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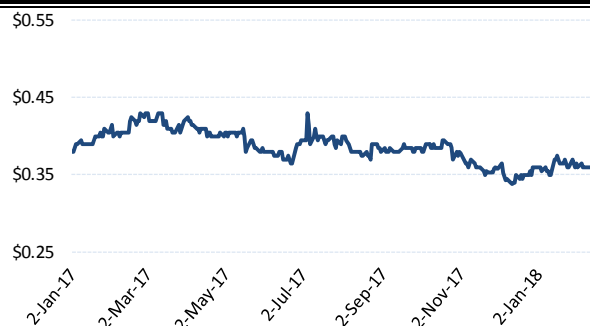
Gale Pacific(GAP): Proving up the Americas growth model is the key to re-rating

Recommendation: BUY, target price \$0.43 (from \$0.50)

Share price: \$0.36

Market cap: \$103.7m

Year end June	2016A	2017A	2018E	2019E	2020E
Sales (\$m)	173.3	175.4	164.4	179.1	198.3
EBITDA (\$m)	22.2	21.4	20.4	22.2	23.8
Adj NPAT (\$m)	10.2	10.1	10.2	11.4	12.5
Adj EPS (cps)	3.4	3.4	3.5	4.0	4.3
EPS growth	51%	(1%)	4%	12%	9%
PER (x)	10.5	10.6	10.2	9.1	8.3
DPS (cps)	1.8	2.0	2.0	2.3	2.5
EV/EBITDA	5.2x	5.0x	5.2x	4.5x	3.8x
P/Cash Flow	6.1x	5.5x	6.1x	5.9x	5.7x



1H profit before tax of \$1.7m was in line with the pre-announced guidance and management has reiterated FY18 PBT guidance of \$13.5m, flat on pcp. 1H revenue declined by \$12m on pcp, of which we attribute -\$7m to the staged closure of the low margin Everton glass business and -\$5.7m from declines in grain storage/cover orders as a result of the lower tonnage East Coast grain harvest.

Following 2 years of brand re-structuring and re-aligning sales functions, P/E expansion is now contingent on GAP's capacity to demonstrate EPS growth and higher return on capital metrics. We see the domestic commercial division and the Americas region as the main drivers of profitable revenue growth. Full year guidance implies a 1H/2H EBITDA split of 26%/74%, which is even more weighted to the 2H than pcp (37%/63%), on the back of a strong USA order book. The new, larger warehouse in California supports Gale's capacity to consistently deliver a base level of exterior blinds, shade sails, shade cloth and umbrella inventory into the US market from China in readiness for seasonal demand levels between February and September. We estimate that during 2018, Gale Pacific has channel exposure to over ~4,800 hardware and club outlets, up from ~3,300 during 2017 and supplemented by almost \$20m worth of online sales (including Amazon). We forecast ~\$10m revenue growth in the America's during each of FY18 and FY19, split between online sales growth, greater store penetration and rising comparable sales.

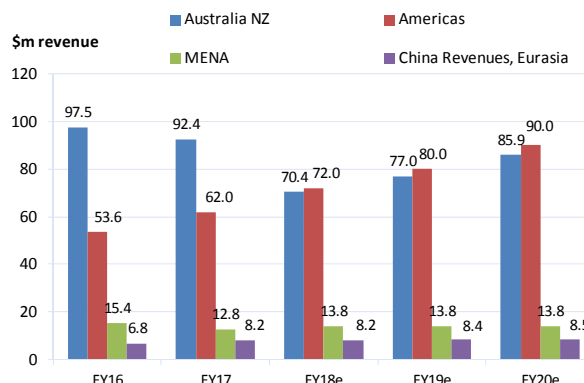
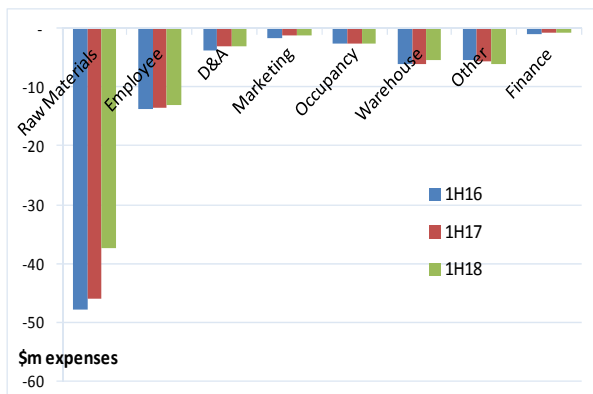
The new, Braeside based commercial coating machine is due to for operation by February 2019. We expect the machine to contribute marginally to commercial revenues in FY19 and add ~\$10m commercial revenues in FY20. We understand that the new commercial machine will alleviate capacity constraints and inefficiencies in higher margin, commercial exterior coating products for the property, infrastructure and agricultural segments. Commercial product sales are accretive to group margins.

