

Analyst

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Authorisation

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The a2 Milk Company (A2M)

Midlife crisis

Recommendation

Hold (unchanged)

Price

A\$5.70

Target (12 months)

A\$6.20 (previously A\$7.05)

Sector

Food Beverage and Tobacco

Expected Return

Capital growth	8.8%
Dividend yield	0.0%
Total expected return	8.8%

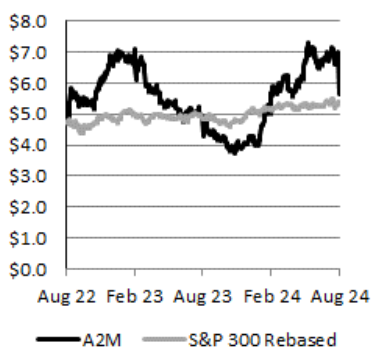
Company Data & Ratios

Enterprise value	A\$3,318m
Market cap	A\$4,121m
Issued capital	722.9m
Free float	100%
Avg. daily val. (52wk)	A\$18.2m
12 month price range	A\$3.70-7.37

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	6.85	6.17	4.97
Absolute (%)	-16.79	-7.62	14.69
Rel market (%)	-16.53	-10.69	5.67

Absolute Price



SOURCE: IRESS

BELL POTTER SECURITIES LIMITED
 ABN 25 006 390 772
 AFSL 243480

FY24 Results at a glance

A2M reported FY24 underlying NPAT below expectations at NZ\$167.6m. Key operating statistics of the result included:

Operating results: Revenue of NZ\$1,676m was up +5% YOY (vs. BPe NZ\$1,690m and guidance of low-to-mid-single growth). EBITDA of NZ\$234.3m was up +7% YOY (vs BPe of NZ\$237.3m and VA consensus of NZ\$235.5m). EBITDA ex-MVM was NZ\$254.8m (vs. BPe of NZ\$266.5m). Underlying NPAT of NZ\$167.6m was up +8% YOY (vs. BPe of NZ\$172.9m and VA consensus of NZ\$172.1m).

Infant formula drivers: R12M market shares in China offline were flat vs 1H24 at 3.5%, down in CBEC at 20.5% (1H24 21.4%) and down in O2O/Daigou at 19.7% (1H24 20.5%). China direct IMF sales reached NZ\$1,060m (+12% YOY and vs. BPe NZ\$1,082m) and represented 91% of total FY24 IMF sales (85% in FY23). Marketing expenditure of NZ\$280.1m (vs. BPe of NZ\$267.5m and FY23 of \$260m).

Cashflow and balance sheet: A lease adjusted operating cashflow of NZ\$250.9m compares to NZ\$107.7m in FY23. Net cash exited the period at NZ\$902.7m and compares to FY23 at NZ\$700.7m.

FY25e outlook: Key outlook comments include: (1) FY25e revenue guidance of mid-single digit revenue growth (BPe of +7.4% and VA consensus of +8.0%); (2) FY25e EBITDA margins are expected to be broadly consistent with FY24 levels at 14% (BPe of 15.4% and VA consensus of 15.2%), with 1H25 down YOY and 2H25 up; (3) FY25e operating cash conversion to be below 100% reflecting SM1 settlement payments.

We downgrade NPAT -13% in FY25e and -8% in FY26e on lower EBITDA margins and NZ cash rates. Our target price falls to A\$6.20ps (prev. A\$7.05ps).

Investment view: Hold rating unchanged

Our Hold rating is unchanged. Trading at ~15x FY25e EBITDA, A2M has retraced from its recent highs. However, at current share price levels A2M continues to trade at a fairly material premium to both IMF (~8x FY25e EBITDA) and FMCG (~12x FY25e EBITDA) peers.

