

PGG Wrightson

1H20 Result – Beefed Up

GUY HOOPER

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

RESEARCH INSIGHTS

PGG Wrightson (PGW) delivered a good 1H20 result, ahead of expectations, as it benefitted from strong commodity prices, horticulture activity, and delivery on cost-out following recent divestments. Despite a good first half, outlook commentary has softened on the back of coronavirus uncertainty and its impact on agricultural trade flows. PGW has pockets of growth opportunities across both its Retail and Agency businesses, and is starting to deliver on initiatives; however, we continue to see macro-challenges across the medium-term, coupled with subdued farmer confidence, Government regulation uncertainty, and Mycoplasma bovis concerns.

NZX Code	PGW	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$2.27	NPAT* (NZ\$m)	9.4	14.3	17.3	18.2	EV/EBITDA	5.9	2.8	5.8	5.5
Issued shares	75.5m	EPS* (NZc)	12.4	18.9	22.9	24.1	EV/EBIT	9.6	3.9	8.0	7.6
Market cap	NZ\$171m	EPS growth* (%)	-45.3	52.7	21.1	5.0	PE	18.3	12.0	9.9	9.4
Avg daily turnover	54.6k (NZ\$127k)	DPS (NZc)	15.0	16.0	18.0	20.0	Price / NTA	0.4	1.1	1.1	1.0
		Imputation (%)	100	100	100	100	Cash div yld (%)	6.6	7.0	7.9	8.8
		*Based on normalised profits					Gross div yld (%)	9.2	9.8	11.0	12.2

Result highlights

PGW reported group Operating EBITDA (pre-IFRS 16) of NZ\$23.7m, up +33% on the prior comparable period and ahead of expectations. Performance was bolstered by favourable trading conditions as well as a reduction in head office costs.

- **Retail** – Fruitfed Supplies continues to outperform with in the business, with it benefitting from ongoing orchard redevelopment and use of land changes in Northland.
- **Water** – 1H20 was another difficult period with revenue declining -34% on the prior comparable period, led by a drop in development of irrigation systems. With Government policy changes and increasing environmental pressure, we do not expect to see a recovery in this sales, although note cost-out is occurring through a reduction in headcount and footprint.
- **Agency** – A combination of favourable farming conditions and strong commodity prices helped lift Agency EBITDA in 1H20. In addition, PGW continues to enjoy robust demand for its livestock receivables business, Go livestock, lifting lending relating to Go products +25%.
- **Corporate** – Following the sale of its Seed & Grain business, PGW has executed on its corporate cost-out programme.

PGW announced a fully imputed interim dividend of 9.0cps.

Outlook and earnings changes

PGW issued revised guidance, expecting FY20E Operating EBITDA "around NZ\$30m" (pre-IFRS 16), softening prior commentary of "in excess of NZ\$30m". Second half earnings are weighted to performance of the Livestock division. Recent weakness in key commodity prices in combination with coronavirus uncertainty has dampened the outlook for the Livestock business. We have, therefore, lowered our FY20E Operating EBITDA forecasts -4.5% to NZ\$30.0m on a pre-IFRS 16 basis to reflect increased risk of earnings volatility.

PGG Wrightson (PGW)

Priced as at 26 Feb 2020 (NZ\$)

