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NEW ZEALAND EQUITY RESEARCH | FOOD, BEVS, & AGRI | RURAL SUPPLIES & SEEDS

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PGG Wrightson
First Sprout of FY21 Guidance

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UNDERPERFORM

PGG Wrightson (PGW) has signalled a positive start to FY21, supported by a robust horticulture backdrop, however, it is early in the financial year with key seasonal periods ahead of it and elevated levels of global trade uncertainty. PGW has issued initial FY21 operating earnings guidance, largely in line with our prior underlying assumptions. We maintain a level of caution over the current operating environment given 1) the fluid COVID-19 backdrop and its effects on global trade flows, 2) the impact of last year's drought on herd sizes, and 3) ongoing regulatory uncertainty. We view current trading multiples (c. 14x 12 month forward PE ratio) as not offering sufficient value to compensate for the challenging backdrop and limited growth opportunities. UNDERPERFORM.

NZX Code	PGW
Share price	NZ$2.93
Target price	NZ$2.20
Risk rating	Medium
Issued shares	75.5m
Market cap	NZ$221m
Avg daily turnover	64.4k (NZ$166k)

Financials: Jun/	20A	21E	22E	23E
NPAT* (NZ$m)	7.1	13.8	15.1	16.9
EPS* (NZc)	9.4	18.3	20.0	22.4
EPS growth* (%)	86.8	93.6	9.6	11.5
DPS (NZc)	9.0	16.0	18.0	20.0
Imputation (%)	100	100	100	100

*Based on normalised profits

Valuation (x)	20A	21E	22E	23E
PE	31.0	16.0	14.6	13.1
EV/EBIT	8.9	10.4	9.6	8.8
EV/EBITDA	3.0	4.8	4.6	4.5
Price / NTA	1.6	1.5	1.5	1.5
Cash div yld (%)	3.1	5.5	6.1	6.8
Gross div yld (%)	4.3	7.6	8.5	9.5

Key points

- **Guidance:** FY21E operating EBITDA of "around NZ$52m" (around NZ$30m excluding the impact of IFRS-16)
- **Dividends:** PGW expects to reinstate dividends at its 1H21 result, guiding to an interim dividend of no less than 8cps — in line with our forecast
- **Earnings changes:** We make limited underlying earnings changes, with headline changes reflecting revised IFRS-16 assumptions
- **Target price:** Increased +10cps to NZ$2.20, driven by time value of money and higher peer multiples

Fruitfed leads a good start to 1H21...

FY21 operating EBITDA guidance of around NZ$30m (excluding IFRS-16) was largely in line with our forecast of NZ$31m. PGW has signalled early trading in its Retail business is "in line with expectations" and towards pre-pandemic levels, supported by spring trading for horticulture crops. With half of its Retail earnings derived from Fruitfed, the robust horticulture backdrop is supportive of ongoing strength in this business. However, it is early in the growing season with October through December representing a critical crop growing period. The Real Estate business, while small in the context of PGW earnings, has been a bright spot with low interest rates and heightened demand for rural lifestyle properties.

... Livestock uncertainty exists into 2H21

Agency earnings are second half weighted, and elevated outlook uncertainty remains with a suppressed wool market and volatility in commodity prices. Whilst the underlying demand for red meat remains, product price risk exists given 1) the fluid COVID-19 backdrop and its impact on global trade flows, and 2) ongoing Brexit trade risk. In addition, the 2019–2020 summer drought has led to a reduced herd size.

