Small Caps

# Consumer doldrums can't stop Kathmandu, Ardent

PUBLISHED: 06 Jul 2011 PRINT EDITION: 7 July 2011

**Claire Stewart**

given the tough conditions facing Australian consumers, it is a surprise that two of the best performing small-cap industrials are reliant on discretionary spending.

Over the past 12 months Kathmandu and Ardent Leisure have defied sector headwinds to trade about 28 per cent and 26 per cent higher, respectively. They have outperformed the S&P/ASX 200 consumer discretionary sector, which is down 8.6 per cent, and the S&P/ASX Small Industrials index, up about 10 per cent.

Investors, though, think their share price performance is likely to diverge over coming months.

Ardent Leisure, which operates the Dreamworld and Whitewater theme parks, is viewed as the more likely of the two to maintain its share price trajectory.

Avoca Investment Management managing director John Campbell said their expectations the Australian dollar would return to sustainable long-term levels meant the Gold Coast tourism sector and equities exposed to it would recover.

"For a business that eventually will see the upside of returning tourism, Ardent got down to a very cheap level during the sell off. I think also, its recent half-yearly report showed quite a good performance out of Dreamworld given the soft consumer-spending environment. So that surprised the market a bit as well. "

Ardent's share price has rebounded after earnings were battered by an aggressive price war on park entry fees, instigated by Village Roadshow. Village has three parks on the Gold Coast and about 60 per cent of market share. Ardent's market share slipped until it responded with its own cheaper pricing structure.

Eley Griffiths analyst David Allingham said shares have been heavily discounted because of market concerns the irrational pricing competition would spiral out of control.

"Now the discounting has eased, concerns have bottomed out and investors can start valuing the business properly again," he said.

Through the global financial crisis, demand grew for domestic entertainment options as households saved money by holidaying locally, rather than overseas.

The easing price war with Village has driven Ardent's share price higher despite the strong Australian dollar encouraging consumers to spend overseas.

Wilson Asset Management's Matt Haupt said, in contrast, the only thing keeping Kathmandu afloat in the tough consumer conditions was the high Australian dollar, which had significantly reduced input costs.

The company has missed out on top-line growth because of its decision to pass on the lower input costs to the consumer in the form of regular discounts and sales. However, its store rollout program (expanding from about 30 stores to a target of 100) has driven earnings growth over the past year.

"Whenever you're in a rollout stage, growth always looks good, revenue keeps growing and earnings keep growing and the share price reflects this," said Mr Haupt.

But WAM has sold out of the stock, which Mr Haupt said is travelling on a high price-earnings multiple because of the store rollout.

The Australian Financial Review

## Related News

| | |
|---|---|
| Companies | Kathmandu Hold Ltd, Ardent Leisure Group |
| Topics | Consumer Goods & Services/Tourism & Travel, Consumer Goods & Services/Retail & Wholesale, Consumer Goods & Services/Consumer Durables & Apparel |