

Analyst

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Authorisation

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The a2 Milk Co (A2M)

Purgatory

Recommendation
Hold (unchanged)
Price
A\$4.27
Target (12 months)
A\$4.85 (previously A\$5.70)

GICS Sector
Food Beverage and Tobacco

Expected Return

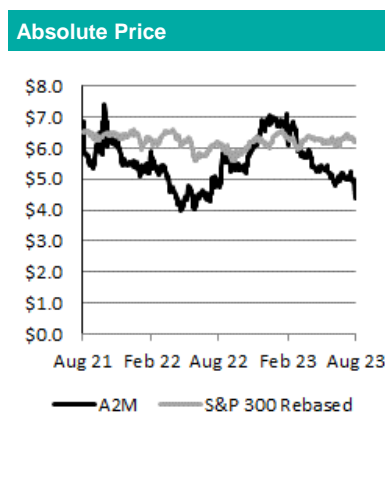
Capital growth	13.6%
Dividend yield	0.0%
Total expected return	13.6%

Company Data & Ratios

Enterprise value	A\$2,371m
Market cap	A\$3,083m
Issued capital	722.0m
Free float	100%
Avg. daily val. (52wk)	A\$21.3m
12 month price range	A\$4.29-7.14

Price Performance

	{1m}	{3m}	{12m}
Price (A\$)	5.10	5.22	4.95
Absolute (%)	-13.52	-15.90	-11.39
Rel market (%)	-11.69	-14.58	-11.27



SOURCE: IRESS

BELL POTTER SECURITIES LIMITED
 ABN 25 006 390 772
 AFSL 243480

FY23 Result and changes to forecasts

A2M reported FY23 underlying NPAT ahead of our expectations at NZ\$155.6m. Key operating statistics of the result included:

Operating results: Revenue of NZ\$1,593m was up +10% YOY (vs. BPe NZ\$1,587m). EBITDA of NZ\$219.3m was up +12% YOY (vs BPe of NZ\$215.4m). EBITDA ex-MVM was NZ\$245.8m (vs. BPe of NZ\$234.3m). Underlying NPAT of NZ\$155.6m was up +27% YOY (vs. BPe of \$147.5m).

Infant formula drivers: China distribution points contracted -2% YOY to 25,900, and sequentially were down -3% HOH. China direct IMF sales reached NZ\$945.6m (+36% YOY) and represented 90% of total 2H23 IMF sales (67% in FY22 and 80% at 1H23). Marketing expenditure of NZ\$260.2m (vs. BPe of NZ\$274.9m) was up +14% YOY.

Cashflow and balance sheet: A lease adjusted operating cashflow of NZ\$107.7m compares to NZ\$199.7m inflow in FY23 (and BPe of NZ\$102.5m), and reflects a NZ\$103.1m working capital investment ahead of China regulatory changes. Net cash exited the period at NZ\$700.7m (BPe NZ\$695.2m) and compares to FY22 at NZ\$763.0m and reflects the impact of a NZ\$149.1m share buyback.

FY24e outlook: A2M expects: (1) low single digit revenue growth in FY24e with EBITDA margins broadly consistent with FY24e levels with higher levels of cash conversion; and (2) A2M has retained its medium term target EBITDA of “teens”, while stating it is unlikely they can reach the “low-to-mid 20’s” in the foreseeable future.

Following the result we have downgraded our NPAT forecasts by -6% in FY24e and FY25e. Our target price is reduced to A\$4.85ps (prev. A\$5.70ps).

Investment view: Hold rating unchanged

We expect 1H24 to be challenging given the China label transition and likely disruption as brands exit the market (~35% are yet to receive SAMR approval). However, A2M has grown share in all key measures in a declining market and is well positioned to benefit from China market brand consolidation, stabilising birth rates, and the return of overseas travellers and students to Australia.

Earnings Forecast

Year end June	2023	2024e	2025e	2026e
Sales (NZ\$m)	1592.9	1625.7	1693.7	1831.5
EBITDA (NZ\$m)	219.3	224.1	251.5	291.4
NPAT (adjusted) (NZ\$m)	155.6	164.6	189.5	224.9
NPAT (reported) (NZ\$m)	97.4	164.6	189.5	224.9
EPS (adjusted) (NZ cps)	21.1	22.7	26.1	31.0
EPS growth (%)	28.8	7.4	15.1	18.7
PER (x)	21.8	20.3	17.7	14.9
FCF Yield (%)	3.8	7.6	7.4	8.9
EV/EBITDA (x)	11.7	11.4	10.2	8.8
Dividend (NZ Cps)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	13.5	12.6	12.8	13.2

