

Analyst

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Nufarm Ltd (NUF)

Multiverse

Recommendation

Buy (unchanged)

Price

\$5.14

Target (12 months)

\$7.00 (unchanged)

GICS Sector

Food Beverage and Tobacco

Expected Return

Capital growth	36.2%
Dividend yield	2.1%
Total expected return	38.3%

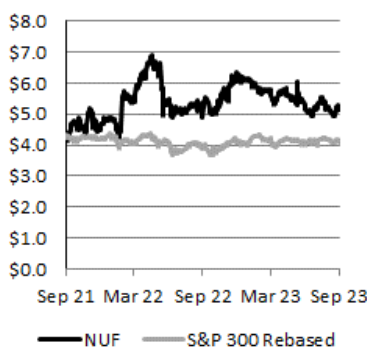
Company Data & Ratios

Enterprise value	\$3,178m
Market cap	\$1,956m
Issued capital	380.5m
Free float	100%
Avg. daily val. (52wk)	\$7.3m
12 month price range	\$4.85-6.41

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	5.17	5.41	5.17
Absolute (%)	-0.58	-4.99	-0.58
Rel market (%)	1.58	-4.08	-4.51

Absolute Price



SOURCE: IRESS

BELL POTTER SECURITIES LIMITED
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Quarterly highlights

The recent reporting season highlighted an inventory unwind in agricultural chemicals markets and strong pricing growth in competing products for NUF's Omega-3 product.

Quarterly reporting and sector flows: 3Q23 revenues (AUD terms) in NUF core markets contracted -15% YOY, with signs of an inventory unwind in the supply chain (value of ag-chem imports down -20% YOY into NUF markets). Pricing outcomes were benign despite deteriorating active ingredient price. On the latter we note China glyphosate technical pricing has rallied ~40% from the lows.

Omega 3 pricing indicators: Omega 3 grade fishoil pricing rose +80% YOY to US\$8,150/t, well ahead of the YOY uplift seen in Peruvian fishmeal. NUF competitor Corbion reported +135% YOY growth in its Algae Ingredients platform, with +34% YOY pricing growth in the quarter.

Seasonal drivers: Late harvest rainfall in the EU could be beneficial for late season insecticide demand. Australian winter crop production is forecast to fall -34% YOY and the area planted to summer crops is expected to fall -15% YOY. North America remains dry with the US crop condition trailing a year ago and 67% of the Canadian agricultural landscape is classified as abnormally dry.

There are no changes to our forecasts in this report. We had previously downgraded our NUF forecasts (see: "Peer pressure" (10/08/23)) to reflect softer sector wide 3Q23 sales trends. Our \$7.00ps target price is also unchanged in this report.

Investment view: Buy rating unchanged

There is no change to our Buy rating. The late season in North America and inventory destocking in the channel appeared to be industry wide headwinds in 2QCY23e. However, a reversal of these trends in FY24e along with growth in the beyond yield program are likely to see a reasonable rebound in earnings in FY24e and lay the platform for growth in FY25-26e. The rapid price growth in omega-3 products is an ongoing positive development for potential market uptake of NUF's Aquaterra product.

Earnings Forecast

Year end Sep	2022	2023e	2024e	2025e
Sales (\$m)	3773.0	3501.0	3838.1	3979.1
EBITDA (\$m)	446.8	405.2	473.8	496.0
NPAT (reported) (\$m)	107.4	107.1	144.1	162.3
NPAT (adjusted) (\$m)	133.2	100.4	144.1	162.3
EPS (adjusted) (cps)	35.0	26.3	37.8	42.6
EPS growth (%)	117.3	-24.7	43.6	12.6
PER (x)	14.7	19.5	13.6	12.1
FCF Yield (%)	2.9	-10.2	3.2	1.9
EV/EBITDA (x)	7.1	7.8	6.7	6.4
Dividend (€ps)	10.0	11.0	13.0	15.0
Franking (%)	0.0	0.0	0.0	0.0
Yield (%)	1.9	2.1	2.5	2.9
ROE (%)	7.0	5.1	7.1	7.7