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PGG Wrightson (PGW)

Priced as at 20 Oct 2020 (NZ$)	**2.93**

12-month target price (NZ$)*	**2.20**
Expected share price return	-24.9%
Net dividend yield	5.7%
Estimated 12-month return	-19.2%

Spot valuations (NZ$)	
1. DCF	2.24
2. Peer multiples	2.10
3. n/a	n/a

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	1.38
WACC	8.1%
Terminal growth	1.5%

DCF valuation summary (NZ$m)	
Total firm value	494
(Net debt)/cash	(34)
Less: Capitalised operating leases	(291)
Value of equity	169

Profit and Loss Account (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	798.8	788.0	820.6	836.1	851.8
Normalised EBITDA	**24.9**	**45.2**	**53.0**	**54.8**	**57.2**
Depreciation and amortisation	(9.3)	(29.5)	(28.4)	(28.3)	(28.1)
Normalised EBIT	**10.2**	**15.1**	**24.6**	**26.5**	**29.0**
Net interest	(6.1)	(5.0)	(5.4)	(5.5)	(5.6)
Associate income	0	0	0	0	0
Tax	0.4	(2.9)	(5.4)	(5.9)	(6.6)
Minority interests	0.7	0	0	0	0
Normalised NPAT	**3.8**	**7.1**	**13.8**	**15.1**	**16.9**
Abnormals/other	127.8	0.7	0	0	0
Reported NPAT	**132.3**	**7.8**	**13.8**	**15.1**	**16.9**
Normalised EPS (cps)	5.1	9.4	18.3	20.0	22.4
DPS (cps)	15.0	9.0	16.0	18.0	20.0

Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	7.8	3.0	4.8	4.6	4.5
EV/EBIT (x)	19.1	8.9	10.4	9.6	8.8
PE (x)	57.9	31.0	16.0	14.6	13.1
Price/NTA (x)	0.6	1.6	1.5	1.5	1.5
Free cash flow yield (%)	-29.6	13.0	9.8	10.5	12.0
Net dividend yield (%)	5.1	3.1	5.5	6.1	6.8
Gross dividend yield (%)	7.1	4.3	7.6	8.5	9.5

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	1.7	3.0	4.6	4.9	5.2
Interest cover EBITDA (x)	4.1	9.0	9.9	10.1	10.2
Net debt/ND+E (%)	-109.1	17.5	17.2	18.4	18.8
Net debt/EBITDA (x)	n/a	0.7	0.6	0.7	0.7

Growth Rates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (%)	-1.2	-1.4	4.1	1.9	1.9
EBITDA (%)	-27.9	81.5	17.3	3.4	4.4
EBIT (%)	-47.7	47.6	63.2	7.8	9.8
Normalised NPAT (%)	-52.8	86.8	93.6	9.6	11.5
Normalised EPS (%)	-52.8	86.8	93.6	9.6	11.5
Ordinary DPS (%)	-50.0	-40.0	77.8	12.5	11.1

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	1.8	3.3	5.2	5.6	6.1
Return on equity (%)	1.0	4.6	8.5	9.2	10.1
Return on funds employed (%)	5.5	6.4	9.8	10.2	10.9
EBITDA margin (%)	3.1	5.7	6.5	6.6	6.7
EBIT margin (%)	1.3	1.9	3.0	3.2	3.4
Capex to sales (%)	2.1	0.7	1.4	1.3	1.3
Capex to depreciation (%)	177	18	40	38	39
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	297	95	87	90	89

Cash Flow (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EBITDA	**24.9**	**45.2**	**53.0**	**54.8**	**57.2**
Working capital change	(31.0)	(7.5)	(9.3)	(9.4)	(7.4)
Interest & tax paid	(16.9)	(3.5)	(10.7)	(11.3)	(12.2)
Other	(26.0)	0.0	0	0	0
Operating cash flow	**(49.0)**	**34.2**	**32.9**	**34.0**	**37.6**
Capital expenditure	(16.5)	(5.4)	(11.3)	(10.8)	(11.1)
(Acquisitions)/divestments	402.6	(5.6)	0	0	0
Other	(0.0)	(251.6)	(13.2)	(13.8)	(14.1)
Funding available/(required)	**337.1**	**(228.4)**	**8.4**	**9.5**	**12.4**
Dividends paid	(16.5)	(12.6)	(8.9)	(12.7)	(14.2)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	**320.6**	**(240.9)**	**(0.5)**	**(3.2)**	**(1.8)**