SOURCE: BELL POTTER SECURITIES ESTIMATES

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FY23 result at a glance

Result: A2M reported FY23 NPAT modestly ahead of our expectations at NZ\$155.6m (BPe NZ\$147.5m), with EBITDA of NZ\$219.3m also ahead of our expectations of NZ\$215.4m, despite incurring higher losses in MVM (NZ\$25.9m vs. BPe of NZ\$18.9m). At the core operating EBITDA (i.e. ex-MVM) was NZ\$11.5m ahead of our forecasts and largely reflected lower than expected marketing expenditure. Operating cashflow of NZ\$107.7m was broadly consistent with our expectations of NZ\$102.5m and reflected a working capital build in China ahead of label transition and the timing of Australian IMF shipments. Net cash of NZ\$700.7m includes debt of NZ\$82.0m which is housed with MVM (which A2M fully consolidate, but do not own in entirety).

Figure 1 – FY23 Result overview (NZ\$m unless stated otherwise)

	2017	2018	2019	1H20	2H20	2020	1H21	2H21	2021	1H22	2H22	2022	1H23	2H23	2023	2023e	YOY
Profit & Loss																	
Australia/NZ	439.6	656.6	842.7	460.2	505.5	965.7	317.2	242.5	559.7	283.3	249.5	532.7	213.7	158.0	371.7	417.2	-30%
China	88.9	233.6	405.7	317.2	382.2	699.4	326.0	257.4	583.4	306.3	420.2	726.6	471.6	520.6	1,002.2	975.1	38%
US & UK	21.0	32.4	56.1	28.0	38.1	66.1	34.2	29.4	63.6	32.4	50.2	82.7	52.4	52.6	105.1	113.1	27%
Processing										38.6	70.3	108.9	82.9	83.3	146.2	112.8	34%
Corporate and other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(4.5)	(17.2)	(15.0)	(32.3)	(30.9)	610%
Revenue	549.5	922.7	1,304.5	805.3	925.8	1,731.1	677.4	529.4	1,206.7	666.5	790.2	1,446.2	783.3	809.5	1,592.9	1,587.3	10%
Australia/NZ	155.3	262.2	388.2	227.9	237.7	485.6	117.5	31.4	148.8	96.2	77.0	173.2	62.0	31.5	93.5	114.1	-46%
China	32.7	81.3	123.9	117.5	107.4	224.9	94.4	(18.5)	75.6	59.4	85.7	145.1	111.5	142.6	254.1	223.3	75%
US & UK	(24.4)	(27.6)	(39.5)	(30.0)	(20.5)	(50.5)	(11.6)	(21.9)	(33.5)	(16.4)	(20.2)	(36.7)	(12.2)	(11.1)	(23.3)	(23.1)	-36%
Processing										(10.0)	(8.8)	(18.8)	(13.4)	(13.1)	(26.5)	(38.9)	41%
Corporate & Other	(22.4)	(32.7)	(58.9)	(48.9)	(39.0)	(87.9)	(21.7)	(45.8)	(67.5)	(31.6)	(35.0)	(66.6)	(40.1)	(38.4)	(78.5)	(80.0)	18%
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.
EBITDA	141.3	283.2	413.7	266.5	285.6	552.0	178.5	(55.1)	123.4	97.6	98.6	196.2	187.8	111.5	219.3	215.4	12%
... EBITDA Margin (%)	25.7%	30.7%	31.7%	33.1%	30.8%	31.9%	26.4%	-10.4%	10.2%	14.8%	12.5%	13.6%	13.8%	13.8%	13.8%	13.6%	1%
Depreciation & Amortisation	(2.7)	(2.2)	(2.2)	(1.8)	(2.6)	(4.4)	(3.2)	(4.3)	(7.5)	(8.2)	(10.7)	(18.9)	(9.0)	(9.2)	(18.2)	(19.9)	-4%
EBIT	138.6	281.0	411.6	264.7	283.0	547.6	175.3	(59.3)	115.9	89.3	87.9	177.3	98.8	102.3	201.1	195.5	13%
... EBIT Margin (%)	25.2%	30.5%	31.5%	0.0%	0.0%	31.6%	25.9%	-11.2%	9.6%	13.5%	11.1%	12.3%	12.6%	12.6%	12.6%	12.3%	3%
Net Interest Income	0.8	2.2	4.2	2.9	2.9	5.7	1.7	1.5	3.3	1.1	3.0	4.1	9.9	11.9	21.8	23.1	430%
Pre-tax profit	138.4	283.2	415.7	267.6	285.8	553.4	177.1	(57.8)	119.3	90.5	90.9	181.4	108.7	114.2	222.9	218.6	23%
