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# Select Harvests (SHV)

## Costs on the high side

**Recommendation**  
**Buy** (unchanged)  
**Price**  
**\$5.55**  
**Target (12 months)**  
**\$6.85** (previously \$7.10)

**GICS Sector**  
**Food Beverage and Tobacco**

**Expected Return**

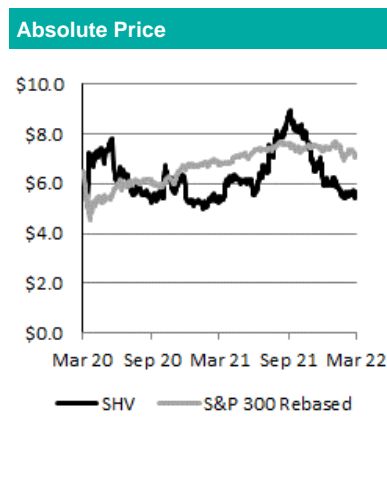
Capital growth	<b>23.4%</b>
Dividend yield	<b>1.4%</b>
Total expected return	<b>24.9%</b>

**Company Data & Ratios**

Enterprise value	<b>\$769.3m</b>
Market cap	<b>\$671.3m</b>
Issued capital	<b>121.0m</b>
Free float	<b>100%</b>
Avg. daily val. (52wk)	<b>\$2.4m</b>
12 month price range	<b>\$5.22-8.98</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	5.39	6.95	5.37
Absolute (%)	4.82	-18.71	5.21
Rel market (%)	0.97	-14.38	1.14



SOURCE: IRESS

### AGM highlights

SHV's recent AGM comments highlighted continued subdued almond market conditions and more elevated costs than we had previously allowed for. Key points:

**Crop forecast:** SHV has experienced reasonable growing conditions through the year and anticipates a crop of ~29,500t (vs. BPe of 29,200t). Harvest commenced in early Feb'22 and sizing and quality are in line with expectations.

**Costs:** SHV has maintained comments that lower water prices should flow through to a saving of \$6-8m in FY22e. However, total growing costs on a per Kg basis are anticipated to be unchanged YOY, with inflation in crop inputs and higher expensing of lease costs. This is slightly higher than we had previously allowed.

**Price:** Almond prices have retreated to the lows seen a year ago, with spot market pricing based on SHV's quality mix looking to be in the region of ~A\$6.00-6.20/Kg. To date SHV has committed ~20% of the crop, with price premiums being achieved for newer larger sized crop. SHV has forward cover on the AUDUSD at 73¢ over 85% of the forecast FY22e crop.

**Snowpack:** Following a drier than average Jan-Feb, the Californian snowpack has receded to ~63% of normal for this time of year. If maintained this would likely prove a headwind to May'22 Californian production forecasts.

We have raised our cost estimates, while leaving our price estimate unchanged. Implicitly our forecasts assume a recovery in almond pricing as the Californian crop develops and logistics issues are resolved. Our NPAT forecasts fall -10% in FY22e, -10% in FY23e and -7% in FY24e. Our target price is reduced to \$6.85ps (prev. \$7.10ps) following these changes.

### Investment view: buy rating unchanged

There is no change to our Buy rating. SHV is trading at a level broadly consistent with its market adjusted NAV (water + land at market value) of ~\$5.48ps (historical support level), with spot almond prices well below the long-term average of ~A\$7.70/Kg.

**Earnings Forecast**

Year end September	2021	2022e	2023e	2024e
Sales (\$m)	218.1	209.5	231.9	255.1
EBITDA (\$m)	53.7	61.1	76.5	90.0
NPAT (reported) (\$m)	15.1	25.5	36.4	45.7
NPAT (adjusted) (\$m)	25.2	25.5	36.4	45.7
EPS (adjusted) (cps)	21.3	21.1	30.0	37.3
EPS growth (%)	(17.6)	(0.9)	41.9	24.7
PER (x)	26.0	26.3	18.5	14.9
FCF Yield (%)	2.5	10.0	3.4	4.7
EV/EBITDA (x)	14.3	12.6	10.1	8.6
Dividend (¢ps)	8.0	8.0	12.0	15.0
Franking (%)	100.0	100.0	100.0	100.0
Yield (%)	1.4	1.4	2.2	2.7
ROE (%)	4.8	4.7	6.4	7.7

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Company overview

## Company description

Select Harvests (SHV) is an integrated grower, processor and marketer of almonds owning and operating farming and processing assets in Australia. SHV offers a vertically integrated model with core capabilities in farming, processing and marketing. SHV operates a diversified portfolio of almond orchards as well as state of the art processing facility in Carina VIC (with capacity to process 30,000t of almonds) and value added processing in Thomastown VIC.