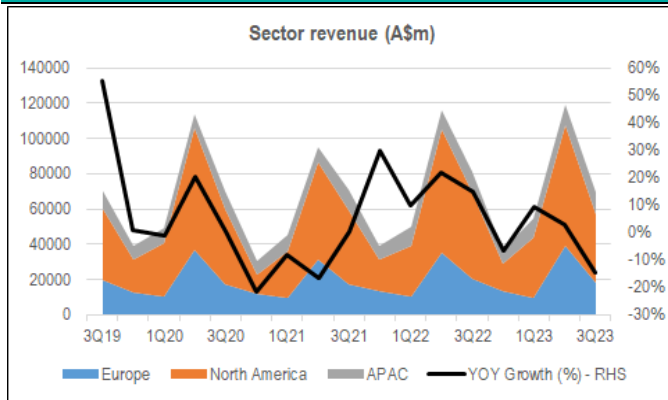
SOURCE: BELL POTTER SECURITIES ESTIMATES

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NUF variable earnings drivers

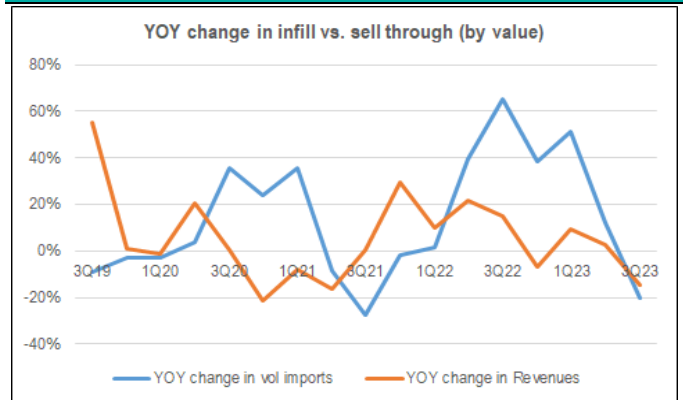
Sector trends: 3Q23 sector revenue growth in NUF core markets was down -15% YOY. Revenue declines were predominantly driven by double digit YOY volume declines.

Figure 1 – Sector aggregate revenue (A\$m)



SOURCE: COMPANY DATA

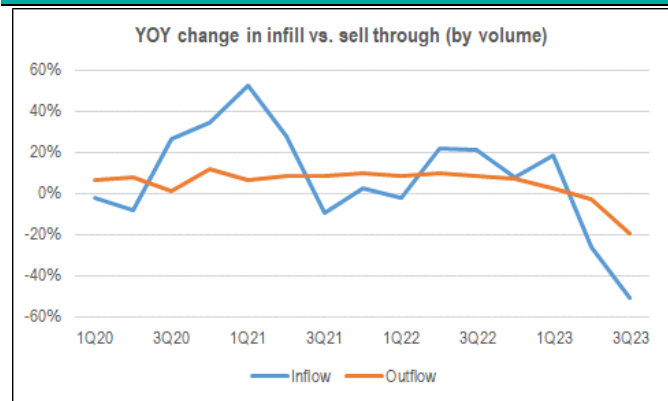
Figure 2 – YOY infill vs. sell through (value NUF markets)



SOURCE: COMTRADE AND COMPANY DATA

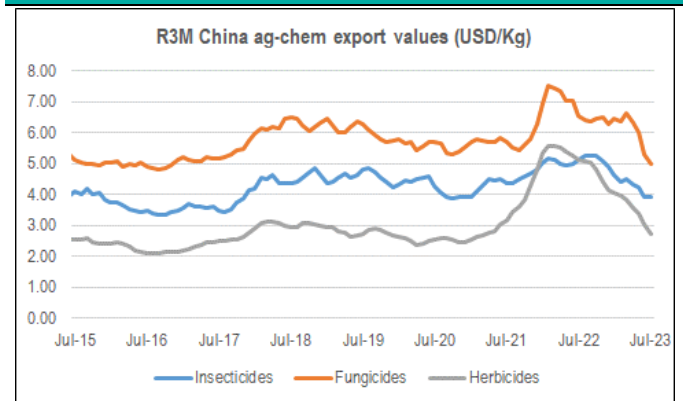
When imported ag-chem volumes and values are compared to sell through there was evidence of inventory unwind in NUF core markets and globally (inc. Brazil).