Tax	(48.7)	(87.5)	(128.0)	(79.4)	(85.6)	(165.2)	(57.0)	18.4	(38.6)	(34.4)	(32.3)	(66.6)	(40.2)	(37.8)	(78.0)	(80.1)	17%
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.5	4.3	7.9	5.3	5.5	10.8	9.0	37%
Underlying NPAT	90.6	195.7	288.0	188.2	208.0	388.1	120.0	(39.4)	80.7	59.6	63.0	122.6	73.8	81.9	155.6	147.5	27%
Non-recurring items (post-tax)	11.5	108.7	(66.7)	(13.9)	(41.6)	(55.5)	(57.4)	(66.1)	(133.5)	(7.0)	0.0	(24.5)	22.4	(80.7)	(58.3)	0.0	n.a.
Reported NPAT	102.1	304.4	221.3	174.3	158.4	332.6	52.6	(105.5)	(52.9)	52.7	63.0	98.2	96.2	1.2	97.4	147.5	-1%
Balance Sheet and cashflow																	
Working Capital (\$m)	65.9	49.4	50.6	58.7	(7.6)	(7.6)	116.5	(61.0)	(61.0)	(123.4)	(98.0)	(98.0)	7.5	5.1	5.1	(35.3)	
Working Capital/Sales - T12M (%)	12.0%	5.4%	3.9%	7.0%	-0.8%	-0.4%	17.2%	-11.5%	-6.1%	-18.7%	-6.8%	-6.8%	1.0%	0.3%	0.2%	-2.2%	
Net Debt (Cash) (\$m)	(121.0)	(340.5)	(464.8)	(618.4)	(854.2)	(854.2)	(774.6)	(875.2)	(875.2)	(967.2)	(763.0)	(763.0)	(655.4)	(700.7)	(700.7)	(695.2)	
Operating cashflow (\$m)	99.9	231.1	289.1	159.9	265.8	425.6	(10.8)	77.0	66.2	96.4	103.3	199.7	(5.1)	112.8	107.7	102.5	
Operating cash realisation (%)	107%	117%	100%	84%	131%	108%	-9%	-219%	75%	105%	152%	141%	-7%	80%	62%	61%	
IMF Performance stats																	
Offline stocks	3,800	10,000	16,400	18,300	19,100	19,100	22,000	22,800	22,900	24,800	26,500	26,500	26,800	25,900	25,900	28,500	-2%
PRIC Revenue (NZ\$m)	23.6	86.9	167.8	146.7	191.0	337.7	213.1	176.8	389.9	188.7	248.9	437.6	270.7	288.8	559.3	594.5	28%
CBEC Revenue (NZ\$m)	65.2	146.7	237.8	180.5	180.6	341.1	103.5	65.4	168.9	102.4	153.4	285.6	175.6	210.6	395.2	338.5	51%
China Direct Revenue (NZ\$m)	88.9	233.6	405.7	387.2	371.6	678.8	316.6	242.2	558.8	291.1	402.3	693.4	446.3	499.2	945.6	933.0	36%
Total IMF revenue	304.0	724.2	1,063.8	699.2	764.7	1,423.9	526.1	389.7	915.8	471.9	551.2	1,022.2	555.7	552.4	1,108.1	1,146.3	8%
Marketing to sales (%)	7.6%	8.0%	10.4%	10.4%	11.9%	11.2%	10.0%	19.1%	14.0%	14.0%	17.5%	15.9%	17.2%	0.2%	16.3%	17.1%	
Infant Formula share of sales (%)	71.7%	78.5%	81.5%	81.9%	82.6%	82.3%	77.7%	73.6%	75.9%	71.3%	70.2%	70.7%	70.9%	68.2%	69.6%	70.6%	
Fresh Dairy and adult nutrition share of sales (%)	28.3%	21.5%	18.5%	18.1%	17.4%	17.7%	22.3%	26.4%	24.1%	28.7%	29.8%	29.3%	29.1%	31.8%	30.4%	29.2%	
Gross Margin (%)	48.0%	50.2%	54.7%	57.2%	54.9%	56.0%	50.4%	31.8%	42.2%	46.1%	45.4%	45.9%	47.7%	45.2%	46.4%	46.2%	
Ingredient cost drivers																	
SMP (NZ\$m)	3,142	2,670	3,301	4,161	4,252	4,207	4,110	4,664	4,387	4,817	5,482	5,650	5,555	4,426	4,991		
SWP (NZ\$m)	1,501	1,351	1,529	1,473	1,560	1,517	1,447	1,740	1,594	1,841	2,443	2,142	2,054	1,510	1,782		
Lactose (NZ\$m)	1,104	874	1,375	1,220	1,659	1,445	1,683	1,764	1,724	1,788	2,446	2,102	2,271	1,809	2,040		
Retined Casein (NZ\$m)	1,280	1,315	1,364	1,365	1,402	1,384	1,364	1,810	1,573	2,376	2,901	2,639	3,266	3,075	3,181		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

