

Private Client Research

22 October 2019

Orora

Model update

Ord Minnett has updated its model for Orora (ORA) to incorporate the outlook commentary provided by the company at its AGM last week.

As a result, we have lowered our EPS estimates by 2–3% over the FY20–22 period.

We maintain our Hold recommendation on Orora and lower our target price to \$3.15 from \$3.25.

Table 1: ORA – Earnings forecasts

\$ in millions	FY19A	FY20E	FY21E	FY22E
Financial Estimates				
Revenue	4,762	4,417	3,750	3,823
Adj. EBITDA	468	397	345	356
Adj. EBIT	335	293	262	265
Adj. net income	217	185	171	171
Adj. EPS	0.18	0.15	0.14	0.14
BBG EPS	0.18	0.18	0.19	-
Cashflow from operations	298	303	208	218
FCFF	139	1,753	109	124
Margins and Growth				
Revenue growth	12.1%	(7.2%)	(15.1%)	1.9%
EBITDA margin	9.8%	9.0%	9.2%	9.3%
EBITDA growth	5.1%	(15.3%)	(13.0%)	3.1%
EBIT margin	7.0%	6.6%	7.0%	6.9%
Net margin	4.6%	4.2%	4.6%	4.5%
Adj. EPS growth	4.1%	(14.7%)	(7.6%)	(0.1%)
Ratios				
Adj. tax rate	26.6%	28.0%	28.0%	28.0%
Interest cover	11.9	11.2	14.1	13.3
Net debt/Equity	0.5	1.5	1.4	1.4
Net debt/EBITDA	1.9	1.3	1.6	1.6
ROCE	9.9%	11.9%	19.3%	18.6%
ROE	13.3%	18.6%	46.4%	42.9%
Valuation				
FCFF yield	3.8%	47.5%	3.0%	3.4%
Dividend yield	4.3%	36.2%	3.1%	3.1%
EV/EBITDA	10.3	11.2	12.9	12.5
Adj. P/E	17.0	19.9	21.5	21.5

Sources: Company data and Ord Minnett estimates.

Recommendation

Hold

Risk

Medium

Target price

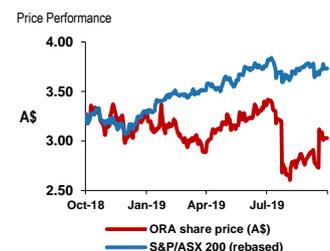
▼\$3.15

Previous

\$3.25

Last price

\$3.03



Price Performance


	YTD	1m	3m	12m
Abs	-1.3%	9.8%	-9.0%	-9.8%
Rel	-19.6%	10.3%	-9.3%	-22.6%

Company Data

Shares O/S (mn)	1,207
52-week range (\$)	3.47-2.60
Market cap (\$ mn)	2,507.03
Exchange rate	1.46
Free float(%)	94.7%
3M - Avg daily vol (mn)	7.45
3M - Avg daily val (\$ mn)	14.9
Volatility (90 Day)	42
Index	ASX 100
BBG BUY HOLD SELL	3 7 0

Key Metrics (FYE Jun)

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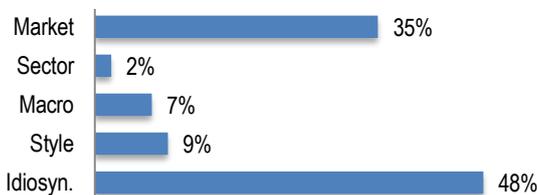
Summary Investment Thesis and Valuation

We believe ORA is fairly valued and is trading broadly in line with our \$3.15 price target.

ORA's domestic beverage business operates in well-structured markets and we expect growth to be modest but exhibit low volatility. ORA's North America division had a challenging 2HFY19. We believe North America earnings should stabilize in FY20 and commercial visibility should improve with the ERP roll-out complete.

Our Dec-20 price target is calculated on an evenly-weighted combination of two valuation methodologies: 1) Sum-of-the-parts (SoP) DCF; and 2) relative P/E multiple (reflecting the historical relationship with the ASX200 Industrials index). We also add proceeds from the sale of its fiber business to Nippon Paper.

We calculate our SoP valuation based on individual cash flow streams of each the discrete business segments. We separately value corporate costs, capital expenditure, working capital, and provisions. We discount the segment cash flows at a group discount rate. Our current post-tax WACC applied to our SoP and DCF valuations is 7.6%.

Performance Drivers


Factors	6M Corr	1Y Corr
Market: MSCI Australia	0.55	0.60
Sect: Materials	0.29	0.12
Ind: Materials	0.30	0.05
Macro:		
#N/A	0.06	0.25
Economic Surprise	-0.11	-0.22
#N/A	0.17	0.16
Quant Styles:		
Momentum	-0.15	-0.28
Quality	0.17	0.24
LowVol	-0.21	-0.19

Sources for: Performance Drivers – Bloomberg, Ord Minnett Quantitative and Derivatives Strategy; all other tables are company data and Ord Minnett estimates.

