

# Comvita

## A Buzz in Key Markets

GUY HOOPER

guy.hooper@forsythbarr.co.nz  
+64 4 495 5255

## RESEARCH INSIGHTS

Comvita (CVT) provided a positive market update, upgrading its FY21 earnings guidance range +12% at the mid-point on the back of good cost control and favourable channel mix. Although the harvest has come in below average, its new harvest model appears to be delivering, with only a small impact on earnings expectations more than offset elsewhere. CVT is executing early on its business transformation. With ambitious longer-term milestones in place (FY25 EBITDA margin 20% vs FY21E 12% and recent peak FY16 16%), the size of the prize is large, however, so is the range of justifiable valuation outcomes. Recent success has increased our confidence in longer term targets. We see value at current levels should management continue to execute on its turnaround strategy but recognise the higher risk attributes of CVT and its volatile earnings history.

NZX Code	CVT	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$3.33	NPAT* (NZ\$m)	2.7	9.5	11.8	14.1	PE	62.8	24.5	19.7	16.5
Issued shares	69.8m	EPS* (NZc)	5.3	13.6	16.9	20.1	EV/EBIT	32.5	17.6	14.5	12.4
Market cap	NZ\$232m	EPS growth* (%)	n/a	n/a	24.1	19.4	EV/EBITDA	14.7	10.2	9.2	8.3
Avg daily turnover	64.4k (NZ\$204k)	DPS (NZc)	0.0	3.0	4.0	5.0	Price / NTA	1.0	1.3	1.2	1.1
		Imputation (%)	100	100	100	100	Cash div yld (%)	0.0	0.9	1.2	1.5
		*Based on normalised profits					Gross div yld (%)	0.0	1.3	1.7	2.1

### New model shows earnings resilience in below average harvest

Encouragingly, CVT's revised harvest model appears to be delivering as promised, reducing the earnings impact from its apiary operations. CVT has previously signalled that it would expect these operations to provide a gross margin contribution of +NZ\$3.0m in a good year and to breakeven in a bad year. Despite the below average harvest, CVT expects a small positive gross margin contribution. Reducing the earnings volatility from its apiary business is a good step forward to providing earnings confidence and addressing the agri risk that has weighed on the stock in recent years (FY17–FY19 CVT's Apiary operations reported material losses of NZ\$6m to NZ\$7m per annum).

### FY21 guidance upgrade

CVT has upgraded its FY21E EBITDA guidance range +12% at the mid-point to NZ\$22.5 to NZ\$25.5m (previously NZ\$20.0m to NZ\$23.0m). The upgrade is particularly encouraging given an implicit downgrade in the earnings expectations from its apiary business. Adjusting for the below average harvest, we believe the underlying upgrade is c. +16%. The improved earnings outlook has been driven by:

- Strong sales in the target markets of China and North America, more than offsetting daigou/tourism softness in other markets
- Improved channel mix, with online penetration now >30% of group sales
- Cost efficiencies realised as CVT refines its product offering and streamlines its business structures

### Earnings changes

We lift our FY21E EBITDA forecast +16% to NZ\$24m, in line with revised guidance. We make small adjustments to our sales expectations, with earnings revisions largely driven by higher margin expectations as we factor in 1) greater online sales penetration (margin accretive), and 2) improved cost control. We expect the key drivers of the FY21 upgrade to be enduring and therefore pull forward expected margin expansion, lifting FY22E and FY23E EBITDA +16% and +12% respectively.

## Comvita (CVT)

Priced as at 13 Apr 2021 (NZ\$)