2.27

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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)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	808.7	809.3	811.3	831.5	845.0	EV/EBITDA (x)	9.0	5.9	2.8	5.8	5.5
Normalised EBITDA	34.5	24.4	30.0	35.0	36.7	EV/EBIT (x)	11.3	9.6	3.9	8.0	7.6
Depreciation and amortisation	(6.9)	(9.4)	(8.7)	(9.5)	(9.9)	PE (x)	10.0	18.3	12.0	9.9	9.4
Normalised EBIT	27.6	15.1	21.3	25.5	26.7	Price/NTA (x)	0.6	0.4	1.1	1.1	1.0
Net interest	(6.9)	(6.1)	(1.5)	(1.5)	(1.5)	Free cash flow yield (%)	-7.3	-38.2	3.1	6.5	8.2
Associate income	0	0	0	0	0	Net dividend yield (%)	13.2	6.6	7.0	7.9	8.8
Tax	(3.6)	0.4	(5.6)	(6.7)	(7.1)	Gross dividend yield (%)	18.4	9.2	9.8	11.0	12.2
Minority interests	0	0	0	0	0	Capital Structure	2018A	2019A	2020E	2021E	2022E
Normalised NPAT	17.1	9.4	14.3	17.3	18.2	Interest cover EBIT (x)	4.0	2.5	14.6	17.3	18.4
Abnormals/other	(8.1)	122.4	0	0	0	Interest cover EBITDA (x)	5.0	4.0	20.5	23.8	25.2
Reported NPAT	9.0	131.8	14.3	17.3	18.2	Net debt/ND+E (%)	37.2	-109.1	16.3	16.0	15.1
Normalised EPS (cps)	22.7	12.4	18.9	22.9	24.1	Net debt/EBITDA (x)	4.9	n/a	1.1	0.9	0.9
DPS (cps)	30.0	15.0	16.0	18.0	20.0	Key Ratios	2018A	2019A	2020E	2021E	2022E
Growth Rates	2018A	2019A	2020A	2021A	2022A	Return on assets (%)	3.6	2.7	5.7	6.7	6.8
Revenue (%)	6.4	0.1	0.2	2.5	1.6	Return on equity (%)	6.0	2.4	8.6	10.0	10.2
EBITDA (%)	25.7	-29.2	22.8	16.7	4.7	Return on funds employed (%)	5.3	8.1	7.9	9.1	9.4
EBIT (%)	23.4	-45.4	41.6	19.7	4.6	EBITDA margin (%)	4.3	3.0	3.7	4.2	4.3
Normalised NPAT (%)	46.8	-45.3	52.7	21.1	5.0	EBIT margin (%)	3.4	1.9	2.6	3.1	3.2
Normalised EPS (%)	46.8	-45.3	52.7	21.1	5.0	Capex to sales (%)	2.3	2.0	1.8	1.5	1.4
Ordinary DPS (%)	-20.0	-50.0	6.7	12.5	11.1	Capex to depreciation (%)	265	176	169	132	120
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Imputation (%)	100	100	100	100	100
EBITDA	34.5	24.4	30.0	35.0	36.7	Pay-out ratio (%)	132	121	84	78	83
Working capital change	(62.3)	(31.0)	(3.0)	(3.2)	(2.1)	Operating Performance	2018A	2019A	2020E	2021E	2022E
Interest & tax paid	(15.8)	(16.9)	(7.0)	(8.2)	(8.5)	Revenue (NZ\$m)					
Other	49.3	(25.5)	0	0	0	Retail & Water	603.8	611.7	611.7	627.0	636.4
Operating cash flow	5.8	(49.0)	20.0	23.6	26.0	Agency	200.6	193.8	195.8	200.7	204.7
Capital expenditure	(18.3)	(16.5)	(14.7)	(12.5)	(11.9)	Other	4.3	3.7	3.8	3.8	3.9
(Acquisitions)/divestments	3.5	402.6	0	0	0	Revenue	808.7	809.3	811.3	831.5	845.0
Other	(0.8)	0	0	0	0	Revenue growth (%)					
Funding available/(required)	(9.8)	337.1	5.3	11.2	14.1	Retail & Water	7.4	1.3	0.0	2.5	1.5
Dividends paid	(17.9)	(16.5)	(11.6)	(11.6)	(12.7)	Agency	1.8	-3.4	1.0	2.5	2.0
Equity raised/(returned)	0	0	(234.0)	0	0	Revenue	6.4	0.1	0.2	2.5	1.6
(Increase)/decrease in net debt	(27.7)	320.6	(240.3)	(0.5)	1.4	EBITDA (NZ\$m)					
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Retail & Water	23.8	19.6	20.8	22.6	22.9
Working capital	303.3	123.7	126.7	129.9	132.0	Agency	20.1	15.4	15.7	19.1	20.5
Fixed assets	124.2	44.7	50.7	53.7	55.7	Corporate Overhead	-9.4	-10.6	-6.5	-6.6	-6.7
Intangibles	13.0	14.6	14.6	14.6	14.6	Operating EBITDA	34.5	24.4	30.0	35.0	36.7
Right of use asset	0	0	0	0	0	EBITDA margins (%)					
Other assets	40.1	16.1	16.1	16.1	16.1	Retail & Water	3.9	3.2	3.4	3.6	3.6
Total funds employed	480.6	199.2	208.2	214.3	218.4	Agency	10.0	7.9	8.0	9.5	10.0
Net debt/(cash)	169.1	(207.8)	32.5	33.0	31.6	EBITDA margin	4.3	3.0	3.7	4.2	4.3
Lease liability	0	0	0	0	0						
Other liabilities	24.1	8.7	8.7	8.7	8.7						
Shareholder's funds	285.0	398.3	166.9	172.6	178.1						
Minority interests	2.5	0	0	0	0						
Total funding sources	480.6	199.2	208.2	214.3	218.4						