## Valuation

We have derived a target price of \$6.85ps. In deriving our target price we have utilised a sum of the parts methodology, which utilises an NPV for the orchard asset base, market value for water assets and a relative multiple approach for the residual food processing assets. Our NPV utilises a pre-tax WACC of 7.3%.

## Risks

Risks facing SHV include but are not limited to:

**COVID-19:** The substantial impact of COVID-19 on the global and domestic economies is creating enormous volatility and uncertainty in global share markets. The forecasts in the report may be subjected to significant changes if this situation continues for an extended period of time.

**Crop risk:** Bees require warm, sunny and calm conditions for ideal pollination. The onset of adverse weather conditions (wet or windy between July-September) can impact pollination and nut set. In addition rainfall in harvest can affect quality and yield thereby impacting both volumes and prices achieved for the almond crop. In addition to weather in key windows, insect damage and disease have the ability to impact crop quality and yields.

**Input cost risk:** Fertiliser and chemical costs represent 20-25% of an orchards cash costs a material uplift in fertiliser prices can have a meaningful impact on costs. Water costs reflect ~10% of an orchards cash costs and any material change in water prices (based on availability) can impact the profitability of an almond orchard.

**Pricing risk:** With the Californian acreage setting the price any material uplift or deterioration in yields can have a meaningful impact on USD selling prices. In addition as a USD commodity any movement up or down in the AUDUSD can have a meaningful impact on average selling price received.

**Key personnel risk:** SHV's performance is dependent on the ability of its senior executives and key personnel to manage and grow its business. Continuity and retention of senior executives and key personnel are important for the ongoing implementation of SHV's strategy.

# Select Harvests

as at 2 March 2022

Recommendation  
Price  
Target (12 months)