3.33

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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	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	171.1	195.9	207.7	218.1	229.0	EV/EBITDA (x)	n/a	14.5	9.9	8.9	8.1
<b>Normalised EBITDA</b>	<b>(2.0)</b>	<b>19.1</b>	<b>24.4</b>	<b>26.9</b>	<b>29.7</b>	EV/EBIT (x)	n/a	32.1	17.0	14.0	12.0
Depreciation and amortisation	(6.4)	(10.5)	(10.3)	(9.8)	(9.7)	PE (x)	n/a	62.8	24.5	19.7	16.5
<b>Normalised EBIT</b>	<b>(8.5)</b>	<b>8.6</b>	<b>14.1</b>	<b>17.1</b>	<b>19.9</b>	Price/NTA (x)	1.1	1.0	1.3	1.2	1.1
Net interest	(6.1)	(5.9)	(0.9)	(0.8)	(0.7)	Free cash flow yield (%)	1.9	14.5	2.7	4.0	6.1
Associate income	(21.8)	(6.1)	0	0.1	0.2	Net dividend yield (%)	0.0	0.0	0.9	1.2	1.5
Tax	3.4	0.6	(3.7)	(4.5)	(5.4)	Gross dividend yield (%)	0.0	0.0	1.3	1.7	2.1
Minority interests	0	0	0	0	0						
<b>Normalised NPAT</b>	<b>(7.6)</b>	<b>2.7</b>	<b>9.5</b>	<b>11.8</b>	<b>14.1</b>	<b>Capital Structure</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Abnormals/other	5.3	(6.9)	0	0	0	Interest cover EBIT (x)	n/a	1.5	15.1	20.5	30.1
<b>Reported NPAT</b>	<b>(27.7)</b>	<b>(9.7)</b>	<b>9.5</b>	<b>11.8</b>	<b>14.1</b>	Interest cover EBITDA (x)	n/a	3.2	26.2	32.3	44.8
Normalised EPS (cps)	(16.4)	5.3	13.6	16.9	20.1	Net debt/ND+E (%)	33.9	6.8	5.5	3.7	0.5
DPS (cps)	0	0	3.0	4.0	5.0	Net debt/EBITDA (x)	n/a	0.8	0.5	0.3	0.0
Growth Rates	2019A	2020A	2021E	2022E	2023E	Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	-4.1	14.5	6.0	5.0	5.0	Return on assets (%)	-2.7	3.0	4.8	5.7	6.6
EBITDA (%)	n/a	n/a	27.8	10.2	10.4	Return on equity (%)	-4.4	1.3	4.3	5.1	5.8
EBIT (%)	n/a	n/a	63.6	20.9	16.8	Return on funds employed (%)	-2.9	4.7	4.3	5.1	5.9
Normalised NPAT (%)	n/a	n/a	>100	24.2	19.4	EBITDA margin (%)	-1.2	9.7	11.7	12.3	13.0
Normalised EPS (%)	n/a	n/a	>100	24.1	19.4	EBIT margin (%)	-4.9	4.4	6.8	7.8	8.7
Ordinary DPS (%)	-100.0	n/a	n/a	33.3	25.0	Capex to sales (%)	9.7	2.9	4.0	4.0	4.0
						Capex to depreciation (%)	366	68	100	103	106
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Imputation (%)	100	100	100	100	100
<b>EBITDA</b>	<b>(2.0)</b>	<b>19.1</b>	<b>24.4</b>	<b>26.9</b>	<b>29.7</b>	Pay-out ratio (%)	0	0	22	24	25
Working capital change	29.4	26.7	(5.3)	(3.4)	(0.3)						
Interest & tax paid	(6.3)	(6.5)	(4.6)	(5.4)	(6.1)	<b>Operating Performance</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Other	0.0	0.0	0	0	0	<b>Revenue (NZ\$m)</b>					
<b>Operating cash flow</b>	<b>21.1</b>	<b>39.3</b>	<b>14.5</b>	<b>18.1</b>	<b>23.3</b>	ANZ	70	53	54	58	61
Capital expenditure	(16.7)	(5.7)	(8.3)	(8.7)	(9.2)	China	27	79	85	89	92
(Acquisitions)/divestments	(0.5)	(2.1)	0	0	0	Asia	17	21	21	21	22
Other	(1.3)	(5.5)	(3.0)	(3.1)	(3.2)	North America	13	22	26	28	31
<b>Funding available/(required)</b>	<b>2.6</b>	<b>26.0</b>	<b>3.2</b>	<b>6.2</b>	<b>10.9</b>	Europe	6	7	7	7	7
Dividends paid	(0.9)	0	(0.5)	(2.1)	(3.5)	Other	14	15	14	15	15
Equity raised/(returned)	0.6	47.6	0	0	0	<b>Total revenue</b>	<b>147</b>	<b>196</b>	<b>208</b>	<b>218</b>	<b>229</b>
(Increase)/decrease in net debt	2.2	73.6	2.7	4.1	7.4						
						<b>Revenue growth (%)</b>					
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	ANZ	-16	-24	3	7	5
Working capital	149.9	120.0	125.3	128.8	129.1	China	122	n/a	8	4	4
Fixed assets	56.9	56.8	59.6	62.6	65.7	Asia	-55	23	0	3	3
Intangibles	38.7	39.5	38.3	37.8	37.7	North America	n/a	66	18	8	10
Right of use asset	0	11.4	11.2	11.1	10.9	Europe	-28	11	0	2	3
Other assets	25.4	19.2	19.2	19.3	19.5	Other	20	5	-1	2	5
<b>Total funds employed</b>	<b>270.9</b>	<b>247.0</b>	<b>253.8</b>	<b>259.6</b>	<b>262.9</b>	<b>Total revenue</b>	<b>-18</b>	<b>34</b>	<b>6</b>	<b>5</b>	<b>5</b>
Net debt/(cash)	88.9	15.5	12.9	8.7	1.3						
Lease liability	0	11.6	12.1	12.3	12.4						
Other liabilities	8.6	8.1	8.1	8.1	8.1						
Shareholder's funds	173.4	211.7	220.7	230.4	241.0						
Minority interests	0	0	0	0	0						
<b>Total funding sources</b>	<b>270.9</b>	<b>247.0</b>	<b>253.8</b>	<b>259.6</b>	<b>262.9</b>						