Earnings Forecast

Year end June	2024	2025e	2026e	2027e
Sales (NZ\$m)	1675.5	1760.5	1853.8	1915.2
EBITDA (NZ\$m)	234.3	247.8	285.8	303.3
NPAT (adjusted) (NZ\$m)	167.6	179.0	209.5	219.2
NPAT (reported) (NZ\$m)	109.7	179.0	209.5	219.2
EPS (adjusted) (NZ cps)	23.1	24.7	28.8	30.2
EPS growth (%)	9.2	6.8	17.0	4.6
PER (x)	27.2	25.4	21.7	20.8
FCF Yield (%)	6.5	3.9	5.8	6.1
EV/EBITDA (x)	15.6	14.7	12.8	12.0
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 (%)	13.3	12.6	12.9	11.9

SOURCE: BELL POTTER SECURITIES ESTIMATES

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FY24 result at a glance

Result: A2M reported NPAT modestly below our expectations at \$167.6m (vs. BPe of \$172.9m), principally reflecting a lower result in the ANZ business (lower IMF sales, down -18% HOH and -16% YOY) and higher corporate overheads. Operating cashflow was ahead of expectations (~NZ\$59m ahead of BPe) and this saw net cash exit at NZ\$902.7m (vs. BPe of NZ\$855.9m).

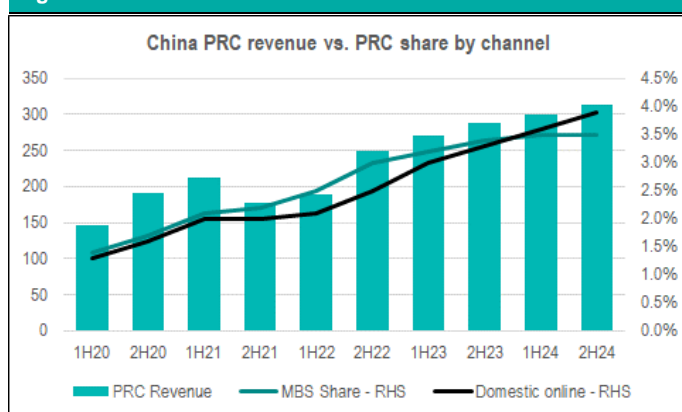
Figure 1 – FY24 Result overview (NZ\$m unless stated otherwise)