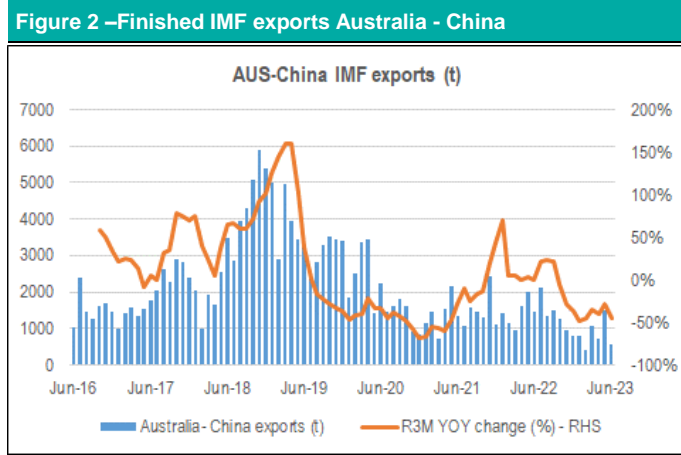
Key outlook points: Key outlook comments include: (1) FY24e revenue growth is expected to be low single digit with EBITDA margins broadly consistent with FY23 levels (with marketing spend to grow in line with revenues); (2) Operating cash conversion is expected to be higher in FY24 with a wind down in inventory cover; and (3) A2M has retained its medium term target EBITDA of “teens”, while stating it is unlikely they can reach the “low-to-mid 20’s” in the foreseeable future. We would see the later as more broadly consistent with the rapid transition of revenues to lower margins China offline channels.

Market share and mix: MBS R12M market share lifted to 3.4% in 2H23 from 3.2% in 1H23 and 3.0% in 2H22. Growth was achieved despite a contraction in offline distribution points for the first time since entering the market. CBEC market share resumed growth to 22.6% from 22.1% in 1H23 (and 19.4% in 2H22) and growth in O2O/Daigou share to 20.8% from 19.8% in 1H23 (and 19.5% in 2H22).

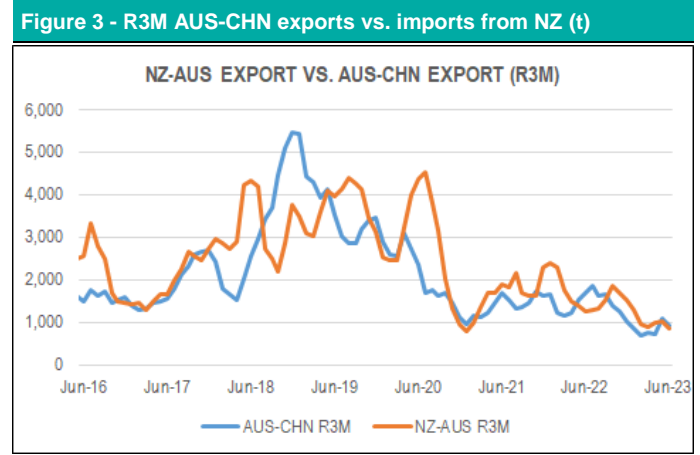
From a channel and mix perspective we are encouraged to see ~90% of IMF revenues generated in direct China market channels in 2H23, which would put A2M in a position more closely aligned with other maturing multi-national brands. In addition we note the continued uplift in Stage 1 sales in offline channels which is indicative of customer recruitment and encouraging in overall declining market.

A2M variable earnings drivers

Daigou proxy data: Export activity ex-Australia into China remain subdued as does imports into Australia from NZ (where the three leading brands are produced).

