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Elders Ltd (ELD)

Riding on the range

Recommendation

Buy (unchanged)

Price

\$8.38

Target (12 months)

\$9.50 (previously \$8.35)

GICS Sector

Food Beverage and Tobacco

Expected Return

Capital growth	13.4%
Dividend yield	4.1%
Total expected return	17.5%

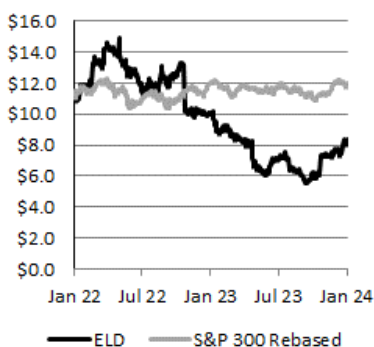
Company Data & Ratios

Enterprise value	\$1,860m
Market cap	\$1,319m
Issued capital	157.4m
Free float	100%
Avg. daily val. (52wk)	\$8.5m
12 month price range	\$5.45-10.30

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	7.72	6.11	10.09
Absolute (%)	8.55	37.15	-16.95
Rel market (%)	8.93	31.01	-18.15

Absolute Price



SOURCE: IRESS

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Livestock markets take the edge off

At a very high level we see conditions in general more favourable for ELD in the months following the FY23 result, with improved rainfall patterns in key cropping areas and stronger livestock pricing trends with continued YOY gains in volumes.

Livestock markets: Recent rainfall has seen a rapid acceleration in livestock prices, with the EYCI up >50%, heavy steer pricing up >40%, Mutton up >150% and trade lamb up >50% since ELD reported in Nov'23. In addition, both saleyard and slaughter volumes continue to demonstrate robust YOY gains in both cattle and ovine markets.

Summer cropping: Rainfall post the FY23 result has generally been supportive of an improved outlook over the summer crop acreage, with vastly improved soil moisture profiles in key cropping areas. We would expect the demand outlook for inputs into the summer crop would be stronger than it was at the time of the FY23 result.

SYSMOD costs: ELD's recent investor day highlighted more detail on the system modernisation program, upon which it expects to generate a >15% ROIC on its investment. In the near term we expect a higher level of ongoing cost incursion from FY24e and have adjusted our forecasts to reflect this.

We have adjusted our forecasts to incorporate a stronger outlook in livestock markets softened in part by higher assumed opex costs related to SYSMOD and slighter lower fertiliser prices. The net effect is NPAT changes of +9% in FY24e, -1% in FY25e and +2% in FY26e. Our target price is raised to \$9.50ps (prev. \$8.35ps) following these changes.

Investment view: Buy rating unchanged

Our Buy rating is unchanged. Since reporting FY23 results in Nov'23 soil moisture profiles in key summer cropping regions have improved (with NOAA long range forecasts shifting to ENSO neutral by April-June) and livestock prices have firmed, with volumes generally continuing to demonstrate high single-to-double digit YOY gains in both cattle and sheep/lamb markets.

Earnings Forecast

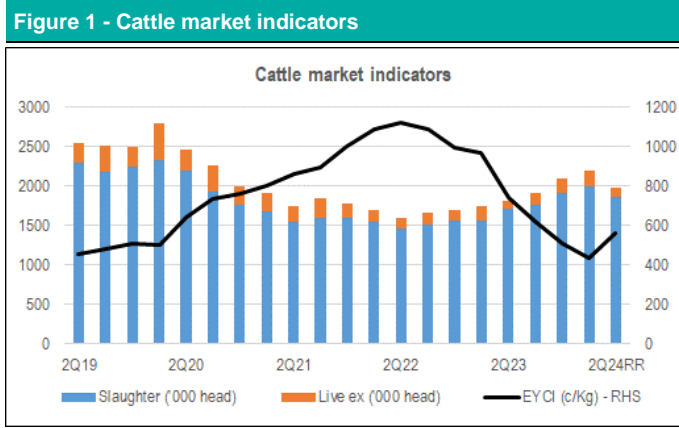
Year end September	2023	2024e	2025e	2026e
Sales (\$m)	3321.4	3261.2	3427.7	3596.1
EBITDA (\$m)	228.4	220.7	249.4	266.3
NPAT (underlying) (\$m)	103.7	90.5	110.9	123.6
NPAT (cash) (\$m)	149.1	124.0	110.9	123.6
EPS (adjusted) (cps)	65.9	57.3	70.0	78.1
EPS growth (%)	(31.9)	(13.0)	22.1	11.5
PER (x)	12.7	14.6	12.0	10.7
FCF Yield (%)	-0.2	5.3	6.3	6.7
EV/EBITDA (x)	8.1	8.4	7.5	7.0
Dividend (¢ps)	46.0	34.0	41.0	43.0
Franking (%)	30.0	30.0	30.0	30.0
Yield (%)	5.5	4.1	4.9	5.1
ROE (%)	12.0	10.2	11.9	12.5

