

PGG Wrightson

Positive Sprouts from Spring Trading

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UNDERPERFORM

PGG Wrightson (PGW) has maintained positive trading momentum through the first five months of FY21, lifting full year operating EBITDA guidance +10% from c. NZ\$52m to c. NZ\$57m. Better than expected trading has been broad based, but underpinned by strength in its Fruitfed business. Whilst earnings upgrades are positive, we maintain a level of caution. Current forecasts are for La Niña weather conditions through New Zealand's summer months, which has historically been negative for agriculture production, while weak commodity prices and a high New Zealand dollar, are likely to weigh on farm gate returns. We view current trading multiples (c. 14x 12 month forward PE ratio) as not offering sufficient value to compensate for seasonal agri risk and limited earnings growth beyond the current normalisation of earnings. UNDERPERFORM.

NZX Code	PGW	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$3.19	NPAT* (NZ\$m)	7.1	16.9	16.7	17.1	PE	33.8	14.2	14.4	14.1
Target price	NZ\$2.40	EPS* (NZc)	9.4	22.4	22.2	22.6	EV/EBIT	13.2	12.7	12.9	12.6
Risk rating	Medium	EPS growth* (%)	86.4	n/a	-1.1	2.2	EV/EBITDA	4.4	6.4	6.5	6.4
Issued shares	75.5m	DPS (NZc)	9.0	19.0	20.0	21.0	Price / NTA	1.7	1.6	1.6	1.6
Market cap	NZ\$241m	Imputation (%)	100	100	100	100	Cash div yld (%)	2.8	6.0	6.3	6.6
Avg daily turnover	64.8k (NZ\$169k)	*Based on normalised profits					Gross div yld (%)	3.9	8.3	8.7	9.1

What's changed?

- **Earnings:** We lift FY21E operating EBITDA +8% to NZ\$57m, in line with guidance.
- **Dividends:** PGW also upgraded its interim dividend guidance, from no less than 8cps to no less than 10cps. We lift our interim dividend assumption to 10cps, with our full year assumption lifting +3cps to 19cps.
- **Target price:** Our target price lifts +20cps to NZ\$2.40, driven by a combination of earnings upgrades and higher peer multiples.

Strong start underpinned by Fruitfed

PGW signalled a strong start to FY21, with trading in the first five months ahead of expectations. First half earnings are driven by the Retail and Water business, which has performed well through the crucial spring period. October and November are of particular importance to Fruitfed, which services the viticulture and horticulture sectors. We suspect this has been the key driver of the upgrade to earnings guidance since PGW first issued guidance in October.

Livestock trading to come

The Agency business is also tracking well with good saleyard throughput, however, the period is immaterial in the context of full year contribution, with earnings heavily second half weighted. Whilst performance to date has been positive, we highlight commodity price weakness (in particular wool) alongside elevated geopolitical, seasonal weather, and economic uncertainty. Red meat prices have weakened in recent weeks as summer supply kicks off, with lamb and beef commodity prices off c. -20% on the prior year.

Earnings changes

We lift our FY21E operating EBITDA forecast +8% to NZ\$57m, in line with guidance, effectively reversing downgrades we put through at the last trading update in October. We upgrade FY22E and FY23E operating EBITDA +4% and +1% respectively. Upgrades reflect market share gains in Fruitfed and margin mix benefit from the higher Fruitfed contribution.

PGG Wrightson (PGW)

