

# Sanford

## Foodservice Fallout

**GUY HOOPER**

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

### OUTPERFORM

Sanford's (SAN) market update highlighted the ongoing challenges in the foodservice channel and the uncertain recovery path for demand in the short term. SAN's share price has fallen -15% in the past quarter and is down -29% year to date (vs. the S&P/NZX 50 G up +4%). We believe the market had already started to price in the negative headwinds ahead of its trading update. Whilst we expect earnings to remain subdued in the near term, we view recent weakness as an attractive entry point. SAN's value is backed by its unique quota holdings and extensive marine farm licenses, in our view, with attractive medium-term growth and longer term earnings optionality. **OUTPERFORM.**

| NZX Code           | SAN              | Financials: Sep/             | 19A  | 20E   | 21E  | 22E  | Valuation (x)     | 19A  | 20E  | 21E  | 22E  |
|--------------------|------------------|------------------------------|------|-------|------|------|-------------------|------|------|------|------|
| Share price        | NZ\$5.70         | NPAT* (NZ\$m)                | 40.0 | 27.2  | 36.1 | 50.5 | PE                | 13.3 | 19.6 | 14.8 | 10.6 |
| Target price       | NZ\$7.45         | EPS* (NZc)                   | 42.7 | 29.1  | 38.5 | 53.9 | EV/EBIT           | 10.4 | 15.3 | 12.3 | 9.2  |
| Risk rating        | Medium           | EPS growth* (%)              | 0.4  | -32.0 | 32.4 | 39.9 | EV/EBITDA         | 7.9  | 10.1 | 8.2  | 6.5  |
| Issued shares      | 93.6m            | DPS (NZc)                    | 23.0 | 13.0  | 20.0 | 23.0 | Price / NTA       | 5.7  | 4.9  | 4.3  | 3.4  |
| Market cap         | NZ\$534m         | Imputation (%)               | 100  | 100   | 100  | 100  | Cash div yld (%)  | 4.0  | 2.3  | 3.5  | 4.0  |
| Avg daily turnover | 60.5k (NZ\$415k) | *Based on normalised profits |      |       |      |      | Gross div yld (%) | 5.6  | 3.2  | 4.9  | 5.6  |

### Navigating COVID-19 demand impacts – Significant short term headwinds, medium to long term growth intact

3Q20 (June 2020 quarter) sales revenue fell -15% on the prior year period and commentary suggests 4Q20 sales are likely to be down a similar magnitude. Wild catch is the primary driver of weakness, with commodity products such as squid experiencing both pricing and volume pressure in combination with a strategic decision to slow the sale of some of its higher value species. Encouragingly, SAN's Aquaculture operations, key drivers of the company's value add strategy, continue to maintain positive momentum, albeit below pre COVID-19 growth expectations. We have made material downgrades to our FY20 forecasts reflecting 1) lower Wild catch sales volume, and 2) operating de-leverage.

The demand recovery path is highly uncertain, with recurring virus waves placing additional pressure on the out-of-home consumption market. SAN is actively targeting redeployment of volume into retail channels, and is investing into its in market sales presence to help enable growth. However, we expect earnings are likely to remain under pressure until we see a normalisation of the foodservice channel. We lower our FY21 earnings forecasts, with EBIT expected to be below FY19 levels, with a recovery and return to growth profile in FY22 and beyond.

### Balance sheet remains healthy but cash preservation methods in place

Inventory levels are rising as a result of sales disruption, with frozen half shell mussels exposed to the buffet market a key driver. In addition, SAN is intentionally delaying sales of higher value wild catch product formats into FY21, with a view of achieving better prices as more markets open up. Despite inventory build up, the balance sheet remains healthy (July 2020 gearing 22%), with SAN lowering its FY20 capex expectations to NZ\$45m–NZ\$50m (Forsyth Barr NZ\$45m). Although we understand SAN has significant headroom on its debt covenants, we forecast FY20 net debt/EBITDA of c. 2.5x, towards the top end of its internal target range. We lower our FY21 capex assumptions to NZ\$63m, lifting capex in FY22 and FY23, and reduce our final dividend expectations to NZ\$0.08 (FY19 NZ\$0.14).

