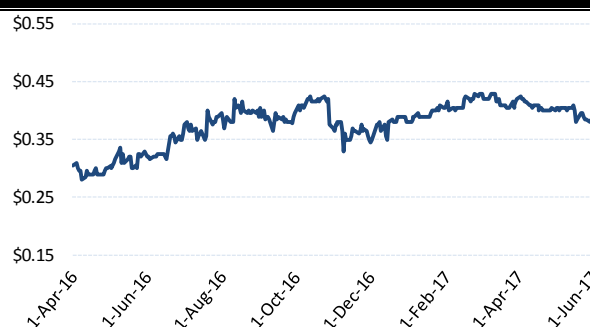
Gale Pacific(GAP): Subdued domestic retail; backable medium term growth strategy

Recommendation: BUY, target price \$0.50 (no change)

Share price: \$0.38

Market cap: \$113m

Year end June	2016A	2017E	2018E	2019E
Sales (\$m)	173.3	177.4	189.5	199.7
EBITDA (\$m)	22.2	22.3	24.8	26.6
Adj NPAT (\$m)	10.2	10.2	12.3	13.8
Adj EPS (cps)	3.4	3.4	4.1	4.7
EPS growth	51%	(0%)	20%	12%
PER (x)	11.0	11.1	9.2	8.2
DPS (cps)	1.8	1.8	2.1	2.4
EV/EBITDA	5.5x	5.1x	4.3x	3.7x
P/Cash Flow	6.4x	5.9x	5.9x	5.4x



Subdued domestic retail market: We have marginally revised the Australian revenue and earnings contribution as a result of a managed exit of ~5% non-core SKU's and extended impact of the exit of Masters in late 2016 and associated inventory discounting. Australia/NZ revenue forecast falls to \$100m (from \$103m) in FY17. The exit of lower margin SKU's is a positive outcome and consistent with management strategy, albeit we expect a minor short term impact to production and handling costs until resources can be fully deployed elsewhere. FY17 tax rate likely to rise to ~29% (from 24%) due to a higher mix of revenue generated from the Americas (higher tax jurisdiction) and less within MENA. Of the A\$11m forecast MENA sales we estimate < \$1m revenue is generated in Qatar. Reduce FY17 EPS by 9%.

Entrance of Amazon into Australia, tangibly from FY19, creates an opportunity for the retail brands to extend the distribution model online. Amazon revenues represent an estimated A\$8m to Gale Pacific in the Americas, equivalent to 15% of Americas revenues. Apportioning a similar penetration in Australia, would sustainably add \$10m to the domestic retail channel and up to \$1m-\$2m to group EBITDA. Our base view is that Amazon revenues would be margin neutral, due to lower inventory holdings costs.

Local Commercial business accounts for roughly \$30m of group revenues and is likely to be experiencing a full order book, driven by buoyant market for grain covers and other horticultural linked products, such as refrigerated produce boxes for domestic transport and export. We estimate that GAP generates ~12-15% EBITDA margins for domestic commercial versus ~7-10% in domestic retail. **Extending the commercial business to \$50m revenues within 2-3 years is one of our core reasons for owning GAP.** There is potential to extend production in Braeside/Beilun with new coating capacity, which could allow the company to better service latent demand from existing direct and wholesale channel customers in Australia and offshore. **We estimate spend of up to \$8m for new capacity. Capex for forecasting purposes is spread over FY18-FY19.**

Based on EBITDA expectations and improving cash conversion, operating cash flow is likely to be ~\$19m in FY17, equivalent to ~\$12m in free cash flow terms. **Sub 9x free cash flow multiple is attractive in our view. Maintain BUY and \$0.50 price target.** Upside catalysts come from an Amazon inspired rebound in

GAP domestic retail brands, on-going market share gains in the America's, upside from commercial margins and group wide EBITDA margin benefits from a leaner Chinese manufacturing operation.