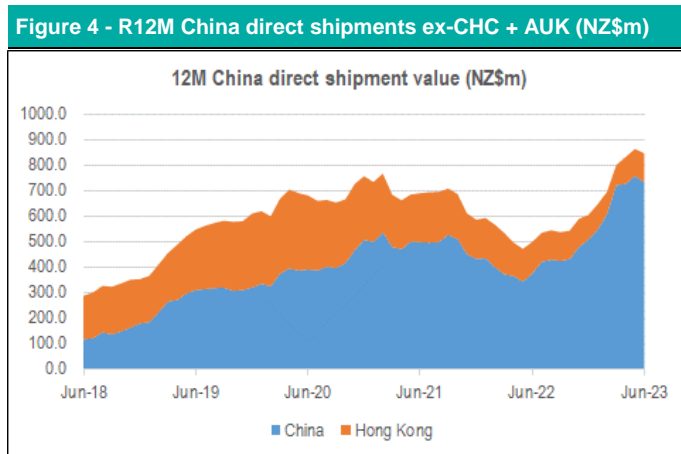


SOURCE: BASED ON ABS DATA

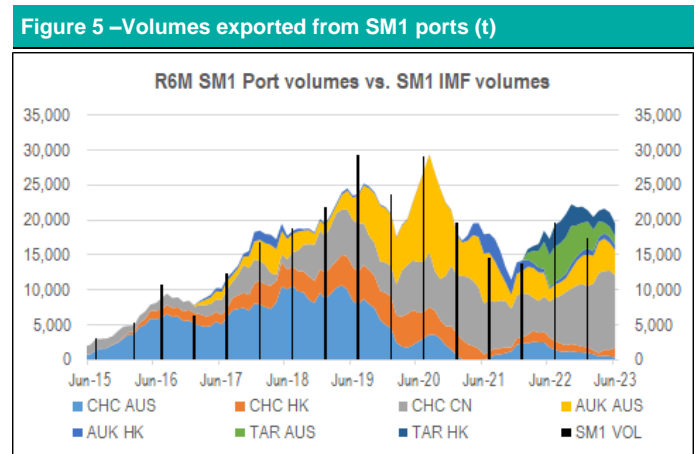


SOURCE: BASED ON STATS NZ AND ABS DATA

China shipment values: China direct export volumes have moderated post award of the SAMR registration of the new GB formulation in anticipation of label transition.

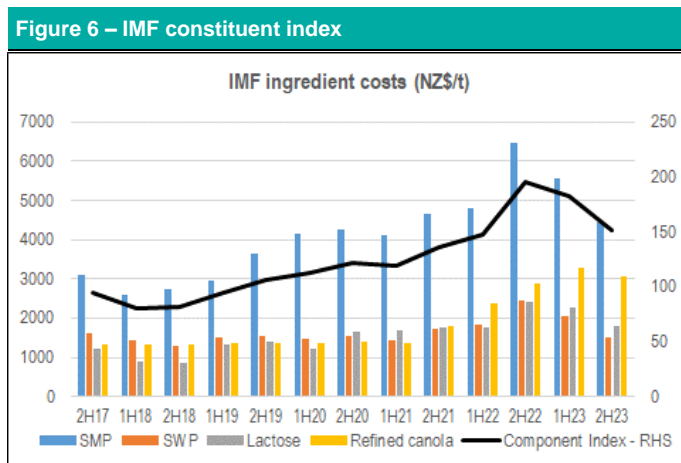


SOURCE: STATS NZ

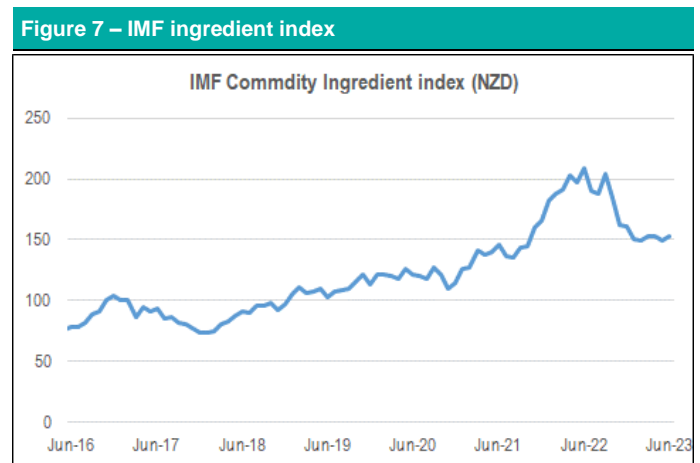


SOURCE: STATS NZ

Ingredient input costs: Ingredient COGS are in a downdraft and likely to be realised in 2H24e given the extent of inventory accumulation in FY23 ahead of label transtion.



SOURCE: SOURCE: BASED ON GDT AND STATSCAN DATA



SOURCE: SOURCE: BASED ON GDT AND STATSCAN DATA

A2M Overview

COMPANY DESCRIPTION

The a2 Milk Company (A2M) is in the business of producing, marketing and selling branded dairy and infant milk formula (IMF) products in Australia, New Zealand, China, US and UK. A2M branded milk contains only A2 Protein rather than both A1 and A2 proteins which are found in Regular Cows' Milk. The business model of A2M is to focus on consumer facing products with a target on the functional food markets where a premium can be generated.

TARGET PRICE

Our target price for A2M is A\$4.85ps and derived utilising our ROIC based methodology. In deriving our target price we have utilised: (1) FY24e ROIC of 50.7% lifting to 59.4% in FY25e; (2) a pre-tax WACC of 11.5%; and (3) AUDNZD cross rate consistent with the spot. To this we incorporate a value for A2M's holding in SM1 at market.