Priced as at 08 Dec 2020 (NZ\$)						3.19						
12-month target price (NZ\$)*						2.40	Spot valuations (NZ\$)					
Expected share price return						-24.8%	1. DCF					2.42
Net dividend yield						6.1%	2. Peer multiples					2.40
Estimated 12-month return						-18.7%	3. n/a					n/a
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate						1.30%	Total firm value					507
Equity beta						1.38	(Net debt)/cash					(34)
WACC						8.1%	Less: Capitalised operating leases					(291)
Terminal growth						1.5%	Value of equity					183
Profit and Loss Account (NZ\$m)						Valuation Ratios						
Sales revenue	2019A	2020A	2021E	2022E	2023E	2019A	2020A	2021E	2022E	2023E		
798.8	798.8	788.0	833.0	844.5	857.2	EV/EBITDA (x)	8.6	3.4	4.8	4.8	4.8	
Normalised EBITDA	24.9	45.2	57.3	57.0	57.5	EV/EBIT (x)	21.0	10.2	9.5	9.6	9.3	
Depreciation and amortisation	(9.3)	(29.5)	(28.4)	(28.3)	(28.1)	PE (x)	62.9	33.8	14.2	14.4	14.1	
Normalised EBIT	10.2	15.1	28.8	28.7	29.3	Price/NTA (x)	0.6	1.7	1.6	1.6	1.6	
Net interest	(6.1)	(5.0)	(5.4)	(5.4)	(5.6)	Free cash flow yield (%)	-27.2	12.0	9.4	10.6	11.3	
Associate income	0	0	0	0	0	Net dividend yield (%)	4.7	2.8	6.0	6.3	6.6	
Tax	0.4	(2.9)	(6.6)	(6.5)	(6.6)	Gross dividend yield (%)	6.5	3.9	8.3	8.7	9.1	
Minority interests	0.7	0	0	0	0	Capital Structure						
Normalised NPAT	3.8	7.1	16.9	16.7	17.1	Interest cover EBIT (x)	1.7	3.0	5.4	5.3	5.2	
Abnormals/other	128.0	0.7	0	0	(0.0)	Interest cover EBITDA (x)	4.1	9.0	10.7	10.5	10.2	
Reported NPAT	131.8	7.8	16.9	16.7	17.1	Net debt/ND+E (%)	-109.1	17.5	17.0	18.1	18.8	
Normalised EPS (cps)	5.1	9.4	22.4	22.2	22.6	Net debt/EBITDA (x)	n/a	0.7	0.6	0.6	0.7	
DPS (cps)	15.0	9.0	19.0	20.0	21.0	Key Ratios						
Growth Rates						2019A	2020A	2021E	2022E	2023E		
Revenue (%)	-1.2	-1.4	5.7	1.4	1.5	Return on assets (%)	1.8	3.3	6.1	6.1	6.1	
EBITDA (%)	-27.9	81.5	26.8	-0.5	0.9	Return on equity (%)	1.0	4.6	10.3	10.1	10.2	
EBIT (%)	-47.6	47.5	91.6	-0.6	2.4	Return on funds employed (%)	5.6	6.4	11.3	10.9	11.0	
Normalised NPAT (%)	-52.6	86.4	>100	-1.1	2.2	EBITDA margin (%)	3.1	5.7	6.9	6.7	6.7	
Normalised EPS (%)	-52.6	86.4	>100	-1.1	2.2	EBIT margin (%)	1.3	1.9	3.5	3.4	3.4	
Ordinary DPS (%)	-50.0	-40.0	>100	5.3	5.0	Capex to sales (%)	2.1	0.7	1.4	1.3	1.3	
Cash Flow (NZ\$m)						2019A	2020A	2021E	2022E	2023E		
EBITDA	24.9	45.2	57.3	57.0	57.5	Capex to depreciation (%)	177	18	40	38	39	
Working capital change	(31.0)	(7.5)	(11.4)	(8.8)	(6.9)	Imputation (%)	100	100	100	100	100	
Interest & tax paid	(16.9)	(3.5)	(11.9)	(11.9)	(12.3)	Pay-out ratio (%)	296	95	85	90	93	
Other	(26.0)	0.0	0	0	(0.0)	Operating Performance						
Operating cash flow	(49.0)	34.2	34.0	36.2	38.3	2019A	2020A	2021E	2022E	2023E		
Capital expenditure	(16.5)	(5.4)	(11.3)	(10.8)	(11.1)	Revenue (NZ\$m)						
(Acquisitions)/divestments	402.6	(5.6)	0	0	0	Retail & Water	599.7	619.1	640.8	650.4	660.1	
Other	(0.0)	(251.6)	(13.2)	(13.8)	(14.1)	Agency	193.8	165.8	189.1	190.9	193.8	
Funding available/(required)	337.1	(228.4)	9.4	11.6	13.1	Other	5.2	3.1	3.1	3.2	3.3	
Dividends paid	(16.5)	(12.6)	(9.8)	(14.6)	(15.4)	Revenue	798.8	788.0	833.0	844.5	857.2	
Equity raised/(returned)	0	0	0	0	0	Revenue growth (%)						
(Increase)/decrease in net debt	320.6	(47.3)	(0.4)	(3.0)	(2.3)	Retail & Water	-0.7	3.2	3.5	1.5	1.5	
Balance Sheet (NZ\$m)						2019A	2020A	2021E	2022E	2023E		
Working capital	123.7	125.6	136.9	145.8	152.7	Agency	-3.4	-14.4	14.0	1.0	1.5	
Fixed assets	44.7	46.3	49.3	51.3	53.3	Revenue	-1.2	-1.4	5.7	1.4	1.5	
Intangibles	14.6	17.2	17.2	17.2	17.2	EBITDA (NZ\$m)						
Right of use asset	0	104.6	101.8	99.0	96.3	Retail & Water	19.3	34.7	42.3	41.0	40.8	
Other assets	16.1	16.3	16.3	16.3	16.3	Agency	15.9	15.7	20.8	21.5	21.8	
Total funds employed	199.2	310.0	321.5	329.5	335.7	Corporate Overhead	-10.3	-5.2	-5.8	-5.5	-5.1	
Net debt/(cash)	(207.8)	33.1	33.5	36.5	38.8	Operating EBITDA	24.9	45.2	57.3	57.0	57.5	
Lease liability	0	106.9	110.9	113.9	116.1	EBITDA margins (%)						
Other liabilities	8.7	13.2	13.2	13.2	13.2	Retail & Water	3.2	5.6	6.6	6.3	6.2	
Shareholder's funds	398.3	156.7	163.8	165.9	167.5	Agency	8.2	9.5	11.0	11.3	11.3	
Minority interests	0	0	0	0	0	EBITDA margin	3.1	5.7	6.9	6.7	6.7	
Total funding sources	199.2	310.0	321.5	329.5	335.7							