Buy  
\$5.55  
\$6.85

Table 1 - Financial summary

Sep Year end	Jun YE			Sep YE				
	2017	2018	2019	2020	2021	2022e	2023e	2024e
<b>Profit &amp; Loss (A\$m)</b>								
Sales revenue	240.0	206.5	298.5	247.9	218.1	209.5	231.9	255.1
... Change	-16.1%	-13.9%	44.5%	-17.0%	-12.0%	-3.9%	10.7%	10.0%
EBITDA	33.4	51.7	95.2	57.8	53.7	61.1	76.5	90.0
Deprec. & amort.	(16.4)	(16.8)	(15.1)	(19.1)	(21.1)	(22.4)	(22.4)	(22.4)
EBIT	17.0	34.9	80.1	38.7	32.6	38.7	54.1	67.6
Interest expense	(5.0)	(5.4)	(4.0)	(2.1)	(2.3)	(2.3)	(2.2)	(2.2)
Pre-tax profit	12.0	29.5	76.1	36.7	30.3	36.4	51.9	65.4
Tax expense	(2.7)	(9.1)	(23.1)	(11.7)	(5.2)	(10.9)	(15.6)	(19.6)
... tax rate	23%	31%	30%	32%	17%	30%	30%	30%
Minorities	-	-	-	-	-	-	-	-
<b>NPAT</b>	<b>9.2</b>	<b>20.4</b>	<b>53.0</b>	<b>25.0</b>	<b>25.2</b>	<b>25.5</b>	<b>36.4</b>	<b>45.7</b>
Abs. & extras.	-	-	-	-	(10.0)	-	-	-
<b>Reported Profit</b>	<b>9.2</b>	<b>20.4</b>	<b>53.0</b>	<b>25.0</b>	<b>15.1</b>	<b>25.5</b>	<b>36.4</b>	<b>45.7</b>
<b>Cashflow (A\$m)</b>								
EBITDA	33.4	51.7	95.2	38.7	32.6	38.7	54.1	67.6
Change in Wkg Capital	9.6	(17.7)	8.0	(39.9)	(15.9)	38.8	(15.6)	(16.3)
Net Interest Expense	(5.0)	(5.1)	(3.9)	(15.4)	(15.1)	(2.3)	(2.2)	(2.2)
Tax Paid	(29.0)	(8.5)	3.1	(18.3)	(7.2)	(8.0)	(13.2)	(17.6)
Other	(4.3)	(2.1)	(22.1)	26.2	22.3	-	-	-
<b>Operating Cash Flow</b>	<b>4.7</b>	<b>18.3</b>	<b>80.3</b>	<b>(6.7)</b>	<b>16.6</b>	<b>67.2</b>	<b>23.0</b>	<b>31.5</b>
Capex	(33.2)	(30.0)	(36.3)	(36.3)	(33.4)	(30.7)	(27.8)	(25.3)
Div Paid	(23.0)	(3.8)	(14.9)	(21.5)	(2.8)	(5.6)	(4.7)	(7.1)
<b>Free Cash Flow</b>	<b>(51.5)</b>	<b>(15.5)</b>	<b>29.1</b>	<b>(66.5)</b>	<b>(19.6)</b>	<b>30.9</b>	<b>(9.5)</b>	<b>(1.0)</b>
Acquisitions	(26.4)	-	(1.2)	-	(144.1)	-	-	-
Disposals	1.7	4.1	3.6	1.1	7.7	-	-	-
Share Issues	-	86.5	-	-	115.4	-	-	-
Other	(4.0)	(0.0)	10.7	-	0.1	-	-	-
<b>(Inc.)/dec. in net debt</b>	<b>(80.1)</b>	<b>75.1</b>	<b>42.2</b>	<b>(65.5)</b>	<b>(40.5)</b>	<b>30.9</b>	<b>(9.5)</b>	<b>(1.0)</b>
<b>Balance Sheet (A\$m)</b>								
Cash & near cash	1.1	0.4	11.6	1.5	2.0	2.0	2.0	2.0
Receivables	46.8	51.4	50.2	69.2	84.8	62.9	69.6	76.5
Inventories & WIP	87.5	109.3	111.8	143.0	165.6	115.2	127.5	140.3
Other current assets	1.3	1.0	0.0	3.8	5.4	5.4	5.4	5.4
<b>Current assets</b>	<b>136.6</b>	<b>162.1</b>	<b>173.7</b>	<b>217.4</b>	<b>257.8</b>	<b>185.5</b>	<b>204.4</b>	<b>224.2</b>
Fixed assets	167.5	176.3	186.6	194.6	241.7	245.8	249.8	253.9
Right of use asset	-	-	-	236.4	222.6	222.6	222.6	222.6
Biological assets	115.0	117.5	121.3	104.1	195.9	211.4	218.3	223.9
Intangibles	60.6	60.6	71.3	70.4	84.0	84.0	84.0	84.0
Other non current assets	-	-	-	1.9	1.8	1.8	10.0	10.0
<b>Non current assets</b>	<b>343.1</b>	<b>354.4</b>	<b>379.2</b>	<b>607.5</b>	<b>746.0</b>	<b>765.5</b>	<b>784.7</b>	<b>794.4</b>
<b>Total assets</b>	<b>479.7</b>	<b>516.6</b>	<b>552.9</b>	<b>824.9</b>	<b>1,003.8</b>	<b>950.9</b>	<b>989.1</b>	<b>1,018.6</b>
Creditors	14.3	23.0	32.3	42.5	65.0	31.4	34.8	38.3
Current borrowings	110.4	3.2	3.6	6.2	5.1	5.1	5.1	5.1
Lease liabilities	-	5.0	4.5	31.3	31.7	31.7	31.7	31.7
Other current liabilities	5.7	5.0	23.0	11.0	14.4	10.1	13.8	11.5
<b>Current liabilities</b>	<b>130.4</b>	<b>36.1</b>	<b>63.5</b>	<b>91.1</b>	<b>116.1</b>	<b>78.3</b>	<b>85.3</b>	<b>86.5</b>
Non current borrowings	-	31.5	-	52.8	95.0	64.1	73.6	74.6
Lease liabilities	36.5	31.5	30.9	235.5	221.5	221.5	221.5	221.5
Other liabilities	35.2	38.8	42.5	40.6	44.3	44.3	44.3	44.3
<b>Non-current liabilities</b>	<b>35.2</b>	<b>70.3</b>	<b>42.5</b>	<b>93.3</b>	<b>139.3</b>	<b>108.4</b>	<b>117.9</b>	<b>118.9</b>
<b>Total liabilities</b>	<b>165.6</b>	<b>106.4</b>	<b>106.0</b>	<b>184.4</b>	<b>255.4</b>	<b>186.7</b>	<b>203.2</b>	<b>205.4</b>
<b>Net assets</b>	<b>314.1</b>	<b>410.1</b>	<b>446.9</b>	<b>640.5</b>	<b>748.5</b>	<b>764.2</b>	<b>786.0</b>	<b>813.2</b>
Share capital	181.2	268.6	271.8	279.1	397.3	397.3	397.3	397.3
Reserves	11.6	9.6	10.4	14.3	7.7	7.7	7.7	7.7
Retained earnings	84.9	100.5	133.8	111.6	122.0	137.7	159.5	186.7
Outside equity interests	-	-	-	-	-	-	-	-
<b>S/holders' funds</b>	<b>277.6</b>	<b>378.6</b>	<b>416.0</b>	<b>405.0</b>	<b>527.0</b>	<b>542.7</b>	<b>564.5</b>	<b>591.7</b>
Net Debt (Cash)	109.3	34.3	(7.9)	57.5	98.1	67.2	76.7	77.6
Total group indebtedness	146.0	72.5	28.4	324.3	351.2	320.3	329.8	330.8

Share Price (A\$ps)	\$5.55
Recommendation	Buy
Target Price (A\$ps)	\$6.85
Diluted issued capital (m)	121.0
Market cap (\$m)	671.3
Enterprise value (\$m)	769.3

EV excludes lease liabilities, which are capitalised to COGS. Debt adjusted for acquisitions.