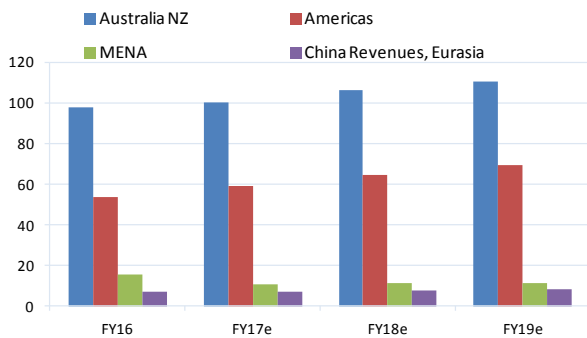
Category leadership in the Coolaroo brand, combined with alignment to the Bunning's growth engine should underpin positive comparable sales growth in FY18. 3%-5% sales growth is a maintainable target range (GDP+2-3%) within the domestic retail market. We have not written off GAP disposing one of the non-core brands in a trade sale. The most likely candidate in our view is still the glass manufacturer Everton. Everton was purchased for \$4m in 2013 with a goodwill carrying value of \$3m.

Manufacturing fine tuning an on-going process; operational efficiency improvements to reduce waste, duplication and improve productivity within the Chinese manufacturing facility continue. We see this as a 2 year strategy extending into FY18 and FY19. There is potential to increase group EBITDA margins by 2% (assuming a static currency). Chinese currency movement is marginally helping the manufacturing cost out strategy. Chinese currency has depreciated by 2%-3% versus the AUD and USD during FY17 to date. 70% of the group's manufacturing cost base and PPE is located in China.

Improvement to resin buying terms, currently sourced from Asia, is also likely to assist group margins as the revenue base expands. We have increased FY18 and FY19 capex by \$1m in each year. Combined capex over the 2 years is \$11m of which ~\$5m is maintenance capex and a further \$6m assumes investment in new coating capacity to service commercial markets in Australia and offshore.

Limited MENA exposure, mostly UAE/Saudi

3% CNY depreciation v AUD since June '16



Source: CCZ Equities, Bloomberg

Higher tax rate means a revision to FY17 EPS; dividend assumes 50% payout ratio

Gale Pacific (GAP): Forecast changes			2016A	2017E	2018E	2019E
Revenue	(AUD'm)	New	178.5	181.4	193.5	203.7
		Old	178.5	182.4	194.5	204.8
		Change	0%	-1%	-1%	-1%
		Growth	19%	2%	7%	5%
adj EBITDA	(AUD'm)	New	22.2	22.3	24.8	26.6
		Old	22.2	23.2	25.6	27.0
		Change	0%	-3%	-3%	-2%
		EBITDA Margin (%)	12.5%	12.3%	12.8%	13.1%
EBITDA Margin	(%)	New	12.5%	12.3%	12.8%	13.1%
		Old	12.5%	12.7%	13.2%	13.2%
		Change	0.00%	-0.38%	-0.34%	-0.15%
		adj NPAT	(AUD'm)	New	10.2	10.2
Old	10.2			11.2	12.7	14.0
Change	0%			-9%	-3%	-1%
Adj EPS	(AUD cps)			New	3.4	3.4
		Old	3.4	3.8	4.3	4.7
		Change	0%	-9%	-3%	-1%
		Growth	51%	0%	20%	12%
Dividend	(AUD cps)	New	1.75	1.75	2.10	2.40
		Old	1.75	2.00	2.25	2.50
		Change	0.0%	0.0%	0.0%	0.0%

Gale Pacific Limited (GAP.AX)

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STOCK INFORMATION	Share Price (AUD)	\$ 0.380	Market Cap (AUD)	113.0m
Gale Pacific manufacturers and distributes a range of shade cloth, industrial lining, glass and related products to the retail, construction, hotel and agricultural markets. The four brands are Coolaroo (Shade cloth & sails), Everton (Pool fencing), Zone Interiors (window furnishings, home wares) and Gale Pacific (Commercial grain covers, waterproof liners, shade cloths, vehicle protection etc). The Coolaroo brand accounts for ~55% of revenue, Gale Pacific is 29%, Zone is ~7% each and Everton is ~9% of the total. Australasia is the core geographical segment accounting for 56% of FY16 revenues, followed by the Americas at 31%.	Target Price (AUD)	\$ 0.50	Shares (listed)	297.2
	Recommendation	BUY	Year End	30-Jun
	1yr TSR Potential	36.2%	Market Cap (\$m)	113.0

