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Comvita
1H21 — Margin Uplift as Turnaround Blossoms

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RESEARCH INSIGHTS

Comvita's (CVT) 1H21 result demonstrated a marked improvement on the prior year, with progress evident on its turnaround strategy. Sales growth into key target markets was encouraging and offset negative daigou market impacts in Australia. CVT reiterated its FY21 EBITDA guidance of NZ$20m to NZ$23m, as such we have left our earnings assumptions unchanged (FY21E NZ$21m). The size of the prize is large and we are encouraged by early signs of success, although we note it remains early days with a wide range of possible valuation outcomes.

NZX Code	CVT
Share price	NZ$3.20
Issued shares	50.8m
Market cap	NZ$163m
Avg daily turnover	68.2k (NZ$206k)

Financials: Jun/	20A	21E	22E	23E
NPAT* (NZ$m)	2.7	7.8	9.6	12.2
EPS* (NZc)	5.3	15.4	18.9	24.0
EPS growth* (%)	n/a	n/a	22.8	27.3
DPS (NZc)	0.0	4.0	5.0	6.0
Imputation (%)	100	100	100	100
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
PE	60.3	20.8	17.0	13.3
EV/EBIT	24.4	15.2	12.7	10.2
EV/EBITDA	11.0	8.5	7.7	6.7
Price / NTA	0.9	0.9	0.9	0.8
Cash div yld (%)	0.0	1.3	1.6	1.9
Gross div yld (%)	0.0	1.7	2.2	2.6

1H21 result takeouts — Signs of turn around evident

CVT reported underlying EBITDA of NZ$12.6m, with strong revenue growth in key markets, a gross margin improvement of +11 percentage points, and an -NZ$5m reduction in underlying fixed costs.

- **Positive achievements in prioritised growth markets** — China, the most significant market for CVT, has maintained positive momentum with revenue up +20%, contribution up +28% on the prior year. In North America (revenue up +38%, and contribution up +22%) brand investment is paying dividends, with CVT delivering category leading growth.
  - The Australia and New Zealand markets faced headwinds with border closures materially weighing on the tourism and daigou channels. Revenue fell -20% on the prior comparable period.
- **Investment in the brand** — CVT has signalled a step change in marketing spend as it targets increased market penetration in the US and China. 1H21 marketing spend increased +NZ$2.2m (+25%), with a further c. +NZ$3.8m uplift expected in 2H21. CVT expects marketing expenses to increase towards 15% of revenue (1H21 11%).
- **Balance sheet improvements** — Net debt continues to move in the right direction, down -NZ$2m on FY20 levels (down -NZ$89m on 1H20). CVT reported 1H21 net debt of NZ$14m (net debt to equity of 7% versus 58% in the prior comparable period). Working capital improvements helped drive the debt reduction, with inventory down -NZ$18m to NZ$99m (long term target c. NZ$70m).
  - Inventory reduction is representative of execution on CVT's efforts to rationalise its product range. CVT has an SKU (stock keeping unit) reduction target of -30%.
- **2021 harvest** — Early harvest indications are mixed, with a clearer view on yield, quality, and cost to extract expected by early May. CVT's new harvest model is designed to reduce gross profit impact, with an earnings contribution of NZ$3m.

Tracking in right direction towards ambitious longer term targets

CVT has streamlined its strategy with an aim to simplify the business, focussing on core products and core growth markets. CVT's 1H21 result illustrated positive directional change, with growth in key markets and significant margin expansion. We view CVT's longer-term targets (20% EBITDA margin vs. 1H21 12%) as ambitious at this stage, with further execution required before gaining confidence.

FORSYTH BARR

Comvita (CVT)

Priced as at 25 Feb 2021 (NZ$)	**3.20**

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Our earnings and cashflow forecasts, together with key valuation and ratios provided on this page should assist investors in determining the relative valuation merits of the company.