Operating Performance	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (NZ$m)					
Retail & Water	599.7	619.1	628.4	641.0	653.8
Agency	193.8	165.8	189.1	191.9	194.8
Other	5.2	3.1	3.1	3.2	3.3
Revenue	**798.8**	**788.0**	**820.6**	**836.1**	**851.8**
Revenue growth (%)					
Retail & Water	-0.7	3.2	1.5	2.0	2.0
Agency	-3.4	-14.4	14.0	1.5	1.5
Revenue	**-1.2**	**-1.4**	**4.1**	**1.9**	**1.9**
EBITDA (NZ$m)					
Retail & Water	23.8	19.3	34.7	38.0	39.1
Agency	20.1	15.9	15.7	20.7	21.1
Corporate Overhead	-9.4	-10.3	-5.2	-5.7	-5.4
Operating EBITDA	**34.5**	**24.9**	**45.2**	**53.0**	**54.8**
EBITDA margins (%)					
Retail & Water	4.0	3.1	5.5	5.9	6.0
Agency	10.4	9.6	8.3	10.8	10.8
EBITDA margin	**4.3**	**3.2**	**5.5**	**6.3**	**6.4**

Balance Sheet (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	123.7	125.6	134.9	144.3	151.7
Fixed assets	44.7	46.3	49.3	51.3	53.3
Intangibles	14.6	17.2	17.2	17.2	17.2
Right of use asset	0	104.6	101.8	99.0	96.3
Other assets	16.1	16.3	16.3	16.3	16.3
Total funds employed	**199.2**	**310.0**	**319.5**	**328.1**	**334.8**
Net debt/(cash)	(207.8)	33.1	33.7	36.9	38.7
Lease liability	0	106.9	110.9	113.9	116.1
Other liabilities	8.7	13.2	13.2	13.2	13.2
Shareholder's funds	398.3	156.7	161.6	164.1	166.7
Minority interests	0	0	0	0	0
Total funding sources	**199.2**	**310.0**	**319.5**	**328.1**	**334.8**

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

Earnings changes

We lower our headline operating EBITDA assumptions c. -7% across our explicit forecast period, reflecting revisions to our IFRS-16 assumptions, with our FY21E forecast of NZ$53m now consistent with company guidance of "around NZ$52m". Our underlying operating earnings assumptions are effectively unchanged, with an FY21E pre IFRS-16 operating EBITDA forecast of NZ$31m (guidance c. NZ$30m).

Figure 1. Earnings changes (NZ$m)

	FY21E			FY22E			FY23E		
	Old	**New**	**% chg**	**Old**	**New**	**% chg**	**Old**	**New**	**% chg**
Revenue	820.6	820.6	-	836.1	836.1	-	851.8	851.8	-
Operating EBITDA	56.9	53.0	-6.8%	58.3	54.8	-6.0%	61.4	57.2	-6.9%
Operating EBITDA (pre IFRS-16)	31.4	31.0	-1.4%	32.4	32.4	-0.2%	34.6	34.3	-0.8%
EBIT	27.7	24.6	-11.3%	29.2	26.5	-9.3%	32.4	29.0	-10.4%
NPAT	15.8	13.8	-12.4%	16.7	15.1	-9.3%	19.0	16.9	-11.0%
EPS (cps)	20.9	18.3	-12.4%	22.1	20.0	-9.3%	25.1	22.4	-11.0%
DPS (cps)	16.0	16.0	-	18.0	18.0	-	20.0	20.0	-