SOURCE: BELL POTTER SECURITIES ESTIMATES

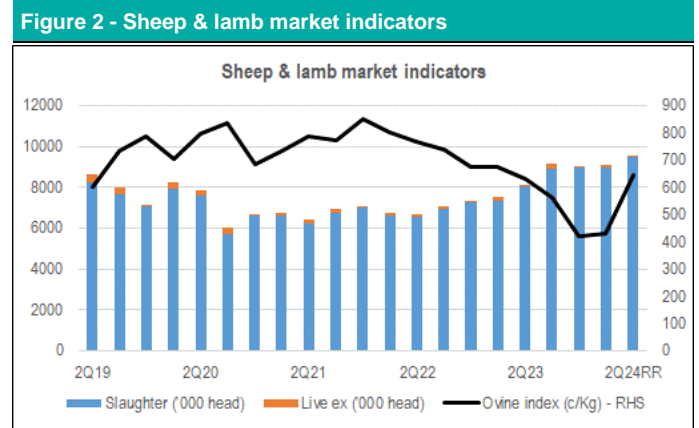
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ELD variable earnings drivers

Livestock activity has been materially stronger in terms of volumes (both slaughter and yarding's) and prices following the FY23 result.

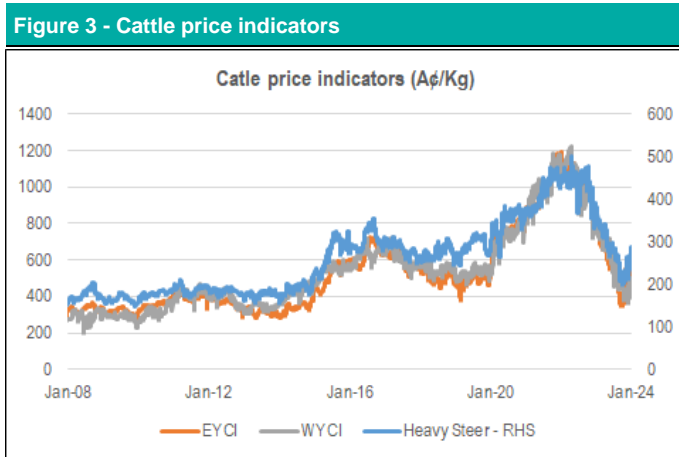


SOURCE: BASED ON MLA DATA

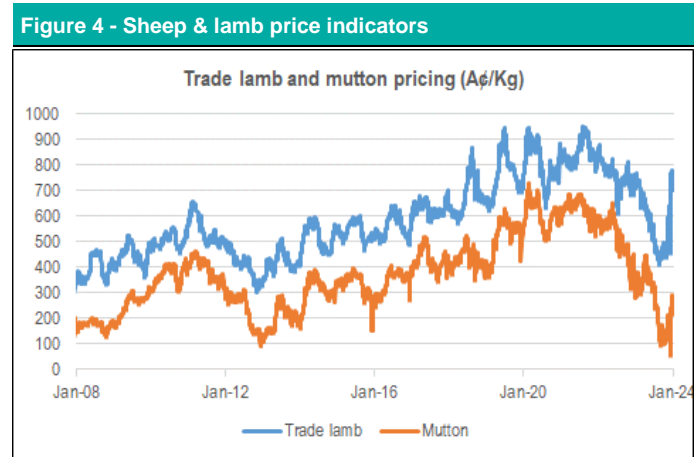


SOURCE: BASED ON MLA DATA

Livestock pricing indicators have bounced materially from the levels seen in Nov'23. Despite the bounce, the EYCI remains at a ~15% discount to US90CL import beef pricing.