Profit and Loss Account (NZ$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	171.1	195.9	205.7	216.0	226.8
Normalised EBITDA	**(2.0)**	**19.1**	**21.1**	**23.2**	**26.6**
Depreciation and amortisation	(6.4)	(10.5)	(9.3)	(9.2)	(9.2)
Normalised EBIT	**(8.5)**	**8.6**	**11.8**	**14.0**	**17.4**
Net interest	(6.1)	(5.9)	(0.9)	(0.9)	(0.8)
Associate income	(21.8)	(6.1)	0	0.1	0.2
Tax	3.4	0.6	(3.0)	(3.7)	(4.7)
Minority interests	0	0	0	0	0
Normalised NPAT	**(7.6)**	**2.7**	**7.8**	**9.6**	**12.2**
Abnormals/other	5.3	(6.9)	0	0	0
Reported NPAT	**(27.7)**	**(9.7)**	**7.8**	**9.6**	**12.2**
Normalised EPS (cps)	(16.4)	5.3	15.4	18.9	24.0
DPS (cps)	0	0	4.0	5.0	6.0

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	-4.1	14.5	5.0	5.0	5.0
EBITDA (%)	n/a	n/a	10.6	10.1	14.4
EBIT (%)	n/a	n/a	36.4	19.3	24.0
Normalised NPAT (%)	n/a	n/a	>100	22.8	27.3
Normalised EPS (%)	n/a	n/a	>100	22.8	27.3
Ordinary DPS (%)	-100.0	n/a	n/a	25.0	20.0

Cash Flow (NZ$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	**(2.0)**	**19.1**	**21.1**	**23.2**	**26.6**
Working capital change	29.4	26.7	(3.7)	(3.4)	(0.4)
Interest & tax paid	(6.3)	(6.5)	(4.0)	(4.6)	(5.4)
Other	0.0	0.0	0	0	0
Operating cash flow	**21.1**	**39.3**	**13.4**	**15.3**	**20.7**
Capital expenditure	(16.7)	(5.7)	(8.2)	(8.6)	(9.1)
(Acquisitions)/divestments	(0.5)	(2.1)	0	0	0
Other	(1.3)	(5.5)	(3.0)	(3.0)	(2.9)
Funding available/(required)	**2.6**	**26.0**	**2.1**	**3.7**	**8.7**
Dividends paid	(0.9)	0	(0.5)	(2.5)	(2.5)
Equity raised/(returned)	0.6	47.6	0	0	0
(Increase)/decrease in net debt	**2.2**	**73.6**	**1.6**	**1.1**	**6.2**

Balance Sheet (NZ$m)	2019A	2020A	2021E	2022E	2023E
Working capital	149.9	120.0	123.8	127.1	127.5
Fixed assets	56.9	56.8	59.8	62.9	66.2
Intangibles	38.7	39.5	38.7	38.3	38.0
Right of use asset	0	11.4	10.9	10.5	10.0
Other assets	25.4	19.2	19.2	19.3	19.5
Total funds employed	**270.9**	**247.0**	**252.5**	**258.2**	**261.3**
Net debt/(cash)	88.9	15.5	13.9	12.7	6.5
Lease liability	0	11.6	11.5	11.2	10.9
Other liabilities	8.6	8.1	8.1	8.1	8.1
Shareholder's funds	173.4	211.7	219.0	226.1	235.7
Minority interests	0	0	0	0	0
Total funding sources	**270.9**	**247.0**	**252.5**	**258.2**	**261.3**

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	n/a	10.8	8.1	7.3	6.4
EV/EBIT (x)	n/a	24.0	14.5	12.1	9.8
PE (x)	n/a	60.3	20.8	17.0	13.3
Price/NTA (x)	1.1	0.9	0.9	0.9	0.8
Free cash flow yield (%)	2.7	20.7	3.2	4.1	7.2
Net dividend yield (%)	0.0	0.0	1.3	1.6	1.9
Gross dividend yield (%)	0.0	0.0	1.7	2.2	2.6

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	n/a	1.5	12.6	16.0	22.8
Interest cover EBITDA (x)	n/a	3.2	22.5	26.4	34.8
Net debt/ND+E (%)	33.9	6.8	6.0	5.3	2.7
Net debt/EBITDA (x)	n/a	0.8	0.7	0.5	0.2