Profit & Loss	2019	1H20	2H20	2020	1H21	2H21	2021	1H22	2H22	2022	1H23	2H23	2023	1H24	2H24	2024	2024 BPe	YOY
Australia/NZ	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	162.2	155.1	317.3	338.0	-15%
China	405.7	317.2	382.2	699.4	326.0	257.4	583.4	306.3	420.2	726.5	471.6	530.6	1,002.2	549.5	593.6	1,143.1	1,149.7	14%
US & UK	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	56.9	56.7	113.7	112.3	8%
Processing								38.6	70.3	108.9	62.9	83.3	146.2	51.5	84.9	136.4	112.8	-7%
Corporate and other	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)	(8.0)	(27.0)	(35.0)	(23.0)	8%
Revenue	1,304.5	805.3	925.8	1,731.1	677.4	529.4	1,206.7	660.5	790.2	1,446.2	783.3	809.5	1,592.9	812.1	863.3	1,675.5	1,689.8	5%
Australia/NZ	388.2	227.9	237.7	465.6	117.5	31.4	148.8	96.2	77.0	173.2	62.0	31.5	93.5	34.8	28.2	63.0	72.8	-33%
China	123.9	117.5	107.4	224.9	94.4	(18.8)	75.6	59.4	85.7	145.1	111.5	142.6	254.1	135.9	154.2	290.1	281.1	14%
US & UK	(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)	(8.3)	(7.1)	(15.5)	(14.9)	-34%
Processing								(10.0)	(8.8)	(18.8)	(13.4)	(13.1)	(26.5)	(15.3)	(5.2)	(20.5)	(29.2)	-23%
Corporate & Other	(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)	(33.8)	(49.0)	(82.8)	(72.5)	6%
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	0.0	n.a.
EBITDA	413.7	266.5	285.6	552.0	178.5	(55.1)	123.4	97.6	98.6	196.2	107.8	111.5	219.3	113.2	121.1	234.3	237.3	7%
...EBITDA Margin (%)	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%	13.9%	14.0%	14.0%	14.0%	2%
Depreciation & Amortisation	(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)	(8.9)	(23.3)	(32.2)	(18.2)	77%
EBIT	411.6	264.7	282.9	547.6	175.3	(59.3)	116.0	89.3	87.9	177.3	98.8	102.3	201.1	104.4	97.8	202.1	219.1	1%
...EBIT Margin (%)	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%	12.8%	11.3%	12.1%	13.0%	-4%
Net Interest Income	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	16.6	19.4	36.0	32.5	65%
Pre-tax profit	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	120.9	117.2	238.1	251.6	7%
Tax	(128.0)	(79.4)	(85.8)	(165.2)	(57.0)	18.4	(38.6)	(34.4)	(32.3)	(66.6)	(40.2)	(37.8)	(78.0)	(42.3)	(41.9)	(84.3)	(90.3)	8%
Minorities	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	6.7	7.0	13.7	11.6	27%
Underlying NPAT	288.0	188.2	200.0	388.1	120.0	(39.4)	80.7	59.6	63.0	122.6	73.8	81.9	155.6	85.3	82.3	167.6	172.9	8%
Non-recurring items (post-tax)	(66.7)	(13.9)	(41.6)	(55.5)	(67.4)	(66.1)	(133.5)	(7.0)	0.0	(24.5)	22.4	(80.7)	(58.3)	(33.8)	(24.1)	(57.9)	(62.2)	-1%
Reported NPAT	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	51.5	58.2	109.7	110.7	13%
Balance Sheet and cashflow	2019	1H20	2H20	2020	1H21	2H21	2021	1H22	2H22	2022	1H23	2H23	2023	1H24	2H24	2024	2024 BPe	YOY
Working Capital (\$m)	50.6	56.7	(7.6)	(7.6)	116.5	(61.0)	(61.0)	(53.4)	(98.0)	(98.0)	7.5	5.1	5.1	36.2	(37.3)	(37.3)	(11.7)	
Working Capital/Sales - T12M (%)	3.9%	7.0%	-0.8%	-0.4%	17.2%	-11.5%	-5.1%	-8.1%	-6.8%	-6.8%	1.0%	0.3%	0.3%	4.5%	-4.3%	-2.2%	-0.7%	
Net Debt (Cash) (\$m)	(464.8)	(618.4)	(854.2)	(854.2)	(774.6)	(875.2)	(875.2)	(667.2)	(763.0)	(763.0)	(655.4)	(700.7)	(700.7)	(735.1)	(902.7)	(902.7)	(855.9)	
Operating cashflow (\$m)	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	60.1	190.9	250.9	192.4	
Operating cash realisation (%)	100%	84%	131%	108%	-9%	-219%	75%	109%	152%	141%	-7%	80%	62%	73%	210%	126%	101%	
IMF Performance stats	2019	1H20	2H20	2020	1H21	2H21	2021	1H22	2H22	2022	1H23	2H23	2023	1H24	2H24	2024	2024 BPe	YOY
PRC Revenue (NZ\$m)	167.8	146.7	191.0	337.7	213.1	176.8	389.9	188.7	248.9	437.6	270.7	288.6	559.3	299.0	313.3	612.3	621.7	9%
CBEC Revenue (NZ\$m)	237.8	160.5	180.6	341.1	103.5	65.4	168.9	102.4	153.4	255.8	175.6	210.6	386.2	210.5	237.3	447.8	460.1	16%
China Direct Revenue (NZ\$m)	405.7	307.2	371.6	678.8	316.6	242.2	558.8	291.1	402.3	693.4	446.3	499.2	945.6	509.5	550.7	1,060.2	1,081.8	12%
ANZ EL	658.1	352.0	393.0	745.1	209.5	147.5	357.0	179.9	148.9	328.8	109.4	53.1	162.5	54.6	43.9	98.5	120.3	-39%
US EL														0.2	0.2	0.4	3.9	n.a.
Total IMF revenue	1,063.8	659.2	764.7	1,423.9	526.1	389.7	915.8	471.0	551.2	1,022.2	555.7	552.4	1,108.1	564.3	605.4	1,159.1	1,244.3	5%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

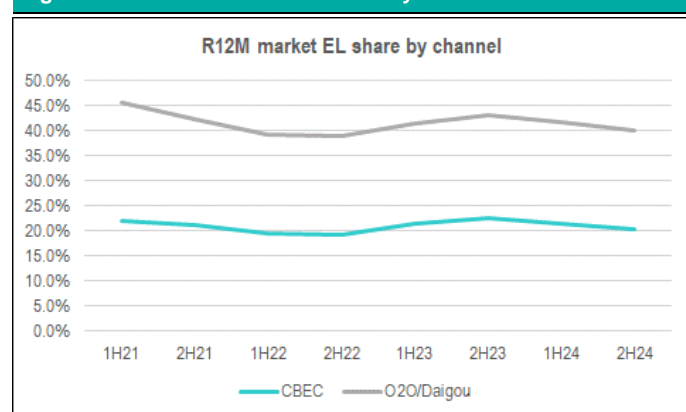
R12M market shares in China offline flat vs 1H24 at 3.5%, down in CBEC at 20.5% (1H24 21.4%) and down in O2O/Daigou at 19.7% (1H24 20.5%). China direct revenue grew +12% YOY and up +10% YOY in 2H24.