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

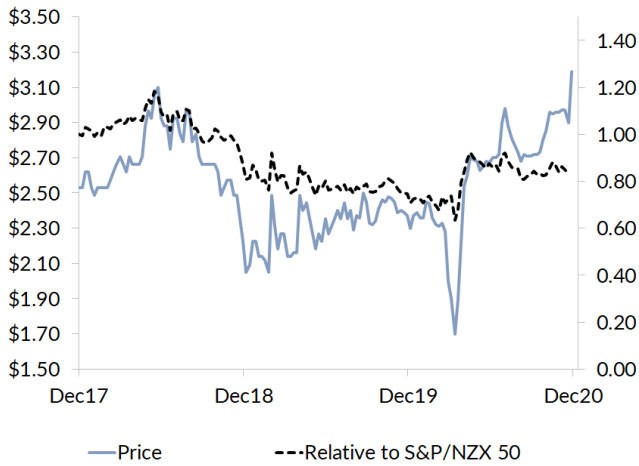
Forecast changes

We lift our headline FY21E operating EBITDA assumption +8% to NZ\$57m in line with company guidance of "around NZ\$57m (or around NZ\$35m excluding the impact of IFRS-16)". We also lift FY22E earnings forecasts to reflect the strength of Fruitfed business, which assumes both market share gains and margin mix benefits. We have lifted our dividend forecasts in line with earnings changes, representing an NPAT payout ratio of 85%–90% across the forecast period.