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

1H20 result

Earnings changes

We have lowered our FY20E earnings forecasts on the back of softer guidance commentary, now expecting "Operating EBITDA of around NZ\$30m" (previously "in excess of NZ\$30m"). The slightly tempered outlook reflects uncertainty relating to recent commodity price declines and coronavirus uncertainty impacts on agricultural trade flows. At this stage we make limited changes to our medium-term earnings forecasts. We are yet to incorporate IFRS 16 accounting for leases into our forecasts.

Figure 1. Earnings changes (NZ\$m)

	FY20E			FY21E			FY22E		
	Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	823.4	811.3	-1.5%	837.7	831.5	-0.7%	851.3	845.0	-0.7%
EBITDA	31.4	30.0	-4.5%	35.5	35.0	-1.5%	36.8	36.7	-0.4%
NPAT	15.2	14.3	-5.7%	17.6	17.3	-1.4%	18.2	18.2	0.0%
EPS	20.1	18.9	-5.7%	23.3	22.9	-1.4%	24.1	24.1	0.0%
DPS	16.0	16.0	0.0%	18.0	18.0	0.0%	20.0	20.0	0.0%

Source: Forsyth Barr analysis

Result summary

Figure 2. 1H20 result summary (NZ\$m)

	1H19	1H20 (ex. IFRS 16)	% chg	1H20	Comment
Retail & Water	379.2	384.2	1.3%	384.2	Strong Fruitfed performance offset weakness elsewhere
Agency	85.8	84.8	-1.1%	84.8	Livestock receivables product growth a highlight
Other	8.8	5.1	-41.8%	5.1	
Revenue	473.8	474.1	0.1%	474.1	
Retail & Water	22.8	24.8	9.0%	31.1	Cost-out initiatives combined with strong Fruitfed business
Agency	1.6	2.8	70.6%	6.4	Strong trading, helped by commodity prices. 2H weighted
Overheads	(6.5)	(3.9)	-40.4%	(3.0)	Reduction following asset sales and cost-out initiatives
Operating EBITDA	17.8	23.7	32.6%	34.5	FY20 guidance "around NZ\$30m"
Depreciation	(4.2)	(4.4)	5.1%	(14.5)	
Net interest expense	(3.2)	0.2	-105.8%	(1.9)	
Tax expense	(2.9)	(5.3)	82.0%	(4.9)	
Reported NPAT (cont. ops)	9.0	13.7	51.7%	12.8	
Abnormal items	(8.7)	-	n/a	-	1H19 impact from discontinued operations
NPAT (cont. ops)	0.3	13.7	n/a	12.8	
Final DPS (cps)	7.5	9.0	20.0%	9.0	Fully imputed, 2H20E 7.0cps (FY20E 16.0cps)

Source: Company reports, Forsyth Barr analysis

Investment Summary

PGG Wrightson (PGW) offers investors broad leverage to the New Zealand agribusiness markets, with a particular focus on rural services. A focus on its core farmer oriented businesses in recent years, including the divestment of non-core businesses, and investment into irrigation assets, has helped realign the company's strategy to its key strengths. This has resulted in earnings growth and lower volatility.