Figure 2 - China offline stockists



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 - R12M China market share by channel



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 4 – A2M market share and channel statistics

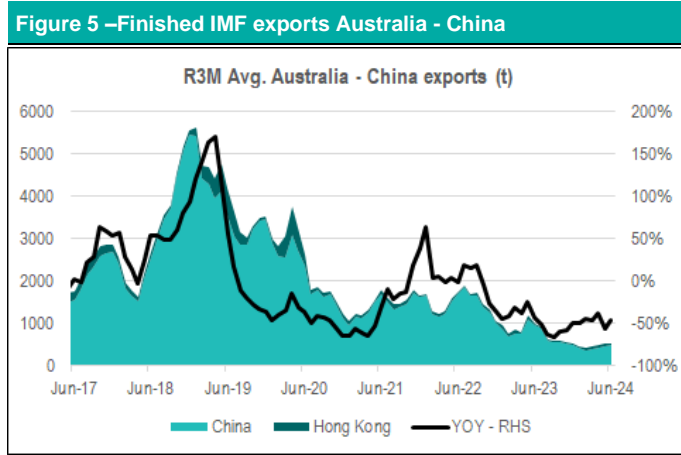
Market share statistics	2019	1H20	2H20	2020	1H21	2H21	2021	1H22	2H22	2022	1H23	2H23	2023	1H24	2H24	2024
Offline stockists	16,400	18,300	19,100	19,100	22,000	22,800	22,800	24,600	26,500	26,500	26,800	25,900	25,900	25,900		
Numeric distribution (%)							21%	23%	25%	25%	26%	27%	27%	28%	26%	26%
Weighted distribution (%)							40%	44%	44%	44%	47%	47%	47%	48%	44%	44%
R12M MBS market share (%)		1.4%	1.7%	1.7%	2.1%	2.2%	2.2%	2.5%	3.0%	3.0%	3.2%	3.4%	3.4%	3.5%	3.5%	3.5%
Key & A cities							5.7%	5.7%	6.3%	7.1%	7.1%	7.4%	7.5%	7.4%	6.8%	6.8%
BCD cities							1.6%	1.6%	1.9%	2.3%	2.3%	2.5%	2.7%	2.9%	3.0%	3.0%
R12M Domestic online share (%)		1.3%	1.6%	1.9%	2.0%	2.0%	2.0%	2.1%	2.5%	2.5%	3.0%	3.3%	3.3%	3.6%	3.9%	3.9%
R12M English label share (%)							20.2%	20.2%	20.0%	19.0%	19.0%	17.9%	19.1%	19.1%	20.6%	20.2%
CBEC	19.0%	20.6%	21.7%	21.7%	22.2%	21.1%	21.1%	19.5%	19.4%	19.4%	21.6%	22.6%	22.6%	21.4%	20.5%	20.5%
O2O/Daigou					23.5%	21.2%	21.2%	19.7%	19.5%	19.5%	19.8%	20.7%	20.5%	20.5%	19.7%	19.7%
Channel share (%)																
CBEC	20%			26%			30%			33%			44%			53%
O2O	13%			15%			13%			17%			16%			16%
Daigou	57%			48%			40%			39%			27%			21%
Other	10%			11%			17%			11%			13%			10%