RETURN ANALYSIS	2015A	2016A	2017E	2018E	2019E
Adj EPS (cps): weighted shares	2.3	3.4	3.4	4.1	4.7
adj EPS %	(93%)	51%	(0%)	20%	12%
Weighted ordinary Shares (m)	297.5	297.5	297.2	297.2	297.2
Diluted shares at year end (m)	299.8	301.2	301.0	301.0	301.0
reported EPS (cps):	1.7	3.4	3.4	4.1	4.7
PE on adj EPS	16.7x	11.0x	11.1x	9.2x	8.2x
PE - Emerging Co. Ex 100	19.0x	18.2x	16.9x	15.7x	14.6x
PE Relative	(12%)	(39%)	(35%)	(42%)	(44%)
PEG ratio x	-0.18	0.22	-63.77	0.45	0.65
Dividend (AUD cps)	1.00	1.75	1.75	2.10	2.40
Franking	0%	0%	0%	0%	0%
Dividend Yield	2.6%	4.6%	4.6%	5.5%	6.3%
Payout Ratio	44%	51%	51%	51%	52%
EV/EBITDA	7.3x	5.5x	5.1x	4.3x	3.7x
EV/EBIT	12.8x	8.1x	7.3x	6.1x	5.1x
adj EBITDA/Sales	11.9%	12.5%	12.3%	12.8%	13.1%
adj EBIT/Sales	6.9%	8.7%	8.8%	9.2%	9.7%
ROE	6.9%	10.3%	9.7%	11.0%	11.6%
ROIC (operating)	11.1%	11.4%	12.5%	14.9%	16.2%
ROFE	568%	14%	15%	17%	19%

VALUATION SUMMARY

Models (AUD/share)		DCF - Key Inputs		DDM - Key Inputs FY15	
DCF	0.50	WACC	11.5%	Retention Ratio	56%
DDM	0.23	Cost of Equity	11.5%	Expected Growth	5.2%
PE	0.54				
Weighted Avg	0.50	PE - Key Inputs	2016	2017E	2018E
		Target PER relative	90%	90%	90%
		Discount Rate	105%	100%	91%
Valuation Weighting		PV of EPS	0.56	0.52	0.59
DCF	100.0%	PV of Dividend	0.02	0.02	0.02
DDM	0.0%	PE Valuation	0.58	0.54	0.61
PE	0.0%				0.63

PROFIT & LOSS (AUD'm)	2015A	2016A	2017E	2018E	2019E
Revenue	148.0	173.3	177.4	189.5	199.7
Operating Cost	(132.7)	(156.3)	(159.1)	(168.7)	(177.1)
EBITDA (adj)	17.9	22.2	22.3	24.8	26.6
Depreciation	(6.9)	(6.2)	(5.8)	(6.3)	(6.3)
Amortisation	(0.8)	(1.0)	(1.0)	(1.0)	(1.0)
D&A (total)	(7.6)	(7.2)	(6.8)	(7.3)	(7.3)
EBIT (adj)	10.23	15.06	15.54	17.48	19.29
Net Interest	(1.76)	(1.54)	(1.15)	(0.64)	(0.35)
Pre-Tax Profit	8.5	13.5	14.4	16.8	18.9
Other Significants (after tax)	(1.6)	0.0	0.0	0.0	0.0
Tax	(1.7)	(3.3)	(4.2)	(4.5)	(5.1)
effective tax rate	20%	24%	29%	27%	27%
Reported NPAT	5.2	10.2	10.2	12.3	13.8
Underlying NPAT	6.8	10.2	10.2	12.3	13.8
Income Growth	10%	19%	2%	7%	5%
EBITDA Growth	2%	25%	0%	11%	7%
EBIT Growth	(40%)	47%	3%	13%	10%
Underlying PBT Growth	(50%)	60%	6%	17%	12%
Reported NPAT Growth	9,152%	98%	(0%)	20%	12%