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	-2.7	3.0	4.0	4.7	5.8
Return on equity (%)	-4.4	1.3	3.6	4.2	5.2
Return on funds employed (%)	-2.9	4.7	3.6	4.2	5.1
EBITDA margin (%)	-1.2	9.7	10.3	10.8	11.7
EBIT margin (%)	-4.9	4.4	5.7	6.5	7.7
Capex to sales (%)	9.7	2.9	4.0	4.0	4.0
Capex to depreciation (%)	366	68	103	106	110
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	0	0	26	27	25

Operating Performance	2019A	2020A	2021E	2022E	2023E
Revenue (NZ$m)					
ANZ	70	53	55	59	62
China	27	79	83	86	90
Asia	17	21	21	21	22
North America	13	22	26	28	31
Europe	6	7	7	7	7
Other	14	15	14	14	15
Total revenue	**147**	**196**	**206**	**216**	**227**
Revenue growth (%)					
ANZ	-16	-24	5	7	5
China	122	n/a	5	4	4
Asia	-55	23	0	3	3
North America	n/a	66	18	8	10
Europe	-28	11	0	2	3
Other	20	5	-5	2	5
Total revenue	**-18**	**34**	**5**	**5**	**5**

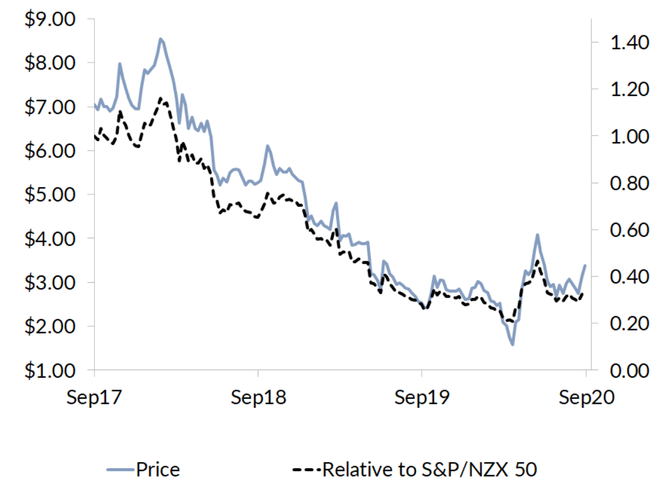
1H21 result summary

Figure 1. 1H21 result summary (NZ$m)

	1H20	1H21	% chg	Comment
Revenue	**93.9**	**98.9**	**5.3%**	**Led by double digit growth in USA, China, and other Asian markets**
Gross profit	**35.9**	**48.5**	**35.1%**	
margin	*38.2%*	*49.0%*	*11pps*	*FY21 gross margin uplift +600 to +700bp*
Opex	(44.7)	(37.9)	-15.2%	Targeting underlying fixed cost reduction of NZ$4m in FY21
EBITDA	**(8.8)**	**10.6**	**n/a**	
Underlying EBITDA	**0.6**	**12.1**	**n/a**	**FY21 guidance of NZ$20m to NZ$23m**
margin	*-9.4%*	*10.7%*	*20pps*	*Longer term EBITDA margin target of 20%*
Depreciation & amortisation	(1.7)	(5.4)	n/a	
Reported EBIT	**(10.5)**	**5.2**	**n/a**	
Interest and tax	(0.2)	(1.7)	n/a	
Minority interests and impariments	(2.3)	(0.0)	n/a	Impairments and fair value adjustments
Reported NPAT	**(13.0)**	**3.5**	**n/a**	
EPS (cps)	(26.2)	5.0	n/a	
DPS (cps)	-	-	n/a	Reaffirmed commitment to resume dividends at year end
Balance sheet & cashflow				
Inventory	116.1	98.5	-15.1%	Reducing SKU count, inventory target c. NZ$70m
Working capital	**124.6**	**107.3**	**-13.9%**	
Net debt	**93.2**	**13.9**	**-85.1%**	**In part enabled by NZ$50m capital raise, -10% reduction on June 2020**
Operating cashlfow	0.9	9.4	n/a	Supported by working capital release