Business quality

- **Leading NZ rural services company:** PGW has a long history servicing the New Zealand agriculture sector

Earnings and cashflow outlook

- **Sheep & Beef prices:** PGW's roots are ingrained in the Sheep & Beef farming communities, and as such its rural supplies and servicing businesses are driven by the success of its sheep and beef farmer clients.
- **Dairy prices:** The dairy pay-out and dairy farmer earnings are linked to global dairy prices. Dairy-related leverage is material, particularly given the company is increasing market share in rural servicing of dairy.
- **Seasonality of earnings:** PGW's Retail and Water earnings are highly seasonal and weighted to the first half, ahead of key milking and growing periods. Agency earnings are also seasonal, although second half weighted. Climatic conditions can have a reasonable impact on seasonal earnings.

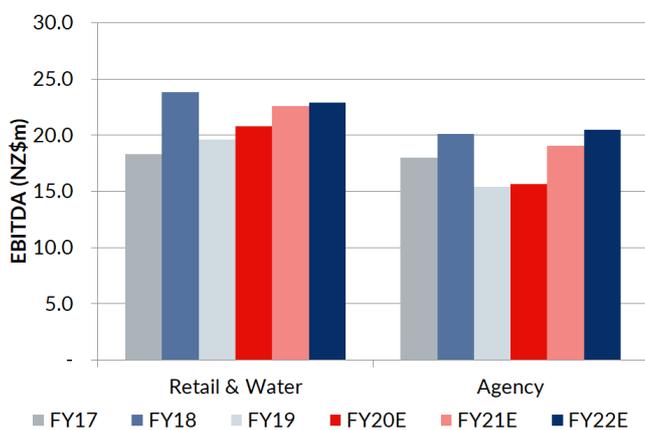
Financial structure

- **Gearing:** Following the sale of its Seed & Grain business and subsequent capital distribution PGW's balance sheet is now more conservatively geared.
- **Strategic review:** PGW's strategic review of its business, capital structure, shareholding structure, and growth opportunities continues. Management highlighted irrigation and other rural services acquisitive options as a possibility.

Risk factors

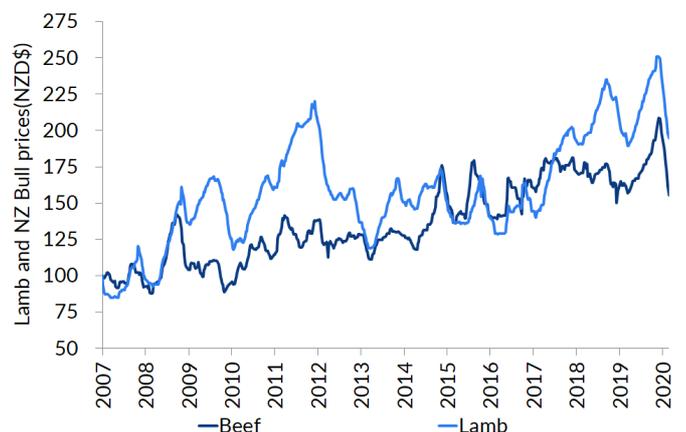
- **Sustained commodity price collapse:** Dairy prices have recovered; however, risk of commodity price swings for Sheep, Beef, Dairy, and Wool can affect earnings.
- **Competition is robust:** PGW competes heavily against two rural servicing companies, FarmSource (Fonterra-owned) and Farmlands.