Figure 3 – YOY infill vs. Company reported volume growth



SOURCE: COMPANY DATA AND COMTRADE (INCLUDE BRAZIL)

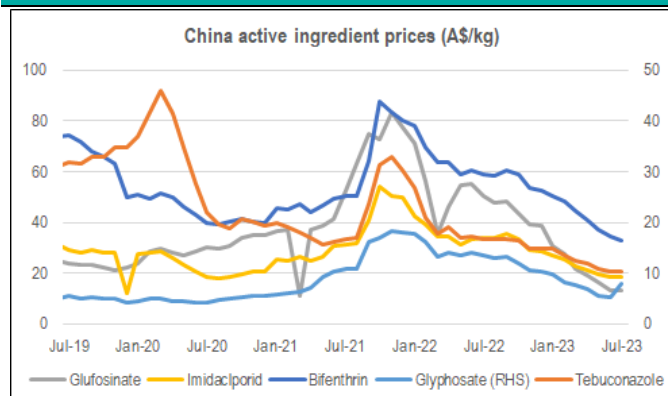
Figure 4 – China export parity (USD/Kg)



SOURCE: CIQ

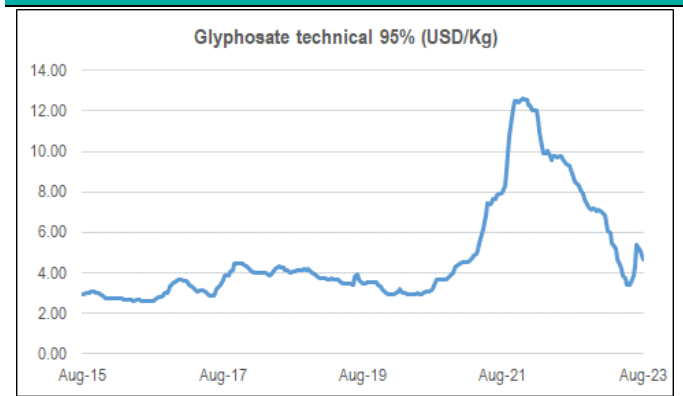
Active ingredients: Glyphosate tech has rallied ~40% from the bottom in market and this has flowed to China export values in Jul'23. Other active seem to be finding a floor.

Figure 5 – China active export pricing (A\$/Kg)



SOURCE: AGRIBUSINESS GLOBAL

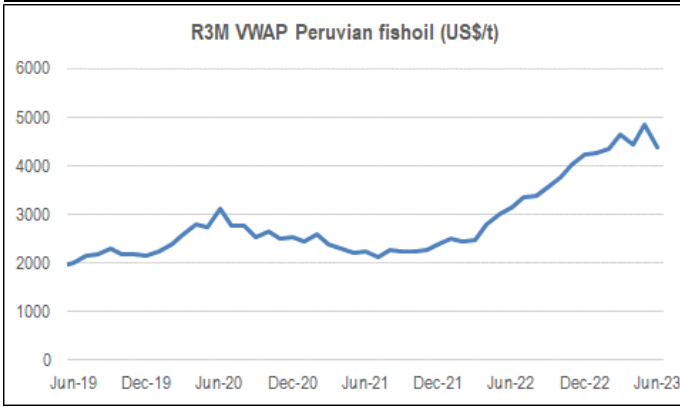
Figure 6 – China glyphosate tech-95%



SOURCE: BLOOMBERG

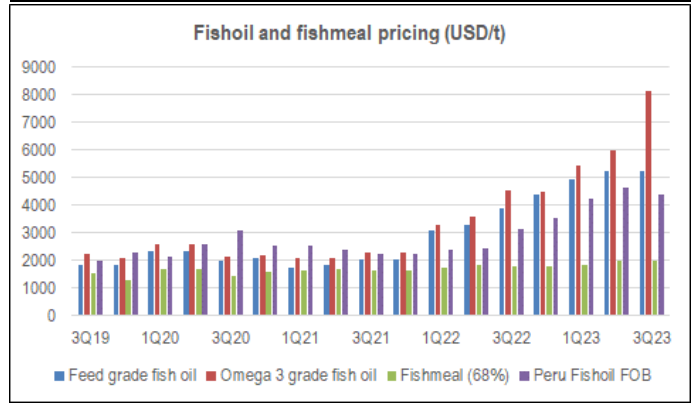
Omega-3 pricing indicators (Sep YE): Aqua feed indicators in fishmeal and fish oil have continued to demonstrate strong gains with landed Peruvian fishmeal up +39% YOY, fishmeal (68 prime) up +10% YOY and feed grade fishoil up +35% YOY. In addition, we note a +34% YOY uplift in average prices for Corbion’s competing algae sourced omega-3 product.