SOURCE: COMPANY DATA

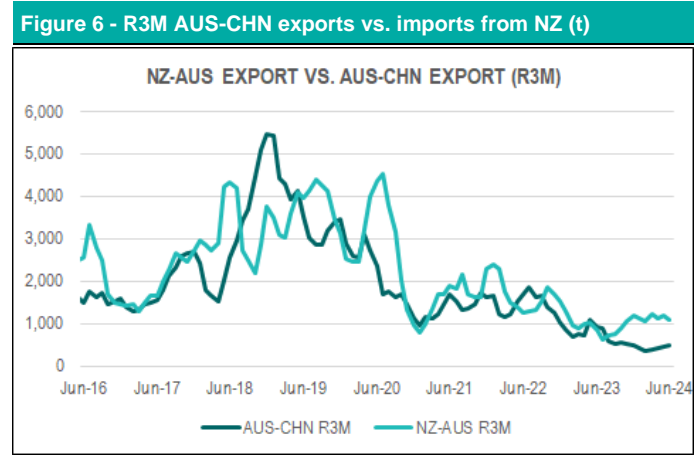
Key outlook points: Key outlook comments include: (1) FY25e revenue guidance of mid-single digit revenue growth (BPe of 7.4% and VA consensus of +8.0%); (2) FY25e EBITDA margins are expected to be broadly consistent with FY24 levels at 14% (BPe of 15.4% and VA consensus of 15.2%), with 1H25 down YOY; (3) FY25e operating cash conversion be below 100% reflecting SM1 settlement payments.

A2M variable earnings drivers

Australian Shipments: Export activity ex-Australia into China has remained subdued, since the inventory issues this dataset has a 95% correlation to A2M Australian IMF sales.

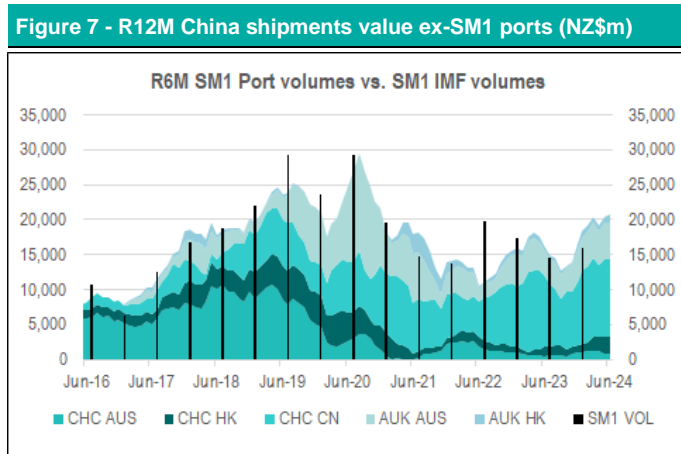


SOURCE: BASED ON ABS DATA

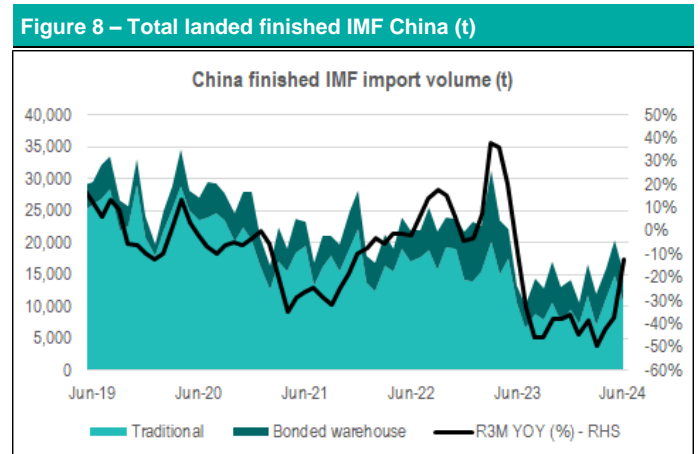


SOURCE: BASED ON STATSNZ AND ABS DATA

China activity levels: PRC label sales correlates closely to Direct China shipment values ex-CHC (at 90%) and CBEC correlates to HK + China direct shipment values (at 84%).