Source: CVT, Forsyth Barr analysis

Figure 2. Price performance



Source: Forsyth Barr analysis

Figure 3. Substantial shareholders

Shareholder	Latest Holding
Li Wang	12.3%
China Resources	6.6%
Milford Asset Management	6.4%
Kauri NZ Investment	5.1%

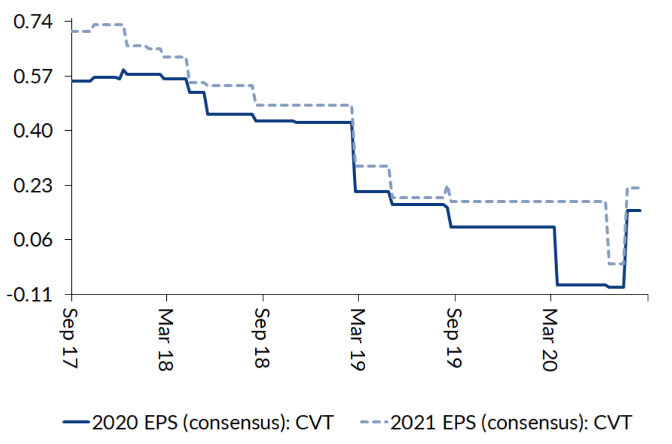
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 4. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect CVT's balance date - June)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Comvita	**CVT NZ**	**NZ$3.20**	**NZ$163**	**20.8x**	**17.0x**	**8.4x**	**7.7x**	**15.1x**	**12.7x**	**1.6%**
THE A2 MILK COMPANY *	ATM NZ	NZ$11.30	NZ$8,391	31.6x	25.0x	19.9x	15.7x	20.3x	16.1x	0.0%
BLACKMORES	BKL AT	A$74.10	A$1,434	42.2x	29.2x	20.7x	16.4x	29.9x	20.8x	2.4%
SCALES *	SCL NZ	NZ$4.82	NZ$685	21.3x	19.1x	9.5x	8.7x	13.4x	12.0x	4.5%
DELEGAT GROUP *	DGL NZ	NZ$14.36	NZ$1,452	21.2x	19.0x	13.8x	12.7x	16.0x	14.5x	1.3%
SANFORD *	SAN NZ	NZ$4.30	NZ$402	15.6x	10.6x	8.3x	6.6x	13.8x	9.9x	4.7%
NEW ZEALAND KING SALMON *	NZK NZ	NZ$1.48	NZ$206	48.3x	14.8x	13.4x	7.5x	28.4x	11.1x	2.7%
			Compco Average:	**30.0x**	**19.6x**	**14.3x**	**11.2x**	**20.3x**	**14.1x**	**2.6%**
EV = Current Market Cap + Actual Net Debt			**CVT Relative:**	**-31%**	**-13%**	**-41%**	**-32%**	**-26%**	**-10%**	**-40%**

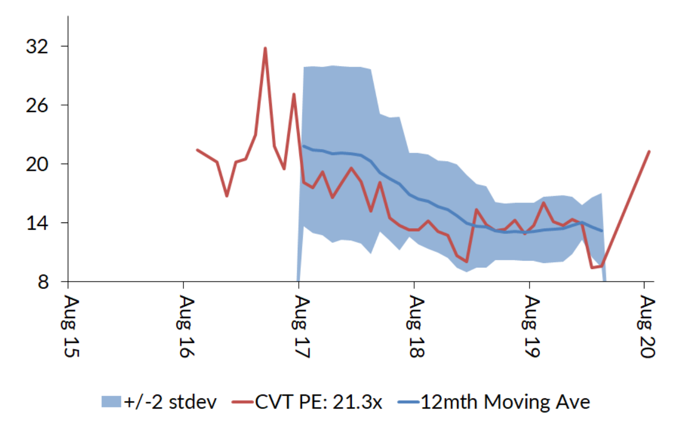
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (CVT) companies fiscal year end

Figure 5. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 6. One year forward PE (x)



Source: Forsyth Barr analysis

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