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RCG (RCG) 40c

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THE operator of The Athletes Foot (TAF) chain did a keen deal to buy out the royalty rights from its distressed US masters for \$7.4million, thus saving \$1.2m in annual licensing payments.

But the more compelling motivation is that the deal -- which lasts for 249 years -- frees up RCG to expand its, er, footprint in Australia.

Under its old agreement with US owner NexCen, RCG couldn't expand into any line that duplicated TAF's offerings. TAF sells footwear other than jocks' sandals, so the restriction was onerous.

"This allows us to go on a journey we have been planning to go on for some time," says RCG chairman Ivan Hammerschlag.

The biggest sporting shoe retailer, TAF consists of 131 franchised stores and five company-owned outlets. RCG has also rolled out four big-format stores and expects to have 10 open before Christmas.

Even after handing over dough to NexCen, RCG will have \$19m in cash and a hearty acquisitive appetite. The targets? "Anyone who sells footwear," says Hammerschlag.

Mind you, management has been kicking plenty of non-footwear tyres as well and we gather it wouldn't be averse to acquiring, say, a niche apparel retailer.

TAF has been doing "exceptionally well", with like-for-like sales growing 11 per cent in the year to June 30. TAF's customer base -- 30 to 60-year-olds with an unnatural penchant for exercise -- have kept spending.

Ord Minnett, the only broker covering the stock, notes that RCG enjoys strong cashflow because franchisees bear the costs of fit-outs and inventories (RCG takes 7 per cent of sales).

"Acquisitions are likely in the current environment of depressed asset prices, potentially delivering EPS upgrades of 30 per cent to 80 per cent," the firm says. "To date over 40 investments have been reviewed, illustrating management's focus on risk-adjusted returns."

Ord Minnett estimates RCG will deliver a \$5.6m result for 2008-09 (EPS of 2.4c). This increases to \$6.5m (EPS of 2.7c) in the current year.

We rate RCG a buy in the hope management buys sensibly and it's happy feet all round. Ord Minnett likes the stock but cautions the saturation point for TAF is about 180 stores.

Premier Investments (PMV) \$6.22

JUST as consumers haven't given up on shoes, they're keen on procuring a crisp pair of Levi's boot-cuts or a nice frock from Dotti.

The winner is the Solomon Lew-controlled Premier Investments, which acquired Just Group a year ago. Followers of the dark takeover arts will recall that Sol was dissing Just Group's prospects during the hostile tilt. He was also the first to call a "dramatic decline" in clothing spending.

All that's in the past, with Premier yesterday disclosing a dramatic second-half sales boost for Just. On a like-for-like basis, Just's sales climbed 2 per cent, compared with a 4.3 per cent decline in the first half. Bear in mind Premier pretty much is the Just Group these days.

The stellar sales showing means Premier now expects Just to generate full-year EBITA of \$94-96m, 2-4 per cent ahead of the previous year (in February the company called a 10 per cent decline).

The announcement is much-needed reassurance for refusenik Just holders who didn't want to be enveloped by Premier, a stock not known for its transparency.

Premier stock gained 24c yesterday, which helps close a valuation gap. Criterion moved Premier from an avoid to a buy at \$4.03 and we revert to a hold.

Premier sits on \$277m of franking credits worth \$1.89 a share, so expect another special div.

Biota (BTA) \$2.17

BIOTA chief Peter Cook and his CFO Damian Lismore are Essendon Bombers tragics -- and like their beloved AFL team, they've

played for a draw.

The flu buster said the company and partner AstraZeneca had curtailed further development on an anti-viral drug to treat respiratory syncytial virus, a common childhood respiratory infection.

The gist is that the phase-one trials worked, but the "drug profile overall did not meet the desired safety margin".

Biota and AstraZeneca have terminated their collaboration agreement and the patents revert to Biota. Biota will invest a further \$3m on developing back-up compounds, but this project looks kaput to us.

Biota then disclosed successful results from its phase-three trials of laninamivir, a fast-acting variant of its Relenza flu drug.

Biota and its Japanese partner, Daiichi Sankyo, will seek regulatory approval to sell the drug in Japan, with other licensing partners sought elsewhere.

"Given the significant interest in influenza, we believe there is a strong chance that a licensing agreement could be achieved over the next six months," say ABN Amro Morgans biowatchers Scott Power and Tanya Solomon.

Unlike the hapless Bombers on the weekend, Biota managed to do more than neutralise the result: the shares gained 11c, with the laninamivir upside deemed to be more significant.

Criterion had Biota as a hold at \$1.76 on July 24, arguing the stock looked overcooked, despite improving Relenza sales.

We'll blow the siren on this one and suggest some profit-taking. Sell.

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