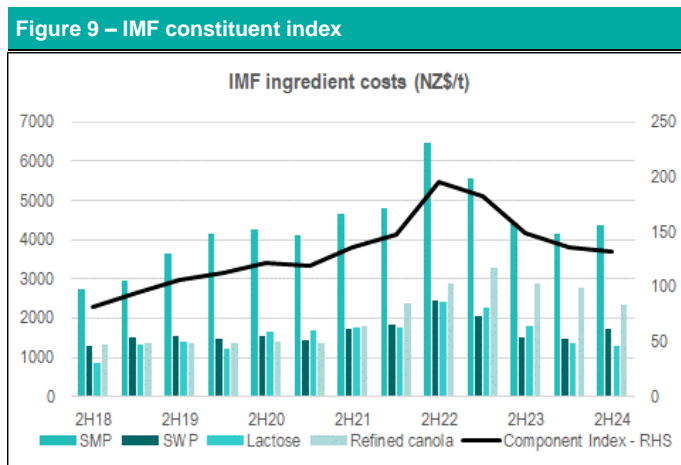


SOURCE: STATSNZ

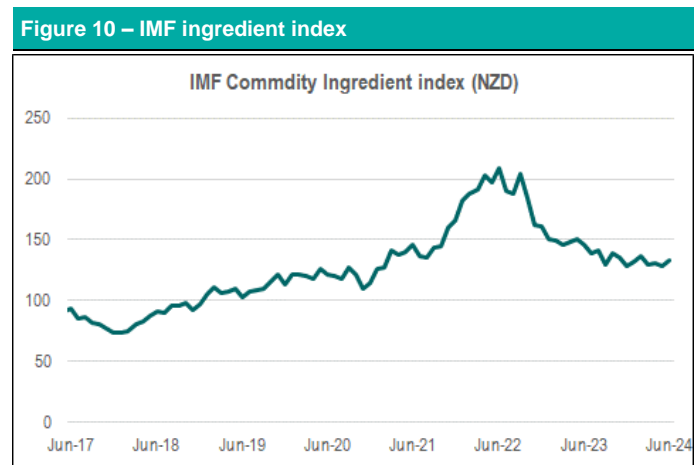


SOURCE: CIQ DATA

Ingredient input costs: Movement in NZ-AUS trade values have lagged ingredient COG movements by ~3 months. VWAP shipment values were up +10% YOY in FY24.



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\$6.20ps and derived utilising our ROIC based methodology. In deriving our target price we have utilised: (1) FY25e ROIC of 58% lifting to 70% in FY26e; (2) a pre-tax WACC of 9.7%; 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.

The a2 Milk Company

as at 19 August 2024

Recommendation
Price
Target (12 months)