Figure 7 – Peruvian Fish fishmeal pricing indicators (US\$/t)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

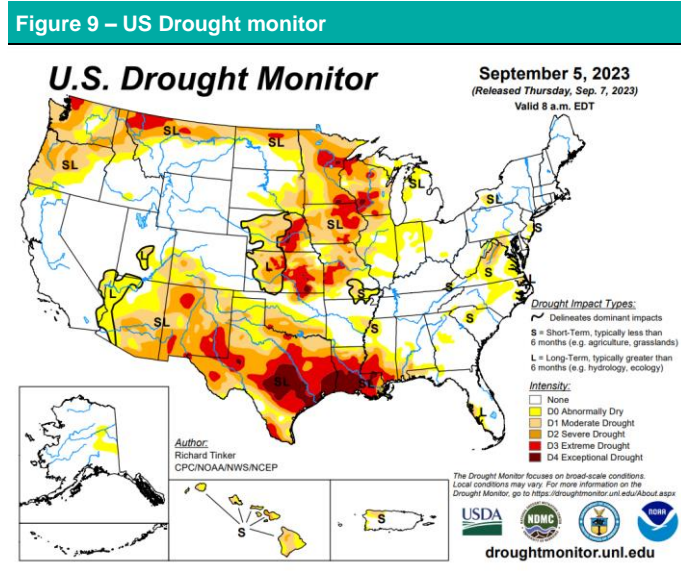
Figure 8 – Quarterly pricing trends fishoil



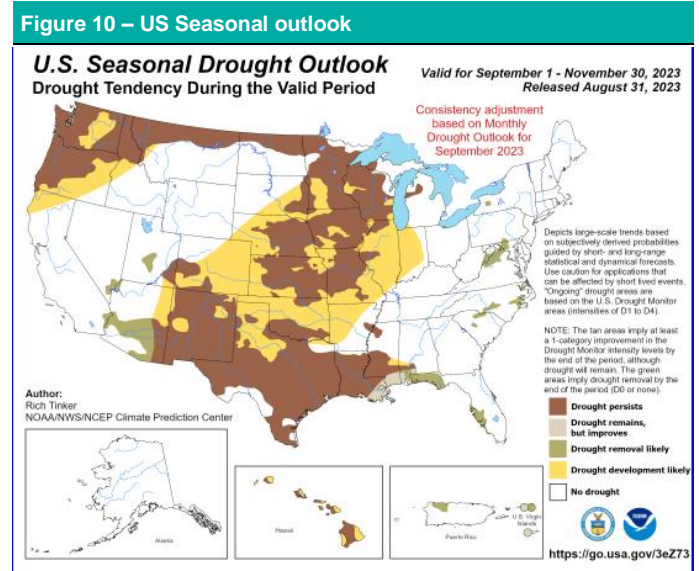
SOURCE: BLOOMBERG AND COMPANY DATA

Seasonal conditions update

US: The NOAA reports that since mid-August, there are stronger indicators for a very warm and dry September in the middle of the country; with a broad area of drought development now forecast in this region. Corn and soybean crop conditions are trailing a year ago. In Canada 67% of the agricultural landscape is classified as abnormally dry or in moderate to exceptional drought.