Earnings forecast changes

We have lowered our earnings expectations for both divisions following the outlook commentary provided at the AGM last week – Beverage business in line with the pcp in FY20 to date and North America earnings in 1HFY20 to be below the pcp.

Table 1: ORA – Earnings revisions

Financial Year	UNIT	FY20E	FY21	FY22	3yr AVG
Revenue					
New	\$m	4,417	3,750	3,823	
Old	\$m	4,425	3,758	3,831	
<i>Difference %</i>	%	-0.2%	-0.2%	-0.2%	-0.2%
EBIT					
New	\$m	293	262	265	
Old	\$m	300	269	272	
<i>Difference %</i>	%	-2.5%	-2.6%	-2.6%	-2.6%
NPAT (pre-significant items)					
New	\$m	185	171	171	
Old	\$m	191	176	177	
<i>Difference %</i>	%	-2.9%	-2.8%	-3.0%	-2.9%
EPS (pre-significant items)					
New	¢ps	15.4	14.2	14.2	
Old	¢ps	15.8	14.6	14.6	
<i>Difference %</i>	%	-2.9%	-2.8%	-3.0%	-2.9%
DPS					
New	¢ps	109.5	9.5	9.5	
Old	¢ps	110.0	9.5	10.0	
<i>Difference %</i>	%	-0.5%	-	-5.0%	-1.8%

Source: Ord Minnett estimates

Investment Thesis, Valuation and Risks

Orora (Hold; Price Target: \$3.15)

Investment Thesis

We believe ORA is fairly valued and is trading broadly in line with our \$3.15 price target, which we have revised down slightly to reflect our earnings revisions. ORA's domestic beverage business operates in well-structured markets and we expect growth to be modest but exhibit low volatility. ORA's North America division had a challenging 2HFY19. We believe North America earnings should stabilise in FY20 and commercial visibility should improve with the ERP roll-out complete.

Valuation

- Our \$3.15 Dec-20 price target is calculated on an evenly-weighted combination of 2 valuation methodologies: 1) Sum-of-parts (SoP) DCF; and 2) relative PE multiple (reflecting the historical relationship with the ASX200 Industrials index). We also factor in the proceeds yet to be received from the sale of its Australasia fiber business.
- We calculate our SoP valuation based on individual cash flow streams of each the discrete business segments. We separately value corporate costs, capital expenditure, working capital, and provisions. We discount the segment cash flows at a group discount rate. Our current post-tax WACC applied to our SoP and DCF valuations is 7.6%.

ORA DCF-based SoP valuation

Segment	Valuation methodology / Comment	\$m	\$/share
Australasia	DCF-based valuation (ex. Changes in working capital and provisions)	2,292	1.90
North America	DCF-based valuation (ex. Changes in working capital and provisions)	1,904	1.58
Investments & Other	DCF-based valuation (ex. Changes in working capital and provisions)	-324	-0.27
Less: Corp, WC, Corp Capex	DCF-based valuation of unallocated Corp O-heads, WC, Corp Capex	-519	-0.43
Enterprise Value		3,352	2.78
Less: Net Debt	Group net debt as at: FY20E	-528	-0.44
Less: Provisions	Group provisions as at year-end: FY20E	-179	-0.15
Equity Value		2,646	2.19

Source: Ord Minnett estimates.

Risks to Rating and Price Target

Upside and downside risks to our price target include:

- Changes in the AUD/USD and AUD/NZD, influencing earnings on translation.
- Stronger or weaker economic conditions in Australasia and the US, resulting in changes in demand for packaging products.
- Movements to key input costs, including: OCC, linerboard, natural gas, soda ash, electricity and other input prices.