CCZ site tour to the Ningbo manufacturing facility, highlighted cost pressures from wages growth, offset by the planned technology roll-outs and production improvements such as standardisation of shade sail and exterior blind products for global markets. With ~\$17m of operating cash flow and ~\$13m of steady state free cash flow, we believe that confidence in ~10% earnings growth can drive an EV/EBITDA multiple expansion closer to the peer group average of 6.9x (1AL, SHM, MCP). \$0.43 valuation. Maintain BUY.

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Falling raw material costs in line with ↓ sku's Closure of ~\$12m revenue Everton brand



Source: CCZ Equities

Revenue split by region

Revenue A\$m	1H17	2H17	1H18	2H18e
Australia	56.8	35.6	43.4	27.0
	-1%	-11%	-24%	-24%
Americas	17.1	44.9	17.0	55.0
	21%	14%	0%	22%
MENA	6.1	6.8	7.3	6.5
	-30%	-1%	21%	-4%
EurAsia	2.6	5.7	2.4	5.8
	6%	28%	-6%	3%
Total	82.5	92.9	70.2	94.3
	0%	2%	-15%	2%

Interim P&L splits

Half yearly	1H17	2H17	1H18	2H18e
Sales revenue	82.6	92.8	70.2	94.3
EBITDA	7.9	13.5	5.4	15.0
EBIT	4.7	10.3	2.4	12.0
Adj NPAT	3.3	6.8	2.1	8.1
Reported NPAT	3.3	-11.3	2.1	8.1
EBITDA / sales	9.5%	14.6%	7.7%	16.0%
Adj EPS (c)	1.11	2.29	0.70	2.85
EPS growth on pcp	4%	-3%	-38%	25%
DPS (c)	1.00	1.00	1.00	1.00
% of FY EBITDA	37%	63%	26%	74%

Source: CCZ Equities

Result highlights

- (-\$3.5m) operating cash flow
- Inventory days to 118 (from 105) with early preparation for the peak USA season
- Debtors days increased to 78 (from 68)
- Net Debt of \$11m, ~0.5x FY18e EBITDA
- USA proposal to reduce tax rates from 35% to 21% in phases is a positive development as the USA is likely to grow to 40% of the earnings base. We have reduced the group tax rate to 24% in FY19e
- 1.0 cent fully franked dividend declared, consistent with forecasts
- 9.3m shares (of the maximum 30.0m shares) have been re-purchased during FY18

Peer group: GAP needs to prove EPS/ROIC growth to drive EV/EBITDA expansion

Peer Group	Market Cap	PERx	PERx	EPS	EPS	ROIC	EV/EBITDA	EV/EBITDA
Name/Code	A\$m	FY18e	FY19e	FY18e	FY19e	% pre-tax	FY18e	FY19e
McPhersons (MCP)	130.1	10.1	9.2	-7%	10%	17%	5.6	5.7
Shiro (SHM)	150.2	10.8	9.9	-5%	10%	34%	6.3	5.8
Breville (BRG)	1717.3	29.0	25.1	10%	16%	28%	17.1	15.2
Oneall (1AL)	116.1	11.4	10.2	0%	11%	31%	8.7	7.8
<i>averages</i>		15.3	13.6	0%	12%	28%	9.4	8.6
Gale Pacific (GAP)	103.7	10.2	9.07	4%	12%	15%	5.2	4.5

Source: CCZ Equities

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Gale Pacific Limited (GAP.AX)		Analyst: Ian Munro e: imunro@ccz.com.au p: + 61 3 8605 7902 Publication Date: 22 Feb 2018	
STOCK INFORMATION		Share Price (AUD)	\$ 0.360
<p>Gale Pacific manufactures and distributes a range of shade cloth, industrial lining and related products for the horticulture, architectural and agricultural markets. The three brands are Coolaroo (Shade cloth & sails), Zone Interiors (window furnishings, home wares) and Gale (Commercial grain covers, waterproof liners, shade cloths, vehicle protection etc). The Coolaroo brand accounts for ~53% of revenue, Gale Pacific is 37%, Zone is ~ 10% of the total. Australasia is the core geographical segment accounting for 53% of FY17 revenues, followed by the Americas at 35%.</p>		Market Cap (AUD)	103.7m
		Target Price (AUD)	\$ 0.430
		Recommendation	BUY
		1yr TSR Potential	25.0%
		Shares (listed)	288.0
		Year End	30-Jun
		Market Cap (\$m)	103.7