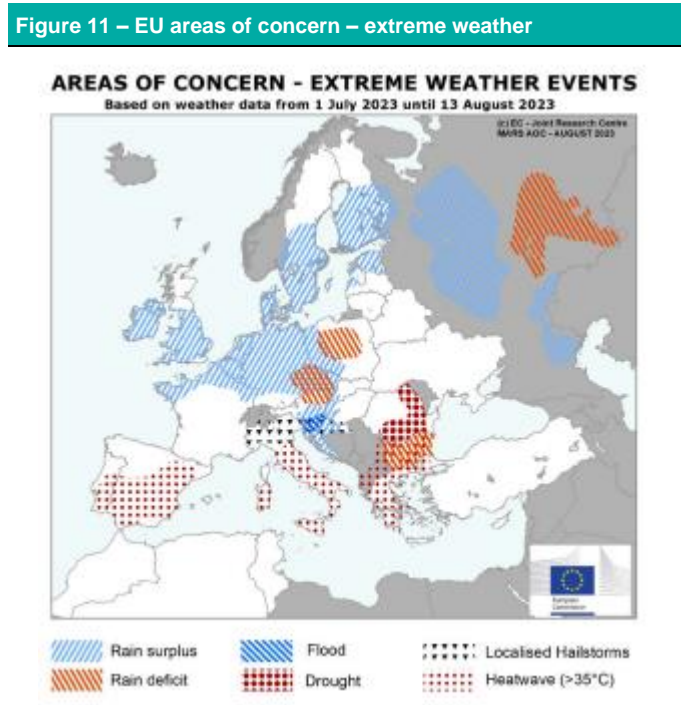


SOURCE: DROUGHT MONITOR

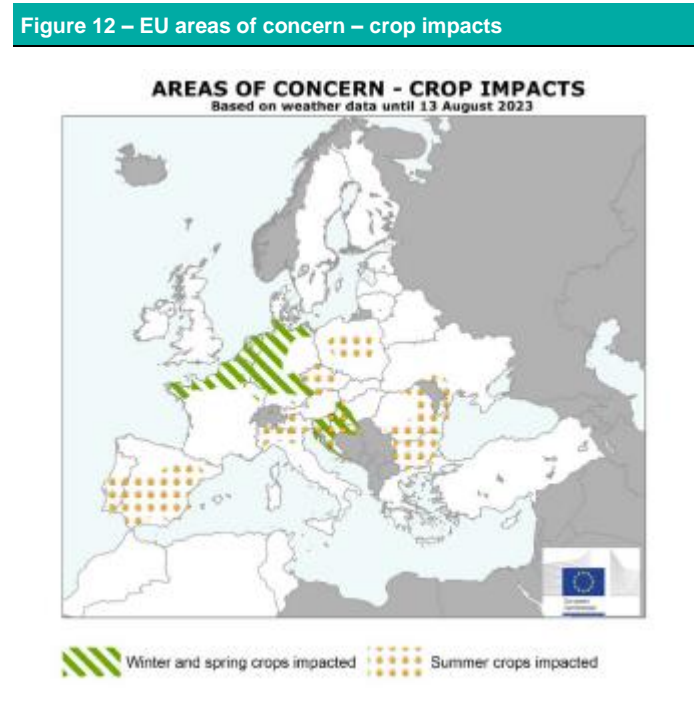


SOURCE: NASS

Europe: Late season rainfall has delayed harvesting in some regions after a period of heat in July. For the most part harvesting is complete for FY23 with the focus likely to shift to pre-plant rainfall in coming months.



SOURCE: JRC MARS



SOURCE: JRC MARS

Australia: Soil moisture profiles and three-month rainfall outlook remain below average for most of the agricultural producing regions. ABARES forecast the winter crop to be down -34% YOY and a summer crop down -19% YOY (on a -15% YOY drop in acreage).

Figure 13 - BOM Three month rainfall outlook

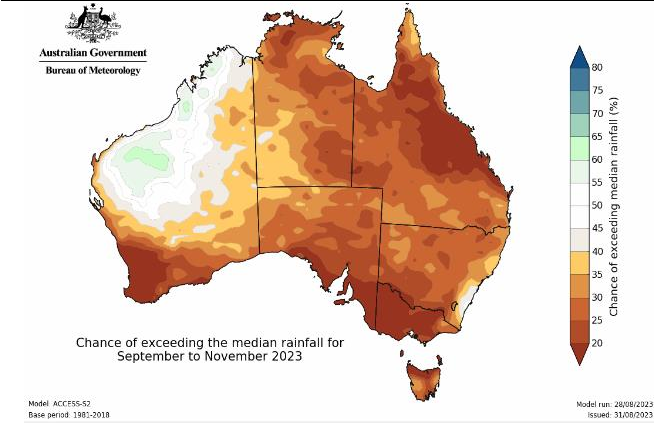
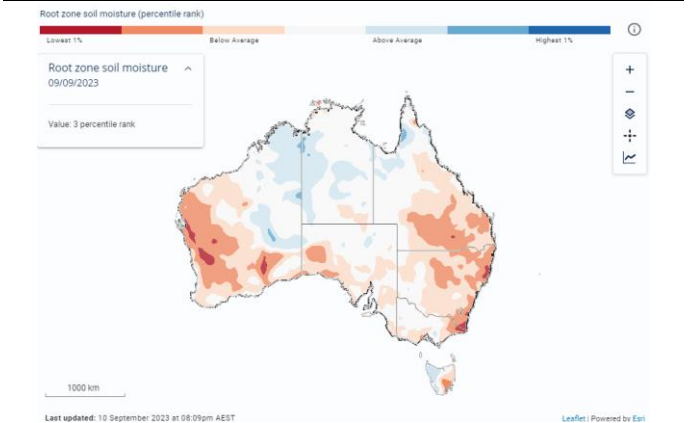


Figure 14 – Relative soil moisture profile



Investment Summary

COMPANY DESCRIPTION

NUF is a leading supplier of off-patent agricultural chemicals (~77% of the contestable market), seeds and seed treatments globally, with a marketing presence in over 30 countries and sales in over 100 countries.