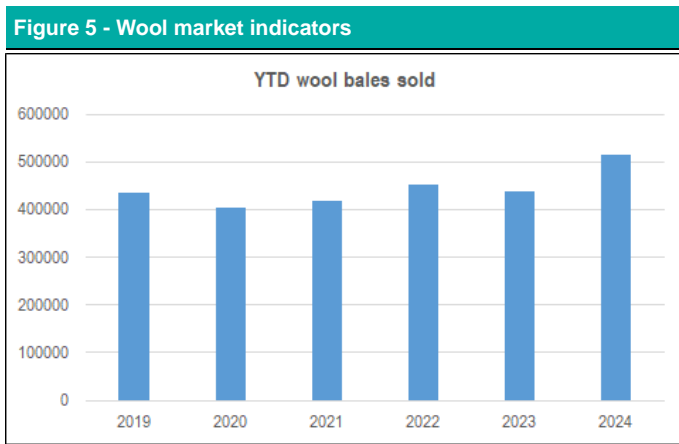


SOURCE: BASED ON MLA DATA

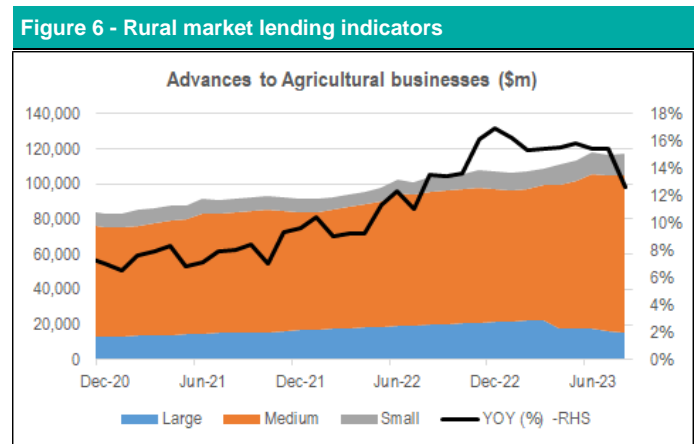


SOURCE: BASED ON MLA DATA

Industry wool volumes are up +17% YOY through 1H24TD, with average indicator pricing down -9% YOY. Rural lending grew +10% to Nov'23.

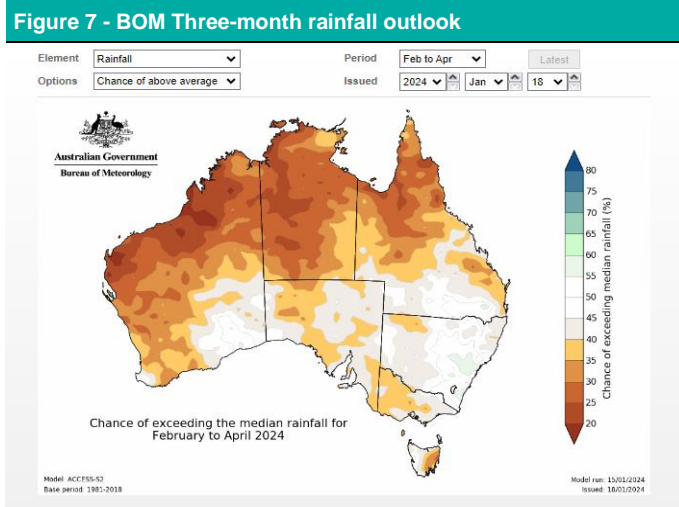


SOURCE: AUSTRALIAN WOOL INNOVATION

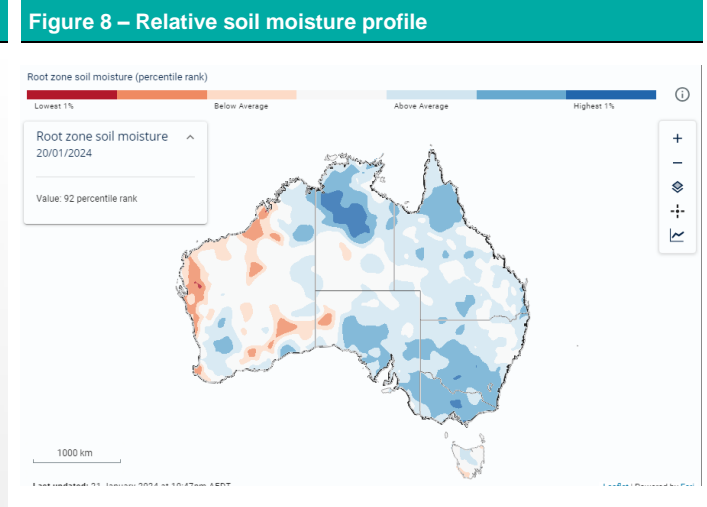


SOURCE: RBA

Soil moisture profiles have improved materially in recent weeks, the three-month rainfall outlook is broadly below average on the west coast and average to below average on the east coast. The BOM March-May outlook is in general average across the acreage. We note the most recent NOAA ENSO projections (11/01) are for ENSO neutral conditions by April-June and a >50% chance of La Nina thresholds being exceeded by June-August.