RETURN ANALYSIS	2016A	2017A	2018E	2019E	2020E
Adj EPS (cps): weighted shares	3.4	3.4	3.5	4.0	4.3
adj EPS %	51%	(1%)	4%	12%	9%
Weighted ordinary Shares (m)	297.5	297.2	288.0	288.0	288.0
Diluted shares at year end (m)	301.2	301.0	291.7	291.7	291.7
reported EPS (cps):	3.4	(2.7)	3.5	4.0	4.3
PE on adj EPS	10.5x	10.6x	10.2x	9.1x	8.3x
PE - Emerging Co. Ex 100	18.2x	16.9x	15.7x	14.6x	13.6x
PE Relative	(43%)	(37%)	(36%)	(38%)	(39%)
PEG ratio x	0.2	-8.5	2.4	0.8	0.9
Dividend (AUD cps)	1.75	2.00	2.00	2.25	2.50
Franking	0%	0%	0%	0%	0%
Dividend Yield	4.9%	5.6%	5.6%	6.3%	6.9%
Payout Ratio	51%	59%	56%	57%	58%
EV/EBITDA	5.2x	5.0x	5.2x	4.5x	3.8x
EV/EBIT	7.7x	7.1x	7.4x	6.4x	5.4x
EV/Revenue	0.7x	0.6x	0.6x	0.6x	0.5x
adj EBITDA/Sales	12.5%	12.1%	12.4%	12.3%	11.9%
adj EBIT/Sales	8.7%	8.6%	8.8%	8.6%	8.5%
ROE	10.3%	12.1%	11.7%	12.4%	12.7%
ROIC (pre-tax)	12.4%	14.8%	15.1%	15.3%	15.8%
ROFE	14%	16%	17%	18%	20%

VALUATION SUMMARY					
Models (AUD/share)		DCF - Key Inputs		DDM - Key Inputs FY15	
DCF	0.43	WACC	11.4%	Retention Ratio	44%
DDM	0.27	Cost of Equity	11.5%	Expected Growth	5.3%
PE	0.52				
Weighted Avg	0.43	PE - Key Inputs	2017A	2018E	2019E
		Target PER relative	90%	90%	90%
		Discount Rate	103%	98%	94%
Valuation Weighting		PV of EPS	0.52	0.50	0.52
DCF	100%	PV of Dividend	0.02	0.02	0.02
DDM	0%	PE Valuation	0.54	0.52	0.54
PE	0%				

PROFIT & LOSS (AUD'm)	2016A	2017A	2018E	2019E	2020E
Revenue	173.3	175.4	164.4	179.1	198.3
Operating Cost	(156.3)	(154.9)	(144.9)	(157.8)	(175.4)
EBITDA (adj)	22.2	21.4	20.4	22.2	23.8
Depreciation	(6.2)	(5.3)	(5.0)	(5.8)	(6.0)
Amortisation	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
D&A (total)	(7.2)	(6.4)	(6.0)	(6.8)	(7.0)
EBIT (adj)	15.1	15.0	14.4	15.4	16.8
Net Interest	(1.54)	(1.53)	(0.81)	(0.37)	(0.37)
Pre-Tax Profit	13.5	13.5	13.6	15.0	16.4
Other Significant (after tax)	0.0	(18.1)	0.0	0.0	0.0
Tax	(3.3)	(3.4)	(3.4)	(3.6)	(3.9)
effective tax rate	24%	25%	25%	24%	24%
Reported NPAT	10.2	(8.0)	10.2	11.4	12.5
Underlying NPAT	10.2	10.1	10.2	11.4	12.5
Income Growth	19%	(1%)	(6%)	9%	11%
EBITDA Growth	25%	(4%)	(5%)	9%	7%
EBIT Growth	47%	(0%)	(4%)	7%	9%
Underlying PBT Growth	60%	(0%)	1%	10%	9%
Reported NPAT Growth	98%	(178%)	28%	12%	9%