VALUATION

Our target price for NUF is \$7.00ps. In deriving our target we have valued the business as is while incorporating some upside for execution of the FY26e targets. Key drivers are:

Base business: We utilise an ROIC based methodology utilising a value for the base business on Normalised earnings, while accounting for the material dislocation between SIB Capex and reported depreciation & amortisation following the Century and FMC acquisitions. Major assumptions in this target price derivation include an underlying cash ROIC of 11.8% in FY23e lifting to 14.4% in FY24e and a WACC hurdle of 10.2%. Net debt calculations include factored payables which we view as synthetic debt funding.

Upside: FY26e targets would imply an EBITDA upside case of \$550-645m. We have incorporated 20% of the upside potential in our target price calculation.

RISKS

Key risks in an investment in NUF 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.

Climate: As an input supplier to global agriculture, demand for crop protection products is influenced by climatic conditions that help determine the timing and extent of cropping activity as well as weed, pest and disease pressures. Climatic conditions will vary from region to region. While certain conditions may increase demand for crop protection products, extreme climatic conditions, such as prolonged drought, may reduce demand for those products. In addition the timing and duration of seasonal breaks can also impact the demand for particular products.

Changes in commodity prices: Commodity prices dictate planting intentions. Weak commodity prices can be associated with lower levels of cropping activity and demand for crop protection products. In addition rotation between crops can affect the level of demand for crop protection, with some crops requiring a higher investment in crop chemicals than others.

Failure to execute on cost and working capital initiatives: A failure to execute on reducing costs by ~\$15m and reducing average working capital to sales to 35-37%, is likely to see NUF generate a ROFE below expectations impacting both earnings and valuation.

Failure to execute the Century and FMC acquisitions: NUF has invested A\$840m in acquiring the Century and FMC portfolios in Europe, securing revenues of ~A\$280m and EBITDA of A\$110-115m. Failure to execute on incorporating these portfolios into the NUF stable or failure to achieve re-registration of key molecules could impact the performance of NUF.

Omega 3: Incorporated into our earnings forecasts is an expectation that NUF is successful in commercialising its omega 3 canola product. Failure to achieve this outcome would likely impede the ability of NUF in achieving our future projections.

Technology adoption: The introduction and adoption of technology in agriculture, such as GM crops, may influence the demand for crop protection and conventional seed products. In addition the introduction and adoption of formulations that supersede current products may limit demand for some of NUF's products.

Key Supply contracts: NUF relies on the supply of a number of key raw materials, intermediates and active ingredients in order to produce and supply its range of crop protection products. Commercial terms relating to the supply of those inputs can vary and are subject to negotiation with third parties. Pricing and other terms associated with these arrangements can impact the margins associated with the sale of related products

Currency: Global crop protection companies such as NUF purchase inputs and determine selling prices in a range of international currencies, reflecting the geographic reach of their operations and are therefore exposed to fluctuations in exchange rates.

Glyphosate risk: On 10 August 2018, a California jury found Monsanto liable to the amount of US\$289m as a result of allegations their glyphosate-based product Round-Up caused a man's cancer. There is risk that glyphosate sales around the world are adversely impacted given both the intense legal and community pressure on this product. There is also a risk of future litigation for suppliers of glyphosate-based products, including NUF.

Regulatory risks: The crop protection industry is highly regulated with government controls and standards imposed on all aspects of the industry's operations. Crop protection products are subject to regulatory review and approval in all markets in which they are sold, with the requirements of regulatory authorities varying from country to country. Regulatory policies can have an impact on the availability and usage of crop protection products and, in some cases, can result in the restriction or removal of certain products from the market, which can have a material adverse effect on the financial performance of NUF.