BALANCE SHEET (AUD'm)	2015A	2016A	2017E	2018E	2019E
Cash	17.8	24.6	21.1	16.8	25.2
Receivables	27.1	30.2	30.1	31.7	32.8
Pre-payments	0.8	1.0	1.0	1.0	1.0
Inventories	39.2	44.6	42.7	42.7	42.7
Other	4.5	0.0	0.0	0.0	0.0
Current assets	89.4	100.3	94.9	92.2	101.7
Fixed Assets	34.9	30.4	31.1	30.0	33.2
Intangibles	25.3	25.2	24.2	23.9	20.4
Other	0.0	4.4	4.4	4.4	4.4
Non-Current Assets	60.2	60.0	59.7	58.3	58.0
Total Assets	149.6	160.4	154.7	150.5	159.7
Creditors	12.9	19.6	19.9	21.3	22.4
Short term debt	33.6	13.2	5.0	5.0	5.0
Current tax liability	2.2	2.8	2.8	2.8	2.8
Employee Benefits	1.8	3.6	3.6	3.6	3.6
Current Liabilities	50.5	39.1	31.3	32.6	33.8
Debt LT	0.8	19.5	15.7	3.7	3.7
Other & Employee benefits	0.5	2.1	2.1	2.1	2.1
Total Liabilities	51.8	60.8	49.1	38.4	39.6
Total Shareholder Funds	97.8	99.6	105.6	112.1	120.1
Total Funds Employed	114.4	107.8	105.2	104.0	103.6
Liquidity and leverage ratios					
NTA per Share \$	0.24	0.25	0.27	0.30	0.34
Net Debt (cash) \$m	16.7	8.2	(0.4)	(8.1)	(16.5)
Enterprise Value \$m	129.7	121.2	112.6	104.8	96.5
Net Debt (cash) / (Net debt + Equity)	15%	8%	(0%)	(8%)	(16%)
Cash Balance \$ per share	0.06	0.08	0.07	0.06	0.08
Intangible / EBITDA	1.42	1.13	1.08	0.96	0.77
Net Debt (cash) / EBITDA	(1.0x)	(0.2x)	(0.2x)	(0.5x)	(0.8x)

CASHFLOW (AUD'm)	2015A	2016A	2017E	2018E	2019E
Gross Cash Flow	15.5	19.6	17.0	19.6	21.1
Change in Working Capital	(11.1)	(1.8)	2.3	(0.2)	(0.0)
Operating Cash Flow	4.4	17.8	19.3	19.4	21.1
Capex (PPE)	(4.0)	(3.8)	(5.0)	(5.5)	(5.6)
Capex (Intangible)	(2.6)	(0.7)	(0.7)	(0.7)	(0.7)
Free Cash Flow	(2.2)	13.3	13.6	13.2	14.8
Free CFPS (cents)	(0.7)	4.4	4.5	4.4	4.9
Price / Free CFPS	(52x)	8.6x	8.4x	8.7x	7.7x
Operating cash / EBITDA	24%	80%	86%	78%	79%
Operating CFPS (cents)	1.5	5.9	6.4	6.5	7.0
Price / Operating CFPS	26.0	6.4	5.9	5.9	5.4
Capex / Depreciation	0.4x	0.1x	0.1x	0.1x	0.1x
Operating Cash Yield %	4%	16%	17%	17%	18%
Free Cash Yield %	-2%	12%	12%	12%	13%

SEGMENT INFORMATION	2015A	2016A	2017E	2018E	2019E
Australia / New Zealand					
revenue \$m	82.7	97.5	100.4	106.5	110.7
% growth	0.9%	17.8%	3.0%	6.0%	4.0%
Americas					
revenue \$m	43.4	53.6	59.0	64.3	69.5
% growth	20%	24%	10%	9%	8%
MENA					
revenue \$m	14.4	15.4	10.8	11.1	11.5
% growth	11%	7%	-30%	3%	3%
China Manufac / Eurasia					
revenue \$m	7.5	6.8	7.2	7.6	8.1
% growth	-17%	-9%	6%	6%	6%
Corporate Costs	-4.1	-2.0	-2.0	-2.1	-2.1

SUBSTANTIAL SHAREHOLDERS		Interim Results		
Shareholder	Holding		1H17	2H17e
1. Thorney Holdings Pty Ltd	26.8%	Revenue	82.6	94.8
2. Windhager Holding AG	14.1%	EBITDA adj	7.9	14.5
3. JP Morgan Nominees	6.8%	NPAT adj	3.4	6.9
		EPS (c) adj	1.1	2.3
		DPS (c) adj	1.0	0.8
		EBITDA margin %	9.5%	15.3%
		Operating Cash Flow \$m	-0.72	20.00

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