Hold
A\$5.70
A\$6.20

Table 1 - Financial summary

Year end June	2020	2021	2022	2023	2024	2025e	2026e	2027e
Profit & Loss (NZ\$m)								
Sales revenue	1,731.1	1,206.7	1,446.2	1,592.9	1,675.5	1,760.5	1,853.8	1,915.2
... Change	32.7%	-30.3%	19.8%	10.1%	5.2%	5.1%	5.3%	3.3%
EBITDA	552.0	123.4	196.2	219.3	234.3	247.8	285.8	303.3
Deprec. & amort	(4.4)	(7.5)	(18.9)	(18.2)	(32.2)	(28.2)	(25.2)	(27.2)
EBIT	547.6	116.0	177.3	201.1	202.1	219.6	260.6	276.1
Interest expense	5.7	3.3	4.1	21.8	36.0	37.7	37.9	34.2
Pre-tax profit	553.4	119.3	181.4	222.9	238.1	257.3	298.4	310.3
Tax expense	(165.2)	(38.6)	(66.6)	(78.0)	(84.3)	(88.5)	(97.8)	(100.3)
... tax rate	30%	32%	37%	35%	35%	34%	33%	32%
Minorities	0.0	0.0	7.9	10.8	13.7	10.2	8.8	9.2
Net Profit	388.1	80.7	122.6	155.6	167.6	179.0	209.5	219.2
Abs. & extras	(55.5)	(133.5)	(24.5)	(58.3)	(57.9)	0.0	0.0	0.0
Reported Profit	332.6	(52.9)	98.2	97.4	109.7	179.0	209.5	219.2
Cashflow (NZ\$m)								
EBITDA	552.0	123.4	196.2	219.3	234.3	247.8	285.8	303.3
Net Interest Expense	5.7	3.3	3.0	18.8	36.9	37.7	37.9	34.2
Tax Paid	(197.9)	(97.8)	(23.0)	(34.9)	(75.6)	(86.4)	(93.1)	(99.0)
Change in Wkg Capital	58.2	53.4	37.0	(103.1)	42.4	(34.8)	0.1	0.1
Other	7.6	(16.2)	(13.4)	7.7	12.9	0.0	0.0	0.0
Operating Cash Flow	425.6	66.2	199.7	107.7	250.9	164.4	230.7	238.5
Capex	(7.2)	(7.3)	(5.2)	(10.4)	(13.5)	(20.3)	(20.3)	(15.3)
Dividend paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	418.4	58.9	194.5	97.3	237.4	144.0	210.3	223.2
Acquisitions	(21.9)	(57.1)	(214.8)	(3.5)	(16.6)	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	0.0	2.2	(13.3)	(149.1)	0.0	0.0	0.0	0.0
Other	(7.2)	17.0	(78.6)	(7.0)	(18.8)	0.0	0.0	0.0
(Inc.)/dec. in net debt	389.4	21.0	(112.2)	(62.3)	202.0	144.0	210.3	223.2
Balance Sheet (NZ\$m)								
Cash & near cash	854.2	875.2	887.3	802.2	968.9	1,113.0	1,323.3	1,546.5
Receivables	70.7	65.3	83.5	79.2	78.1	96.8	102.0	105.3
Inventories	147.3	112.2	140.0	193.4	179.6	188.8	198.8	205.4
Other	56.3	44.3	60.4	47.2	61.3	64.0	66.9	68.8
Current assets	1,128.5	1,096.9	1,171.2	1,122.1	1,287.9	1,462.5	1,690.9	1,926.0
Fixed assets	30.4	17.2	240.5	245.2	231.4	221.4	213.6	203.2
Intangibles	13.6	15.1	109.3	108.4	111.1	108.0	107.5	107.0
Other	280.8	242.8	194.7	136.0	104.4	114.4	124.4	134.4
Non current assets	324.8	275.1	544.6	489.6	446.9	443.8	445.5	444.7
Total assets	1,453.3	1,372.0	1,715.9	1,611.7	1,734.9	1,906.3	2,136.4	2,370.7
Creditors	281.9	266.3	376.1	313.2	347.6	343.3	361.5	373.5
Borrowings	0.0	0.0	43.9	19.2	5.6	5.6	5.6	5.6
Other	23.5	8.4	20.2	46.8	63.6	70.4	81.7	94.0
Current liabilities	305.4	274.7	440.2	379.2	416.8	419.3	448.8	473.0
Borrowings	0.0	0.0	80.4	82.3	60.6	60.6	60.6	60.6
Other	13.8	13.4	1.3	0.7	0.7	0.7	0.7	0.7
Non current liabilities	13.8	13.4	81.7	83.0	61.3	61.3	61.3	61.3
Total liabilities	319.3	288.1	521.9	462.2	478.1	480.7	510.1	534.4
Net assets	1,134.1	1,084.0	1,194.0	1,149.5	1,256.8	1,425.7	1,626.3	1,836.3
Share capital	146.9	149.1	149.2	0.1	0.1	0.1	0.1	0.1
Reserves	22.9	(110.1)	(136.3)	(177.5)	(224.4)	(224.4)	(224.4)	(224.4)
Retained earnings	964.3	1,044.9	1,167.6	1,323.2	1,490.8	1,669.8	1,879.3	2,098.4
Outside equity interests	0.0	0.0	13.6	3.7	(9.7)	(19.9)	(28.7)	(37.8)