RISKS

A2M is a high growth FMCG business with exposures to an agricultural supply chain. Risks associated in an investment in A2M include but are not isolated 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.

Scientific risk: The A2M brand proposition is built primarily on the potential digestive well-being benefits of A1 Protein Free milk products compared to Regular Cows' Milk products which contain both A1 Protein and A2 Protein. There is the risk of research or information being published that diminishes or rejects the scientific arguments or consumers' experiences as to the benefits of the consumption of A1 Protein Free dairy products. As a result, the A2M brand may lose its differentiated position and it may become difficult for A2M to continue to position its products as premium products sold at a premium price.

Intellectual Property: A2M's business relies in part on its intellectual property portfolio, including brands and trademarks, patents, proprietary processes and know-how. Some forms of registered intellectual property, including patents, are of fixed duration and will expire over time. As any of A2M's registered intellectual property expires, or if it is invalidated or removed from intellectual property registers, this will adversely impact on A2M's ability to claim and enforce exclusive rights in such intellectual property. Because of the importance of its intellectual property, A2M may also need to defend its intellectual property or take action against third parties that infringe or claim rights in its intellectual property. Such action may include litigation, which may be protracted and expensive, and which may result in negative publicity.

Emergence of new competition: A2M's business model relies on A2M branded products being differentiated from other dairy products in each market in which it operates because they consist of, or are made using, A1 Protein Free milk. There is a risk that a competitor or competitors may launch A1 Protein Free milk products, and this risk may increase over time as A2M patents expire. There is also a risk that competitors may develop branding that creates confusion between a2MC branded products and Regular Cows' Milk products or otherwise reduces the perception of A2M branded products as differentiated A1 Protein Free milk products

Supply chain disruption: A2M's business model and supply chain are dependent on contractual arrangements with third parties which provide essential processing, production

or distribution functions for A2M branded products globally. There is the risk that the operations of one or more third parties change in a material and adverse way or that one or more third parties could reduce their support for the A2M brand. This could reduce A2M's ability to maintain supply to its customers in the short to medium term and reduce its ability to maintain its position in existing markets or enter new markets. This may also necessitate the need for A2M to invest in manufacturing capacity that would likely be returns dilutionary.

Brand risk: In common with many other food companies, there is a risk that raw materials may deteriorate or that products may become contaminated, tampered with, adulterated or otherwise unsafe or unfit for sale or consumption within the supply chain due to various factors, including human error and equipment failure. Potential adverse consequences for A2M include regulatory penalties, termination of distribution arrangements, liability associated with adverse health effects on consumers, product recall and disposal costs, loss of stock, delay in supply and financial costs.

Regulatory risk: A2M and its strategic suppliers and contractors require certain licences, approvals and consents in order to conduct their businesses. There is a risk that any such licences, approvals or consents that are material to a2MC in operating its business will not be renewed or will be renewed on more restrictive or onerous terms, or in limited circumstances, revoked.

China regulatory risk: At this stage we are projecting no material change in China C2C law changes which would likely have a detrimental impact on the level of sales in the Australian IMF business, but following a transition would be more than mitigated by faster growth in the China business where gross margins are higher than those achieved in Australia. As such while we are cognisant that a change in Chinese C2C trading regulations can impact near term earnings, we don't necessarily view this as detrimental to the company's longer-term growth trajectory.

Key personnel risk: A2M'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 A2M's strategy.

Execution risk: Part of our optimism centres around management's ability to generate a profitable return in the US and UK fresh dairy markets. Failure to execute this strategy may impact stock performance and its ability to realise our target price.