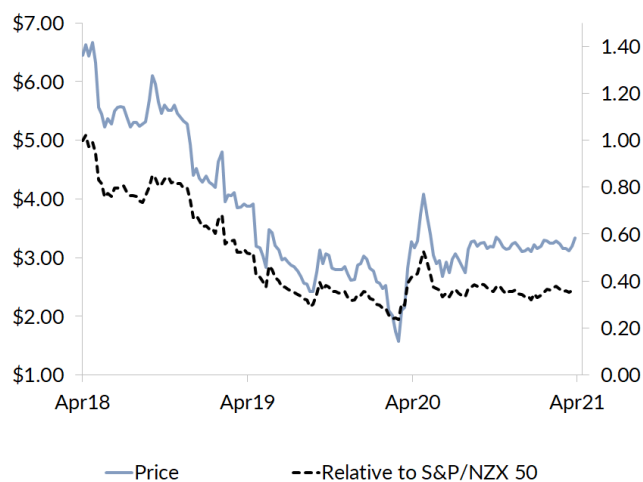
\* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

## Earnings changes

Figure 1. Earnings changes

	old	FY21 new	% chg	old	FY22 new	% chg	old	FY23 new	% chg
Revenue	205.7	207.7	1.0%	216.0	218.1	1.0%	226.8	229.0	1.0%
EBITDA	21.1	24.4	15.6%	23.2	26.9	15.7%	26.6	29.7	11.6%
NPAT	7.8	9.5	21.6%	9.6	11.8	23.0%	12.2	14.1	15.3%
EPS	11.2	13.6	21.6%	13.7	16.9	22.9%	17.5	20.1	15.2%
DPS	3.0	3.0	-	3.0	4.0	33.3%	4.0	5.0	25.0%

Source: 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%

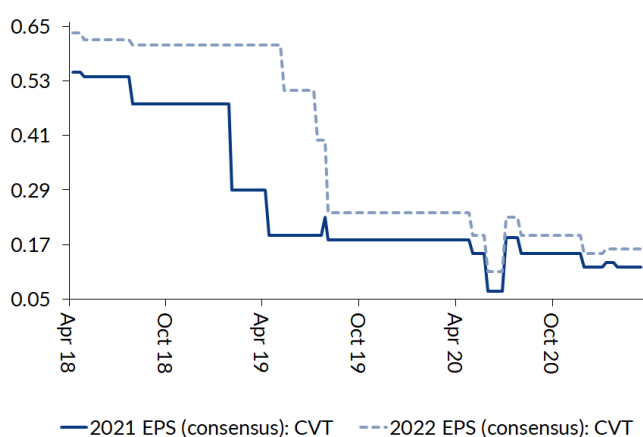
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 4. International valuation comparisons**

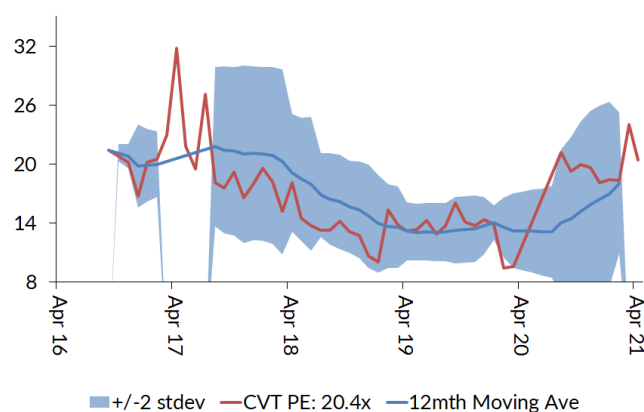
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect CVT's balance date - June)										
Comvita	CVT NZ	NZ\$3.33	NZ\$232	24.5x	19.7x	10.2x	9.2x	17.6x	14.5x	1.2%
THE A2 MILK COMPANY *	ATM NZ	NZ\$8.57	NZ\$6,371	27.5x	23.5x	16.2x	13.5x	16.6x	14.4x	0.0%
BLACKMORES	BKL AT	A\$80.59	A\$1,561	46.5x	31.9x	20.6x	15.6x	28.4x	20.5x	1.9%
SCALES *	SCL NZ	NZ\$4.60	NZ\$655	23.2x	20.2x	9.6x	8.9x	14.1x	12.5x	4.3%
DELEGAT GROUP *	DGL NZ	NZ\$15.05	NZ\$1,522	22.2x	19.9x	14.4x	13.2x	16.6x	15.1x	1.3%
SANFORD *	SAN NZ	NZ\$4.61	NZ\$431	24.0x	17.5x	10.3x	8.8x	19.4x	15.1x	1.9%
NEW ZEALAND KING SALMON *	NZK NZ	NZ\$1.55	NZ\$215	50.6x	15.5x	13.9x	7.8x	29.6x	11.6x	2.6%
Compc Average:				32.3x	21.4x	14.2x	11.3x	20.8x	14.8x	2.0%
CVT Relative:				-24%	-8%	-28%	-18%	-15%	-2%	-40%

EV = Current Market Cap + Actual Net Debt

Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compc 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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