Figure 3. EBITDA contribution (NZ\$m)

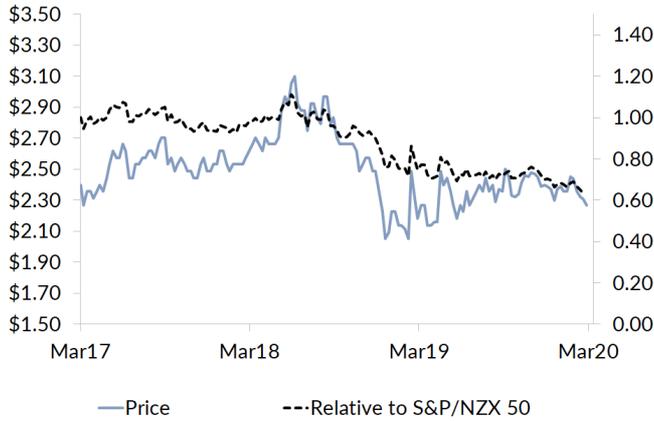


Source: Company reports, Forsyth Barr analysis

Figure 4. Sheep & beef price indicators



Source: AgriHQ, Forsyth Barr analysis

Figure 5. Price performance


Source: Forsyth Barr analysis

Figure 6. Substantial shareholders

Shareholder	Latest Holding
Agria (Singapore) Pte	44.3%
H&G	6.4%

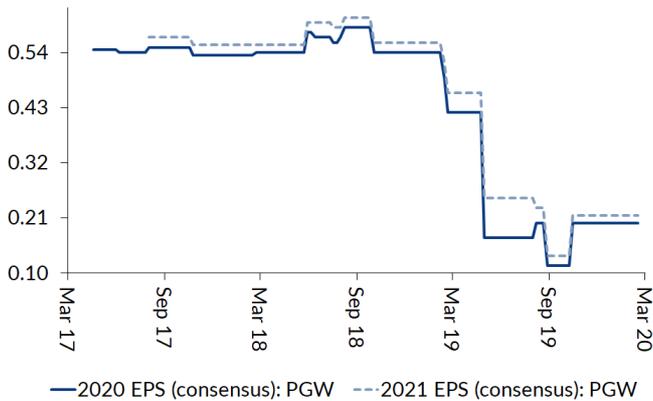
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 7. International valuation comparisons

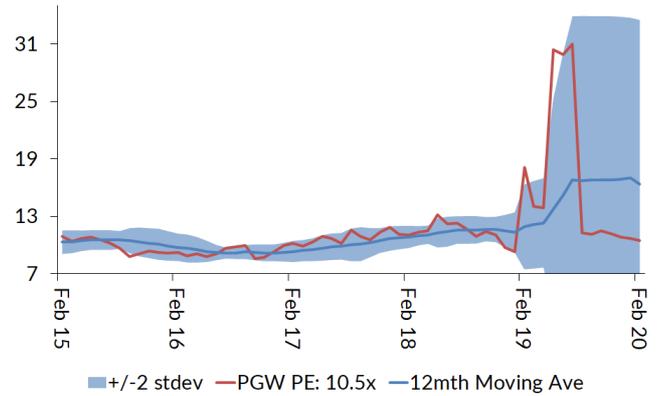
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect PGW's balance date - June)										
				2020E	2021E	2020E	2021E	2020E	2021E	2021E
PGG Wrightson	PGWNZ	NZ\$2.27	NZ\$171	12.0x	9.9x	<0x	<0x	<0x	<0x	7.9%
ELDERS	ELD AT	A\$8.15	A\$1,269	14.4x	12.6x	14.7x	11.4x	15.8x	12.1x	2.8%
GRAINCORP-A	GNC AT	A\$8.23	A\$1,883	29.4x	27.0x	33.6x	10.5x	16.0x	21.2x	2.0%
RIDLEY CORP	RIC AT	A\$0.96	A\$297	15.9x	12.6x	7.2x	6.1x	12.3x	9.8x	5.0%
RURALCO HOLDINGS	RHL AT	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Compco Average:				19.9x	17.4x	18.5x	9.3x	14.7x	14.4x	3.3%
PGW Relative:				-40%	-43%	n/a	n/a	n/a	n/a	142%

EV = Current Market Cap + Actual Net Debt

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

Figure 8. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 9. One year forward PE (x)


Source: Forsyth Barr analysis

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