Table 1 - Financial summary

Year end June	2019	2020	2021	2022	2023	2024e	2025e	2026e
Profit & Loss (NZ\$m)								
Sales revenue	1,304.5	1,731.1	1,206.7	1,446.2	1,592.9	1,625.7	1,693.7	1,831.5
... Change	41.4%	32.7%	-30.3%	19.8%	10.1%	2.1%	4.2%	8.1%
EBITDA	413.7	552.0	123.4	196.2	219.3	224.1	251.5	291.4
Deprec. & amort	(2.2)	(4.4)	(7.5)	(18.9)	(18.2)	(19.2)	(19.2)	(19.2)
EBIT	411.6	547.6	116.0	177.3	201.1	204.8	232.3	272.2
Interest expense	4.2	5.7	3.3	4.1	21.8	35.3	41.6	50.6
Pre-tax profit	415.7	553.4	119.3	181.4	222.9	240.2	273.9	322.8
Tax expense	(128.0)	(165.2)	(38.6)	(66.6)	(78.0)	(85.3)	(94.3)	(108.1)
... tax rate	31%	30%	32%	37%	35%	36%	34%	33%
Minorities	0.0	0.0	0.0	7.9	10.8	9.8	9.8	10.2
Net Profit	287.7	388.1	80.7	122.6	155.6	164.6	189.5	224.9
Abs. & extras.	(66.7)	(55.5)	(133.5)	(24.5)	(58.3)	0.0	0.0	0.0
Reported Profit	221.0	332.6	(52.9)	98.2	97.4	164.6	189.5	224.9
Cashflow (NZ\$m)								
EBITDA	413.7	552.0	123.4	196.2	219.3	224.1	251.5	291.4
Net Interest Expense	4.2	5.7	3.3	3.0	18.8	35.3	41.6	50.6
Tax Paid	(133.9)	(197.9)	(97.8)	(23.0)	(34.9)	(81.7)	(89.8)	(101.2)
Change in Wkg Capital	(1.2)	58.2	53.4	37.0	(103.1)	42.9	1.6	3.2
Other	6.3	7.6	(16.2)	(13.4)	7.7	0.0	0.0	0.0
Operating Cash Flow	289.1	425.6	66.2	199.7	107.7	220.6	204.9	244.1
Capex	(3.4)	(7.2)	(7.3)	(5.2)	(10.4)	(25.8)	(15.3)	(15.3)
Dividend paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	285.7	418.4	58.9	194.5	97.3	194.8	189.5	228.7
Acquisitions	(162.3)	(21.9)	(57.1)	(214.8)	(3.5)	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share issues	2.9	0.0	2.2	(13.3)	(149.1)	0.0	0.0	0.0
Other	(2.0)	(7.2)	17.0	(78.6)	(7.0)	0.0	0.0	0.0
(Inc.)/Dec. in net debt	124.4	389.4	21.0	(112.2)	(62.3)	194.8	189.5	228.7
Balance Sheet (NZ\$m)								
Cash & near cash	464.8	854.2	875.2	887.3	802.2	997.0	1,186.5	1,415.3
Receivables	52.7	70.7	65.3	83.5	79.2	80.8	84.2	91.1
Inventories	108.5	147.3	112.2	140.0	193.4	154.4	160.9	174.0
Other	49.7	56.3	44.3	60.4	47.2	48.2	50.1	54.1
Current assets	675.7	1,128.5	1,096.9	1,171.2	1,122.1	1,280.4	1,481.8	1,734.4
Fixed assets	10.3	30.4	17.2	240.5	245.2	245.5	245.8	246.2
Intangibles	13.0	13.6	15.1	109.3	108.4	107.7	106.9	106.1
Other	294.5	280.8	242.8	194.7	136.0	146.0	156.0	166.0
Non current assets	317.8	324.8	275.1	544.6	489.6	499.1	508.7	518.2
Total assets	993.5	1,453.3	1,372.0	1,715.9	1,611.7	1,779.6	1,990.5	2,252.7
Creditors	160.2	281.9	266.3	376.1	313.2	319.7	333.0	360.1
Borrowings	0.0	0.0	0.0	43.9	19.2	19.2	19.2	19.2
Other	45.1	23.5	8.4	20.2	46.8	53.4	71.2	91.6
Current liabilities	205.4	305.4	274.7	440.2	379.2	392.2	423.5	470.9
Borrowings	0.0	0.0	0.0	80.4	82.3	82.3	82.3	82.3
Other	0.2	13.8	13.4	1.3	0.7	0.7	0.7	0.7
Non current liabilities	0.2	13.8	13.4	81.7	83.0	83.0	83.0	83.0
Total liabilities	205.6	319.3	288.1	521.9	462.2	475.2	506.5	553.9
Net assets	787.9	1,134.1	1,084.0	1,194.0	1,149.5	1,304.4	1,484.0	1,698.8
Share capital	144.5	146.9	149.1	149.2	0.1	0.1	0.1	0.1
Reserves	64.9	22.9	(110.1)	(136.3)	(177.5)	(177.5)	(177.5)	(177.5)
Retained earnings	578.4	964.3	1,044.9	1,167.6	1,323.2	1,487.8	1,677.3	1,902.2
Outside equity interests	0.0	0.0	0.0	13.6	3.7	(6.1)	(15.9)	(26.1)