Sep Year end	Jun YE			Sep YE				
	2017	2018	2019	2020	2021	2022e	2023e	2024e
<b>Valuation Ratios</b>								
Core EPS (c\$ps)	12.4	23.1	55.3	25.9	21.3	21.1	30.0	37.3
Change (%)	-68.0%	85.8%	139.8%	-53.2%	-17.6%	-0.9%	41.9%	24.7%
PE (x)	44.7	24.1	10.0	21.5	26.0	26.3	18.5	14.9
EV/EBITDA (x)	23.0	14.9	8.1	13.3	14.3	12.6	10.1	8.6
NTA (\$ps)	2.95	3.34	3.58	3.46	3.68	3.79	3.94	4.12
PINTA (x)	1.88	1.66	1.55	1.60	1.51	1.46	1.41	1.35
Book value (\$ps)	3.77	3.98	4.32	4.19	4.38	4.49	4.63	4.80
Price/Book (x)	1.47	1.40	1.29	1.32	1.27	1.24	1.20	1.16
DPS (c\$ps)	10.0	12.0	32.0	13.0	8.0	8.0	12.0	15.0
Payout (%)	81%	52%	58%	50%	38%	38%	40%	40%
Yield (%)	1.8%	2.2%	5.8%	2.3%	1.4%	1.4%	2.2%	2.7%
Franking (%)	100%	100%	100%	100%	100%	100%	100%	100%

<b>Performance Ratios</b>								
EBITDA/sales (%)	13.9%	25.0%	31.9%	23.3%	24.6%	29.1%	33.0%	35.3%
EBITA/sales (%)	7.1%	16.9%	26.8%	15.6%	15.0%	18.4%	23.3%	26.5%
OCF Realisation (%)	18.5%	49.2%	118.0%	-19.8%	36.0%	140.4%	39.2%	46.2%
FCF Realisation (%)	-308.7%	-57.6%	83.1%	-180.3%	n.a.	143.2%	-13.1%	13.5%
ROE (%)	3.3%	5.4%	12.7%	6.2%	4.8%	4.7%	6.4%	7.7%
ROIC (%)	4.8%	8.7%	19.5%	8.9%	6.0%	6.3%	8.7%	10.3%
Asset Turn (years)	2.03	3.08	6.29	3.03	2.54	2.73	3.42	4.02
Capex/Depn (x)	2.02	1.79	2.40	1.91	1.58	1.37	1.24	1.13
Interest cover (x)	3.39	6.45	19.99	18.76	14.34	16.87	24.81	30.24
Net Debt/EBITDA	3.27	0.66	(0.08)	1.00	1.83	1.10	1.00	0.86
Net debt/equity (%)	39.4%	9.1%	-1.9%	14.2%	18.6%	12.4%	13.6%	13.1%

<b>Segmental Information</b>								
Almond division	118.5	115.2	205.9	176.1				
Food division	146.9	128.1	148.1	148.4				
Other (corporate)	(25.4)	(36.7)	(55.5)	(76.6)				
<b>Sales (\$m)</b>	<b>240.0</b>	<b>206.5</b>	<b>298.5</b>	<b>247.9</b>	<b>218.1</b>	<b>209.5</b>	<b>231.9</b>	<b>255.1</b>
Almond division	28.0	51.6	96.2	58.6				
Food division	8.2	5.4	5.3	4.7				
Other (corporate)	(2.8)	(5.3)	(6.3)	(5.5)				
<b>EBITDA (\$m)</b>	<b>33.4</b>	<b>51.7</b>	<b>95.2</b>	<b>57.8</b>	<b>53.7</b>	<b>61.1</b>	<b>76.5</b>	<b>90.0</b>

Production forecast (t)	14,100	15,700	22,690	23,250	28,250	29,500	30,188	30,839
US export value (USD/lb)	2.56	2.59	2.63	2.59	2.00	2.30	2.43	2.55
AUDUSD	0.74	0.76	0.71	0.68	0.73	0.73	0.73	0.73
Almond price (A\$/kg)	7.43	8.05	8.60	7.50	6.80	6.95	7.33	7.70
Total costs per Kg (A\$/Kg)	5.44	4.76	4.36	4.98	5.10	5.10	5.02	5.03
Farm EBITDA per Kg (A\$/Kg)	1.99	3.29	4.24	2.52	1.70	1.85	2.30	2.67

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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