Table 1 - Financial summary

Sep Year end			Post AASB16 Sep YE								
	2019	2020	2020	2021	2022	2023e	2024e	2025e	Price (A\$ps)	\$5.14	
Profit & Loss (A\$m)											
Sales revenue	3757.6	2848.4	2933.5	3215.7	3773.0	3501.0	3838.1	3979.1	Recommendation	Buy	
... Change		-24.2%		9.6%	17.3%	-7.2%	9.6%	3.7%	Target Price (A\$ps)	\$7.00	
EBITDA	420.3	235.8	245.2	361.1	446.8	405.2	473.8	496.0	Diluted issued capital (m)	380.5	
Deprec. & amort	(171.7)	(201.4)	(203.3)	(208.0)	(210.1)	(190.4)	(198.0)	(197.0)	Market cap (\$m)	1955.6	
EBIT	248.6	34.4	41.9	153.1	236.7	214.8	275.8	299.0	Enterprise Value (\$m)	3178.3	
Interest expense	(116.9)	(96.2)		(61.3)	(54.4)	(77.1)	(75.7)	(72.8)	Free Float (%)	100%	
Pre-tax profit	131.7	(61.8)		91.8	182.2	137.7	200.2	226.2	*Net debt trailing & Factored payables R12MA. Lease liabilities and hybrid last reported		
Tax expense	(42.6)	(18.8)		(30.6)	(49.1)	(37.3)	(56.1)	(63.9)	Sep Year end	2019	
... tax rate	32%	-30%		33%	27%	27%	28%	28%	Valuation Ratios		
Minorities	-	-	-	-	-	-	-	-	Core EPS (cps)	16.1	
Net Profit	89.1	(80.6)		61.3	133.2	100.4	144.1	162.3	Change (%)	n.a.	
Abs. & extras	(50.8)	(375.5)		3.9	(25.8)	6.7	-	-	Core EPS pre-amortisation (cps)	36.4	
Reported Profit	38.3	(456.1)		65.1	107.4	107.1	144.1	162.3	Change (%)	n.a.	
Amortisation	133.7	143.6		124.7	127.1	107.5	115.0	114.1	PE (x)	32.0	
Pref & hybrid dividends	(14.6)	(18.3)		(10.0)	(10.1)	(18.7)	(18.7)	(18.7)	PE post-pref (x)	38.1	
Underlying NPATA	168.0	1.6		138.5	212.1	156.9	206.0	223.5	PE pre-amortisation (x)	14.1	
Cashflow (A\$m)											
EBITDA	420.3	235.8		361.1	446.8	405.2	473.8	496.0	EV/EBITDA (x)	8.8	
Net Interest Expense	(102.6)	(82.6)		(55.2)	(59.9)	(67.1)	(65.7)	(62.8)	EV/EBIT (x)	20.8	
Tax Paid	(42.1)	(118.2)		(31.3)	(32.0)	(43.2)	(46.7)	(60.0)	NTA (\$ps)	3.31	
Change in Wkg Capital	(137.7)	(195.0)		190.5	(8.3)	(327.6)	0.5	(43.7)	PINTA (x)	1.55	
Other	(39.8)	(93.0)		(60.8)	(7.1)	(10.0)	(10.0)	(10.0)	Book Value (\$ps)	5.58	
Operating Cash Flow	98.1	(253.0)		404.3	339.5	(42.7)	352.0	319.6	Price/Book (x)	0.92	
Dividends paid	(34.1)	(17.1)		(10.2)	(40.2)	(60.5)	(60.5)	(68.0)	DPS (cps)	4.0	
Capex	(174.6)	(168.9)		(147.1)	(207.1)	(220.0)	(190.0)	(190.1)	Payout (%)	24.9%	
Free Cash Flow	(110.6)	(439.1)		247.0	92.2	(323.2)	101.5	61.4	Yield (%)	0.8%	
Asset Sales	2.1	1,284.5		0.8	0.6	(15.5)	-	-	Franking (%)	0%	
Acquisitions	(1.4)	-		-	(34.0)	0.1	-	-	Performance Ratios		
Other	(59.1)	105.4		(124.8)	199.4	-	-	-	EBITDA/sales (%)	8.4%	
Equity Issues/(Reduction)	296.0	-		-	-	-	-	-	EBITA/sales (%)	4.8%	
(Inc.) /dec. in net debt	126.9	950.9		123.0	258.3	(338.6)	101.5	61.4	OCF Realisation (%)	150.2%	
Balance Sheet (A\$m)											
Cash & near cash	505.7	686.6	423.9	724.2	585.7	350.0	500.0	500.0	FCF Realisation (%)	403.6%	
Receivables	1,378.8	982.2	859.0	811.7	550.3	1,015.3	1,036.3	1,074.4	ROE (%)	3.3%	