Source: Forsyth Barr analysis

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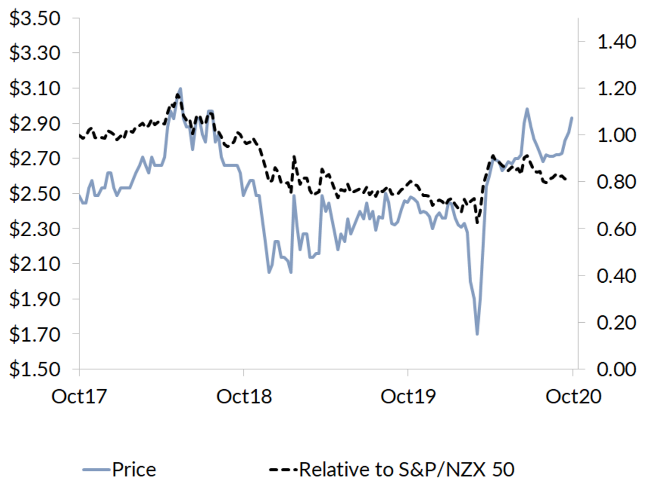
Figure 2. Price performance



Source: Forsyth Barr analysis

Figure 3. Substantial shareholders

Shareholder	Latest Holding
Agria (Singapore) Pte	44.3%
BCA New Continent Agri Hldg. Limited	11.9%

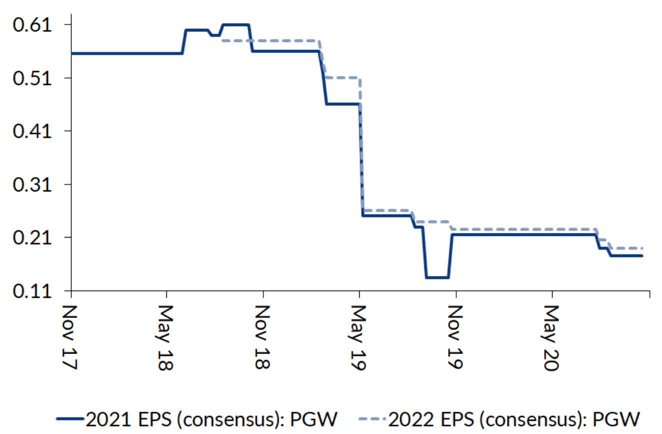
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 4. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect PGW's balance date - June)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
PGG Wrightson	**PGW NZ**	**NZ$2.93**	**NZ$221**	**16.0x**	**14.6x**	**4.8x**	**4.6x**	**10.4x**	**9.6x**	**6.1%**
ELDERS	ELD AT	A$12.02	A$1,872	16.7x	15.4x	15.0x	13.9x	17.7x	16.3x	2.2%
GRAINCORP-A	GNC AT	A$4.17	A$954	<0x	22.8x	13.2x	12.0x	47.1x	27.7x	2.4%
RIDLEY CORP	RIC AT	A$0.82	A$262	12.6x	11.7x	7.0x	6.6x	11.9x	10.9x	4.9%
NUTRIEN	NTR CN	US$52.76	US$30,028	28.0x	22.8x	10.9x	10.1x	22.4x	19.2x	3.6%
			Compco Average:	**19.1x**	**18.1x**	**11.5x**	**10.6x**	**24.8x**	**18.5x**	**3.3%**
EV = Current Market Cap + Actual Net Debt			**PGW Relative:**	**-16%**	**-19%**	**-58%**	**-56%**	**-58%**	**-48%**	**89%**

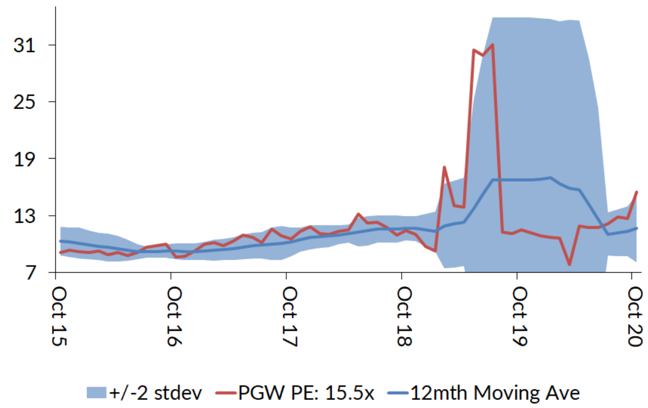
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (PGW) companies fiscal year end

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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