BALANCE SHEET (AUD'm)	2016A	2017A	2018E	2019E	2020E
Cash	24.6	25.0	11.8	19.3	27.7
Receivables	30.2	29.5	27.2	29.1	32.3
Pre-payments	1.0	1.4	1.4	1.4	1.4
Inventories	44.6	37.4	37.4	37.4	37.4
Other	0.0	0.0	0.0	0.0	0.0
Current assets	100.3	93.3	77.9	87.4	98.8
Fixed Assets	30.4	27.0	35.3	33.3	30.1
Intangibles	25.2	7.3	6.8	6.3	5.8
Other	4.4	4.3	4.3	4.3	4.3
Non-Current Assets	60.0	38.6	46.4	43.9	40.2
Total Assets	160.4	131.9	124.3	131.3	139.0
Creditors	19.6	19.5	18.2	19.9	22.0
Short term debt	13.2	7.3	7.3	7.3	7.3
Current tax liability	2.8	0.9	0.9	0.9	0.9
Employee Benefits	3.6	2.5	2.5	2.5	2.5
Current Liabilities	39.1	30.1	28.9	30.5	32.6
Debt LT	19.5	16.4	6.4	6.4	6.4
Other & Employee benefits	2.1	2.1	2.1	2.1	2.1
Total Liabilities	60.8	48.5	37.3	39.0	41.1
Total Shareholder Funds	99.6	83.4	87.0	92.3	97.9
Invested Capital	121.3	101.9	95.4	100.8	106.4
Liquidity and leverage ratios					
NTA per Share \$	0.25	0.26	0.28	0.30	0.32
Net Debt (cash) \$m	8.2	(1.3)	1.9	(5.7)	(14.0)
Enterprise Value \$m	115.2	105.7	105.5	98.0	89.7
Net Debt (cash) / (Net debt + Equity)	8%	(2%)	2%	(7%)	(17%)
Cash Balance \$ per share	0.08	0.08	0.04	0.07	0.09
Intangible / EBITDA	1.13	0.34	0.33	0.28	0.24
Net Debt (cash) / EBITDA	(0.2x)	(0.4x)	(0.3x)	(0.6x)	(0.9x)

CASHFLOW (AUD'm)	2016A	2017A	2018E	2019E	2020E
Gross Cash Flow	19.6	11.8	16.2	18.2	19.5
Change in Working Capital	(1.8)	7.7	1.1	(0.3)	(1.0)
Operating Cash Flow	17.8	19.5	17.3	17.9	18.5
Capex (PPE)	(3.8)	(3.8)	(11.0)	(4.0)	(3.0)
Capex (Intangible)	(0.7)	(0.5)	(0.5)	(0.5)	(0.5)
Free Cash Flow	13.3	15.2	5.8	13.4	15.0
Free CFPS (cents)	4.4	5.1	2.0	4.6	5.1
Price / Free CFPS	8.2x	7.1x	18.2x	7.8x	7.0x
Operating cash / EBITDA	80%	91%	85%	81%	78%
Operating CFPS (cents)	5.9	6.5	5.9	6.1	6.3
Price / Operating CFPS	6.1	5.5	6.1	5.9	5.7
Capex / Depreciation	0.1x	0.1x	0.1x	0.1x	0.1x
Operating Cash Yield %	16%	18%	16%	17%	18%
Free Cash Yield %	12%	14%	6%	13%	14%

SEGMENT INFORMATION	2016A	2017A	2018E	2019E	2020E
Australia / New Zealand					
revenue \$m	97.5	92.4	70.4	77.0	85.9
% growth	17.8%	-5.2%	-23.8%	9.3%	11.7%
Americas					
revenue \$m	53.6	62.0	72.0	80.0	90.0
% growth	24%	16%	16%	11%	13%
MENA					
revenue \$m	15.4	12.8	13.8	13.8	13.8
% growth	7%	-17%	8%	0%	0%
China Manufac / Eurasia					
revenue \$m	6.8	8.2	8.2	8.4	8.5
% growth	-9%	21%	15%	2%	2%
Corporate Costs	-2.0	-2.0	-2.4	-2.6	-2.7

SUBSTANTIAL SHAREHOLDERS		Interim Results		
Shareholder	Holding	1H18	2H18e	
1. Thorney Holdings Pty Ltd	27.7%	Revenue	70.2	94.3
2. Windhager Holding AG	14.6%	EBITDA adj	5.4	15.0
3. JP Morgan Nominees	7.0%	NPAT adj	2.1	8.1
		EPS (c) adj	0.7	2.8
		DPS (c) adj	1.0	1.0
		EBITDA margin %	7.7%	16.0%
		Operating Cash Flow \$m	-0.7	20.3

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