S/holders' funds	1,134.1	1,084.0	1,194.0	1,149.5	1,256.8	1,425.7	1,626.3	1,836.3
Net Debt (Cash)	(854.2)	(875.2)	(763.0)	(700.7)	(902.7)	(1,046.8)	(1,257.1)	(1,480.3)
Rating								
Share price (A\$ps)	Hold							
Target price (A\$ps)	\$6.20							
Shares on issue (m)	722.9							
Market cap (A\$m)	4120.7							
Enterprise Value (A\$m)	3317.5							
Converted at AUDNZD 1.10 EV: Mkt cap less cash and SM1 holding								
Valuation Ratios								
Adjusted EPS (cps)	52.4	10.8	16.4	21.1	23.1	24.7	28.8	30.2
Change (%)	34.5%	-79.3%	51.6%	28.8%	9.2%	6.8%	17.0%	4.6%
Adjusted PE (x)	12.0	57.9	38.2	29.7	27.2	25.4	21.7	20.8
EV/Sales (x)	2.1	3.0	2.5	2.3	2.2	2.1	2.0	1.9
EV/EBITDA (x)	6.6	29.6	18.6	16.6	15.6	14.7	12.8	12.0
EV/EBIT (x)	6.7	31.5	20.6	18.1	18.1	16.6	14.0	13.2
NTA (\$ps)	1.52	1.45	1.59	1.57	1.72	1.96	2.23	2.52
P/NTA (x)	3.7	3.9	3.6	3.6	3.3	2.9	2.6	2.3
Book Value (\$ps)	1.53	1.46	1.61	1.59	1.74	1.97	2.25	2.54
Price/Book (x)	4.1	4.3	3.9	3.9	3.6	3.2	2.8	2.5
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 (%)	31.9%	10.2%	13.6%	13.8%	14.0%	14.1%	15.4%	15.8%
EBIT/sales (%)	31.6%	9.6%	12.3%	12.6%	12.1%	12.5%	14.1%	14.4%
OCF Realisation (%)	108%	75%	141%	62%	126%	79%	98%	97%
FCF Realisation (%)	108%	73%	159%	63%	142%	80%	100%	102%
ROE (%)	34.2%	7.4%	10.3%	13.5%	13.3%	12.6%	12.9%	11.9%
ROIC (%)	195.7%	55.5%	41.1%	44.8%	57.1%	58.0%	70.6%	77.5%
Asset turn (years)	125.66	16.56	10.37	12.05	7.28	8.79	11.34	11.15
Capex/Depn (x)	1.64	0.98	0.27	0.57	0.42	0.72	0.81	0.56
Interest cover (x)	(95.31)	(35.25)	(43.22)	(9.24)	(5.62)	(5.82)	(6.88)	(8.07)
Net Debt/EBITDA (x)	(1.55)	(7.09)	(3.89)	(3.20)	(3.85)	(4.22)	(4.40)	(4.88)
Net debt/equity (%)	-75%	-81%	-64%	-61%	-72%	-73%	-77%	-81%
Segmentals								
Australia/NZ	965.7	559.7	532.7	371.7	317.3	334.7	344.1	355.4
China	699.4	583.4	726.5	1002.2	1143.1	1210.7	1305.7	1352.8
US & UK	66.1	63.6	82.7	105.1	113.7	116.5	119.4	122.4
Processing			108.9	146.2	136.4	138.7	164.6	164.6
Corporate and other	0.0	0.0	(4.5)	(32.3)	(35.0)	(40.0)	(80.0)	(80.0)
Revenue	1,731.1	1,206.7	1,446.2	1,592.9	1,675.5	1,760.5	1,853.8	1,915.2
Australia/NZ	465.6	148.8	173.2	93.5	63.0	64.7	68.8	72.3
China	224.9	75.6	145.1	254.1	290.1	305.8	337.1	349.3
US & UK	(50.5)	(33.5)	(36.7)	(23.3)	(15.5)	(12.1)	(8.5)	(3.9)
Processing			(18.8)	(26.5)	(20.5)	(15.6)	(14.2)	(14.7)
Corporate & Other	(87.9)	(67.5)	(66.6)	(78.5)	(82.8)	(95.0)	(97.4)	(99.8)
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	552.0	123.4	196.2	219.3	234.3	247.8	285.8	303.3
Gross Margin (%)	56.0%	42.2%	45.9%	46.4%	45.8%	46.4%	47.7%	48.0%
GM ex-MVM (%)	56.0%	41.4%	49.2%	50.2%	49.2%	49.8%	51.6%	51.9%
IMF GM ex-impairments	59.3%	59.6%	55.2%	58.4%	58.0%	57.9%	58.0%	57.8%
Marketing (NZ\$m)	194.0	168.7	230.0	260.0	280.1	295.7	322.7	332.6
NZDAUD	0.95	0.93	0.94	0.92	0.93	0.91	0.91	0.91
NZDUSD	0.64	0.70	0.68	0.62	0.61	0.61	0.61	0.61
NZDCNY	4.48	4.57	4.40	4.29	4.38	4.34	4.34	4.34
China PRC label IMF sal	337.7	389.9	437.6	559.3	612.3	646.3	720.2	739.4
China EL IMF sales	341.1	168.9	255.8	386.2	447.8	478.9	497.1	522.2
Other IMF sales	745.1	357.0	328.8	162.5	98.9	107.3	113.3	122.9

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

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