S/holders' funds	787.9	1,134.1	1,084.0	1,194.0	1,149.5	1,304.4	1,484.0	1,698.8
Net Debt (Cash)	(464.8)	(854.2)	(875.2)	(763.0)	(700.7)	(895.5)	(1,085.0)	(1,313.8)
Rating								
Share price (A\$ps)	Hold							
Target price (A\$ps)	\$4.85							
Shares on issue (m)	722.0							
Market cap (A\$m)	3082.8							
Enterprise Value (A\$m)	2370.7							
Converted at AUDNZD of:	1.08	EV: MKt cap less cash and SM1 holding						
Valuation Ratios								
Adjusted EPS (¢ps)	38.9	52.4	10.8	16.4	21.1	22.7	26.1	31.0
Change (%)	46.9%	34.5%	-79.3%	51.6%	28.8%	7.4%	15.1%	18.7%
Adjusted PE (x)	11.9	8.8	42.6	28.1	21.8	20.3	17.7	14.9
EV/Sales (x)	2.0	1.5	2.1	1.8	1.6	1.6	1.5	1.4
EV/EBITDA (x)	6.2	4.6	20.8	13.1	11.7	11.4	10.2	8.8
EV/EBIT (x)	6.2	4.7	22.1	14.5	12.7	12.5	11.0	9.4
NTA (\$ps)	1.06	1.52	1.45	1.59	1.57	1.79	2.04	2.34
P/NTA (x)	4.0	2.8	2.9	2.7	2.7	2.4	2.1	1.8
Book Value (\$ps)	1.07	1.53	1.46	1.61	1.59	1.81	2.06	2.35
Price/Book (x)	4.3	3.0	3.2	2.9	2.9	2.6	2.2	2.0
DPS (¢)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Performance Ratios								
EBITDA/Sales (%)	31.7%	31.9%	10.2%	13.6%	13.8%	13.8%	14.8%	15.9%
EBIT/Sales (%)	31.5%	31.6%	9.6%	12.3%	12.6%	12.6%	13.7%	14.9%
OCF Realisation (%)	100%	108%	75%	141%	62%	120%	98%	100%
FCF Realisation (%)	99%	108%	73%	159%	63%	118%	100%	102%
ROE (%)	36.5%	34.2%	7.4%	10.3%	13.5%	12.6%	12.8%	13.2%
ROIC (%)	127.4%	195.7%	55.5%	41.1%	44.8%	50.1%	58.2%	70.7%
Asset turn (years)	190.13	125.66	16.56	10.37	12.05	11.67	13.10	15.17
Capex/Deprn (x)	1.55	1.64	0.98	0.27	0.57	1.35	0.80	0.80
Interest cover (x)	(98.95)	(95.31)	(35.25)	(43.22)	(9.24)	(5.80)	(5.59)	(5.38)
Net Debt/EBITDA (x)	(1.12)	(1.55)	(7.09)	(3.89)	(3.20)	(4.00)	(4.31)	(4.51)
Net debt/eqy (%)	-59%	-75%	-81%	-64%	-61%	-69%	-73%	-77%
Segmentals								
Australia/NZ	842.7	965.7	559.7	532.7	371.7	331.2	340.4	350.0
China	405.7	699.4	583.4	726.5	1002.2	1090.3	1142.8	1266.0
US & UK	56.1	66.1	63.6	82.7	105.1	116.3	122.6	127.5
Processing				108.9	146.2	112.8	112.8	112.8
Corporate and other	0.0	0.0	0.0	(4.5)	(32.3)	(24.9)	(24.9)	(24.9)
Revenue	1,304.5	1,731.1	1,206.7	1,446.2	1,592.9	1,625.7	1,693.7	1,831.5
Australia/NZ	388.2	465.6	148.8	173.2	93.5	71.5	75.1	78.8
China	123.9	224.9	75.6	145.1	254.1	275.4	298.6	335.5
US & UK	(39.5)	(50.5)	(33.5)	(36.7)	(23.3)	(16.5)	(13.3)	(10.7)
Processing				(18.8)	(26.5)	(21.9)	(22.3)	(23.5)
Corporate & Other	(58.9)	(87.9)	(67.5)	(66.6)	(78.5)	(84.5)	(86.6)	(88.7)
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	413.7	552.0	123.4	196.2	219.3	224.1	251.5	291.4
IMF rev share (%)	81.5%	82.3%	75.9%	70.7%	69.6%	71.3%	71.7%	73.2%
Gross Margin (%)	54.7%	56.0%	42.2%	45.9%	46.4%	47.0%	47.3%	47.9%
GM ex-MVM (%)	54.7%	56.0%	41.4%	49.2%	50.3%	49.8%	50.0%	50.5%
IMF GM ex-impairments	56.7%	59.3%	59.6%	55.2%	58.4%	58.3%	58.3%	58.2%
Marketing (NZ\$m)	135.3	194.0	168.7	230.0	260.0	277.5	280.7	307.6
NZDAUD	0.94	0.95	0.93	0.94	0.91	0.93	0.93	0.93
NZDUSD	0.67	0.64	0.70	0.68	0.61	0.61	0.61	0.61
NZDCNY	4.59	4.48	4.57	4.40	4.29	4.30	4.30	4.30

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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