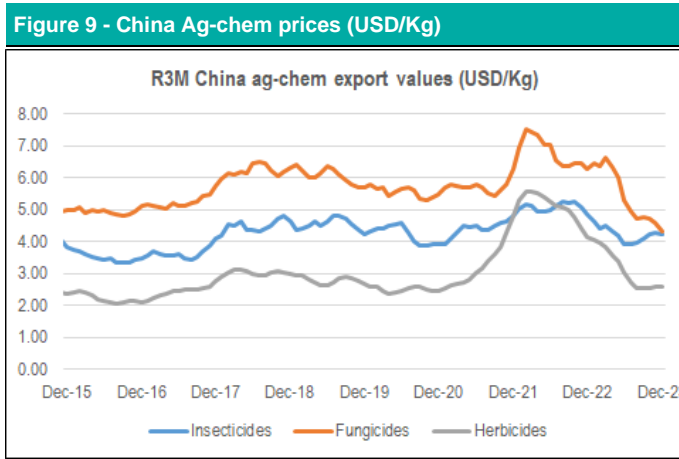


SOURCE: BOM

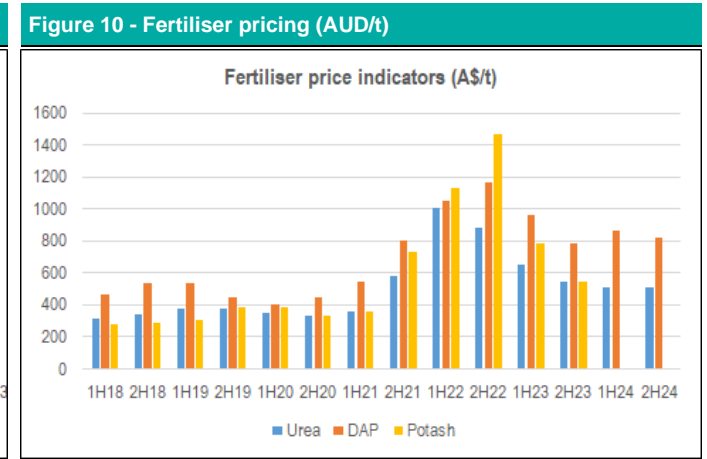


SOURCE: BOM

Active ingredient ag-chem prices look to have found a floor in herbicides and insecticides but cycle unfavourable YOY comparisons in 1H24. Average fertiliser prices remain a headwind in FY24e, although a more modest YOY decline is implied by forward rates than what we witnessed in FY23.



SOURCE: CIQ DATA



SOURCE: BLOOMBERG AND CME FUTURES PRICES

ELD Investment summary

COMPANY OVERVIEW

ELD is a leading supplier of fertiliser, agricultural chemicals and animal health products to rural and regional Australia, with strong agency positions in livestock, wool and real estate.

VALUATION

Our target price for ELD is \$9.50ps, which we derive using our ROIC based valuation model. Our target price is predicated on Underlying ROIC (ex-one off system upgrade costs) of 15.2% in FY24e lifting to 17.7% in FY25e and a WACC hurdle of 10.8%.

RISKS

Risks of an investment in ELD include but are not limited to:

Rainfall activity: A lack of rainfall activity during the winter and summer sowing windows can have a material effect on demand for fertilisers and crop protection products, which make up ~35% of group gross profit;

A deterioration in livestock markets: The livestock agency business makes up ~20% of group gross profit. Agency revenues are linked to the value of livestock traded (sheep and cattle) and live export volumes. Any deterioration in volumes and price simultaneously can impact livestock earnings;

A deterioration in wool volumes: ELD is leveraged into domestic wool production and any fall in volumes can impact returns in the agency wool business;

A deterioration in real estate volumes: ELD is leveraged into the value of real estate turnover in rural and regional Australia. Any deterioration in land sales values or volumes can impact earnings from the real estate agency business;

Changes in commodity prices: Outside of the direct impact on the livestock agency business, demand for ELD products is linked to farm profitability, with a weakening in commodity prices reducing demand for ELD's core products;

Access to funding: As a working capital facilitator, ELD require access to debt funding to fund seasonal requirements. Failure to gain access to debt funding may result in ELD requiring additional equity contributions;

Failure to make further acquisitions: Our forecasts assume ongoing investment in acquisitions. Failure to make acquisitions would likely impede ELD earnings growth projections in future years;

Should the impact of these factors be greater than anticipated, the stock may have difficulty achieving our forecasts.

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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