Private Client Research

Orora: Summary of Financials

Income Statement						Cash Flow Statement					
	FY18A	FY19A	FY20E	FY21E	FY22E	FY18A	FY19A	FY20E	FY21E	FY22E	
Revenue	4,248	4,762	4,417	3,750	3,823	Cash flow from operating activities	329	298	303	208	218
Adj. EBITDA	445	468	397	345	356	o/w Depreciation & amortization	122	133	104	83	91
D&A	(122)	(133)	(104)	(83)	(91)	o/w Changes in working capital	(81)	(91)	18	(58)	(56)
Adj. EBIT	323	335	293	262	265	Cash flow from investing activities	(156)	(332)	1,420	(116)	(113)
Net Interest	(35)	(39)	(36)	(25)	(27)	o/w Capital expenditure	(189)	(190)	(130)	(121)	(113)
Adj. PBT	289	296	257	238	238	as % of sales	4.4%	4.0%	3.0%	3.2%	3.0%
Tax	(80)	(55)	(72)	(67)	(67)	Cash flow from financing activities	(141)	13	(1,724)	(91)	(104)
Minority Interest	0	0	0	0	0	o/w Dividends paid	(144)	(157)	(1,346)	(115)	(115)
Adj. Net Income	209	217	185	171	171	o/w Shares issued/(repurchased)	(1)	(5)	0	0	0
Reported EPS	0.17	0.13	0.15	0.14	0.14	o/w Net debt issued/(repaid)	6	176	(378)	23	10
Adj. EPS	0.17	0.18	0.15	0.14	0.14	Net change in cash	34	(17)	(0)	(0)	0
DPS	0.13	0.13	1.10	0.10	0.10	Adj. Free cash flow to firm	213	139	1,753	109	124
Payout ratio	73.6%	98.0%	719.1%	67.5%	67.6%	y/y Growth	(11.4%)	(34.6%)	1158.6%	(93.8%)	13.4%
Shares outstanding	1,217	1,215	1,217	1,217	1,218	Ratio Analysis	FY18A	FY19A	FY20E	FY21E	FY22E
Segmental Earnings						Ratio Analysis					
Australia Revenue	2,105	2,150	1,493	772	788	Gross margin	-	-	-	-	-
EBIT	232	247	198	159	159	EBITDA margin	10.5%	9.8%	9.0%	9.2%	9.3%
North America Revenue	2,143	2,612	2,924	2,978	3,036	EBIT margin	7.6%	7.0%	6.6%	7.0%	6.9%
EBIT	121	117	123	128	131	Net profit margin	4.9%	4.6%	4.2%	4.6%	4.5%
Investments / Other Revenue	-	-	-	-	-	ROE	13.1%	13.3%	18.6%	46.4%	42.9%
EBIT	(30)	(28)	(28)	(25)	(26)	ROA	6.0%	5.8%	5.7%	6.7%	6.6%
Balance Sheet						ROCE					
Cash and cash equivalents	88	70	70	70	70	ROIC	13.1%	12.4%	28.0%	23.9%	23.2%
Accounts receivable	606	674	498	506	516	SG&A/Sales	-	-	-	-	-
Inventories	559	642	498	506	516	Net debt/Equity	0.4	0.5	1.5	1.4	1.4
Other current assets	65	60	60	60	60	Net debt/EBITDA	1.5	1.9	1.3	1.6	1.6
Current assets	1,318	1,446	1,125	1,142	1,162	Sales/Assets (x)	1.2	1.3	1.4	1.5	1.5
PP&E	1,694	1,766	246	285	307	Assets/Equity (x)	2.2	2.3	3.2	6.9	6.5
LT investments	6	4	4	4	4	Interest cover (x)	12.9	11.9	11.2	14.1	13.3
Other non current assets	599	702	1,157	1,157	1,157	Operating leverage	135.0%	30.2%	174.1%	69.0%	41.3%
Total assets	3,617	3,918	2,533	2,588	2,630	Tax rate	27.8%	26.6%	28.0%	28.0%	28.0%
Short term borrowings	2	1	1	1	1	Revenue y/y Growth	5.2%	12.1%	(7.2%)	(15.1%)	1.9%
Payables	951	999	746	755	769	EBITDA y/y Growth	6.4%	5.1%	(15.3%)	(13.0%)	3.1%
Other short term liabilities	146	161	136	129	117	EPS y/y Growth	11.8%	4.1%	(14.7%)	(7.6%)	(0.1%)
Current liabilities	1,099	1,161	884	885	888	Valuation	FY18A	FY19A	FY20E	FY21E	FY22E
Long-term debt	753	959	597	620	630	P/E (x)	17.7	17.0	19.9	21.5	21.5
Other long term liabilities	135	154	699	699	699	P/BV (x)	2.2	2.2	10.3	9.5	8.8
Total liabilities	1,987	2,274	2,180	2,204	2,216	EV/EBITDA (x)	10.3	10.3	11.2	12.9	12.5
Shareholders' equity	1,631	1,645	354	384	414	Dividend Yield	4.1%	4.3%	36.2%	3.1%	3.1%
Minority interests	0	0	0	0	0	FX	FY18A	FY19A	FY20E	FY21E	FY22E
Total liabilities & equity	3,617	3,918	2,533	2,588	2,630	AUDUSD	0.77	0.72	0.68	0.68	0.68
BVPS	1.35	1.36	0.29	0.32	0.34						
y/y Growth	5.4%	0.9%	(78.5%)	8.8%	7.8%						
Net debt/(cash)	668	890	528	550	560						

Source: Company reports and Ord Minnett estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Jun. o/w - out of which

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Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historical volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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