Figure 1. Earnings changes (NZ\$m)

	FY21E			FY22E			FY23E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	820.6	833.0	1.5%	836.1	844.5	1.0%	851.8	857.2	0.6%
Op. EBITDA	53.0	57.3	8.1%	54.8	57.0	4.0%	57.2	57.5	0.5%
Op. EBITDA (pre IFRS)	31.0	34.9	12.8%	32.4	34.3	6.1%	34.3	34.5	0.4%
EBIT	24.6	28.8	17.4%	26.5	28.7	8.3%	29.0	29.3	1.0%
NPAT	13.8	16.9	22.3%	15.1	16.7	10.5%	16.9	17.1	1.2%
EPS (cps)	18.3	22.4	22.3%	20.0	22.2	10.5%	22.4	22.6	1.2%
DPS (cps)	16.0	19.0	18.8%	18.0	20.0	11.1%	20.0	21.0	5.0%

Source: Forsyth Barr analysis

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	12.9%

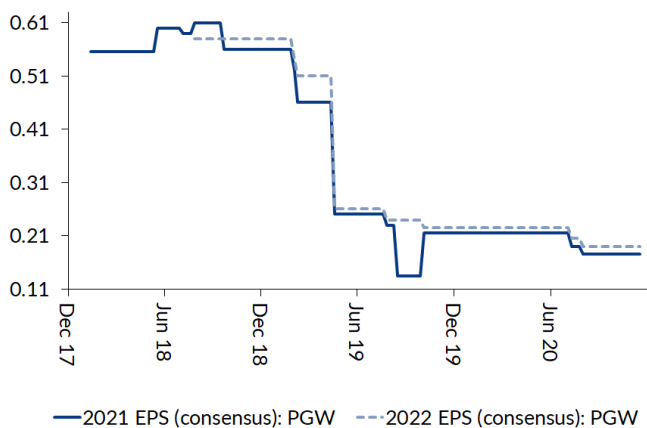
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 4. International valuation comparisons

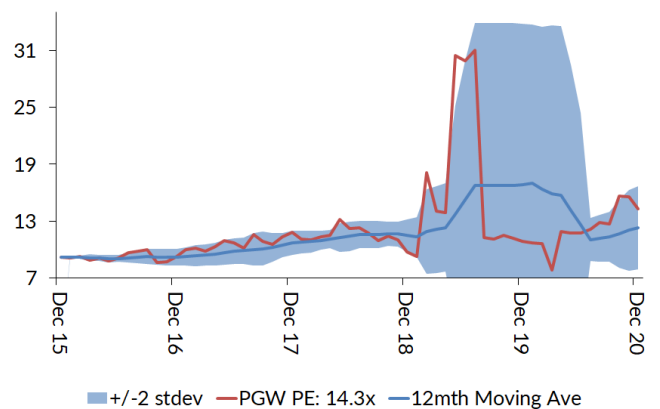
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld
				2021E	2022E	2021E	2022E	2021E	2022E	
PGG Wrightson	PGW NZ	NZ\$3.19	NZ\$241	14.2x	14.4x	4.8x	4.8x	9.5x	9.6x	6.3%
ELDERS	ELD AT	A\$10.18	A\$1,591	13.0x	12.3x	10.5x	9.8x	13.4x	12.1x	2.7%
GRAINCORP-A	GNCAT	A\$4.45	A\$1,018	12.4x	17.9x	7.1x	7.2x	18.5x	14.6x	3.1%
RIDLEY CORP	RICAT	A\$0.95	A\$302	14.5x	13.5x	7.7x	7.3x	13.0x	12.0x	4.2%
NUTRIEN	NTR CN	US\$64.27	US\$36,579	33.4x	26.9x	12.8x	11.7x	29.6x	22.0x	3.0%
Compco Average:				18.3x	17.6x	9.5x	9.0x	18.7x	15.2x	3.3%
PGW Relative:				-22%	-18%	-50%	-47%	-49%	-37%	93%

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 5. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 6. One year forward PE (x)


Source: Forsyth Barr analysis

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