Inventories & WIP	1,228.2	932.8	1,046.9	976.2	1,602.5	1,435.4	1,535.2	1,591.6	ROIC (%)	6.3%	
Other Current assets	133.8	15.9	22.6	22.7	22.7	22.7	22.7	22.7	Asset turn (years)	1.74	
Current assets	3,246.5	2,617.5	2,352.5	2,534.8	2,761.1	2,823.4	3,094.2	3,188.7	Capex/Deprn (x)	0.71	
Fixed assets	393.6	332.9	325.9	334.7	370.4	362.1	369.1	376.2	Interest cover (x)	2.50	
Right of use asset	-	106.7	110.7	106.6	104.9	104.9	104.9	104.9	Net debt/EBITDA	1.44	
Intangibles	1,719.0	1,339.0	1,328.9	1,243.8	1,192.8	1,240.3	1,225.2	1,211.2	Net debt/equity (%)	8.2%	
Other assets	317.4	245.8	258.2	258.7	334.8	350.0	350.0	350.0	Segmental Information		
Non current assets	2,430.0	1,917.7	1,913.1	1,837.3	1,898.0	1,952.4	1,944.4	1,937.4	APAC	754.3	
Total assets	5,676.5	4,535.2	4,265.6	4,372.1	4,659.1	4,775.7	5,038.6	5,126.1	Europe	796.2	
Creditors	1,221.3	933.0	861.0	933.4	1,290.0	1,260.3	1,381.7	1,432.5	North America	1,054.3	
Current borrowings	495.0	320.4	216.1	234.4	250.6	100.0	100.0	100.0	South America	-	
Lease liabilities	-	18.4	18.2	18.1	18.6	18.6	18.6	18.6	Crop Protection	2,604.8	
Other current liabilities	55.5	84.2	79.6	55.5	66.8	66.2	85.7	99.7	Seed technologies	198.1	
Current liabilities	1,771.7	1,337.6	1,156.7	1,223.4	1,607.4	1,426.5	1,567.4	1,632.2	Other (unallocated)	130.6	
Non-current borrowings	1,257.8	662.4	670.4	663.0	539.4	792.9	841.4	780.0	Revenue	2,933.5	
Lease liabilities	-	126.6	125.4	125.5	123.3	123.3	123.3	123.3	Core Revenue	2,802.9	
Other liabilities	242.0	265.0	266.3	238.7	236.2	236.2	236.2	236.2	APAC	76.0	
Non-current liabilities	1,499.9	1,053.9	1,062.1	1,027.2	899.0	1,152.4	1,201.0	1,139.5	Europe	102.2	
Total liabilities	3,271.6	2,391.5	2,218.8	2,250.6	2,506.4	2,578.9	2,768.3	2,771.7	North America	96.9	
Net assets	2,404.9	2,143.6	2,046.7	2,121.5	2,152.7	2,196.8	2,270.3	2,354.4	South America	-	
Share capital	1,834.6	1,834.9	1,834.9	1,835.9	1,837.2	1,837.2	1,837.2	1,837.2	Crop Protection	275.0	
Reserves	(249.5)	79.8	74.7	95.0	42.8	40.3	37.8	35.3	Seed technologies	29.5	
Retained earnings	475.9	(18.0)	(109.8)	(56.3)	25.8	72.4	148.4	235.0	Other (unallocated)	(59.3)	
Hybrid Equity	343.9	246.9	246.9	246.9	246.9	246.9	246.9	246.9	EBITDA	245.2	
Outside equity interests	-	-	-	-	-	-	-	-	EBITDA margin on core (%)	8.7%	
Sh/holders' funds	2,404.9	2,143.6	2,046.7	2,121.5	2,152.7	2,196.8	2,270.3	2,354.4	Crop protection EBITDA Margin on core (%)	10.6%	
Net Debt (Cash)	1,247.1	296.3	462.6	173.3	204.3	542.9	441.4	380.0	Seed EBITDA Margin (%)	14.9%	
Net Debt (Cash) - Hybrid adju	1,497.1	643.8	712.6	520.8	551.8	890.4	788.9	727.5			

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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Daniel Laing	Industrials	612 8224 2886	dlaing
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