**Sanford Ltd (SAN)**

 Priced as at 02 Sep 2020 (NZ\$) 5.70
**12-month target price (NZ\$)\*** 7.45

|                             |       |
|-----------------------------|-------|
| Expected share price return | 30.7% |
| Net dividend yield          | 3.5%  |
| Estimated 12-month return   | 34.2% |

**Key WACC assumptions**

|                 |       |
|-----------------|-------|
| Risk free rate  | 1.30% |
| Equity beta     | 1.04  |
| WACC            | 6.7%  |
| Terminal growth | 2.0%  |

**Spot valuations (NZ\$)**

|                          |      |
|--------------------------|------|
| 1. DCF                   | 7.82 |
| 2. Comparative multiples | 6.50 |
| 3. Market multiple       | n/a  |

**DCF valuation summary (NZ\$m)**

|                                    |       |
|------------------------------------|-------|
| Total firm value                   | 863   |
| (Net debt)/cash                    | (131) |
| Less: Capitalised operating leases |       |
| Value of equity                    | 732   |

**Profit and Loss Account (NZ\$m)**

|                               | 2018A       | 2019A       | 2020E       | 2021E       | 2022E        |
|-------------------------------|-------------|-------------|-------------|-------------|--------------|
| Sales revenue                 | 515.0       | 545.1       | 482.4       | 556.6       | 599.9        |
| <b>Normalised EBITDA</b>      | <b>86.7</b> | <b>85.7</b> | <b>67.3</b> | <b>84.2</b> | <b>107.3</b> |
| Depreciation and amortisation | (19.7)      | (20.9)      | (22.9)      | (27.8)      | (32.0)       |
| <b>Normalised EBIT</b>        | <b>67.0</b> | <b>64.8</b> | <b>44.4</b> | <b>56.4</b> | <b>75.3</b>  |
| Net interest                  | (8.1)       | (7.9)       | (6.5)       | (6.3)       | (5.2)        |
| Associate income              | 0           | 0           | 0           | 0           | 0            |
| Tax                           | 17.7        | 17.6        | 10.6        | 14.0        | 19.6         |
| Minority interests            | 0           | 0           | 0           | 0           | 0            |
| <b>Normalised NPAT</b>        | <b>39.8</b> | <b>40.0</b> | <b>27.2</b> | <b>36.1</b> | <b>50.5</b>  |
| Abnormals/other               | 2.5         | 1.7         | 0           | 0           | 0            |
| <b>Reported NPAT</b>          | <b>42.3</b> | <b>41.7</b> | <b>27.2</b> | <b>36.1</b> | <b>50.5</b>  |
| Normalised EPS (cps)          | 42.6        | 42.7        | 29.1        | 38.5        | 53.9         |
| DPS (cps)                     | 23.0        | 23.0        | 13.0        | 20.0        | 23.0         |

**Growth Rates**

|                     | 2018A | 2019A | 2020E | 2021E | 2022E |
|---------------------|-------|-------|-------|-------|-------|
| Revenue (%)         | 7.7   | 5.9   | -11.5 | 15.4  | 7.8   |
| EBITDA (%)          | 5.0   | -1.1  | -21.5 | 25.1  | 27.4  |
| EBIT (%)            | 5.0   | -3.2  | -31.6 | 27.1  | 33.5  |
| Normalised NPAT (%) | 0.1   | 0.4   | -32.0 | 32.4  | 39.9  |
| Normalised EPS (%)  | 0.0   | 0.4   | -32.0 | 32.4  | 39.9  |
| Ordinary DPS (%)    | -0.2  | 0.0   | -43.4 | 53.8  | 15.0  |

**Cash Flow (NZ\$m)**

|  | 2018A       | 2019A       | 2020E         | 2021E         | 2022E        |
|--|-------------|-------------|---------------|---------------|--------------|
| <b>EBITDA</b>                          | <b>86.7</b> | <b>85.7</b> | <b>67.3</b>   | <b>84.2</b>   | <b>107.3</b> |
| Working capital change                 | 6.4         | (3.1)       | (22.2)        | 1.6           | 4.7          |
| Interest & tax paid                    | (25.7)      | (25.5)      | (17.1)        | (20.3)        | (24.8)       |
| Other                                  | 5.3         | (8.4)       | 0.0           | 0             | 0            |
| <b>Operating cash flow</b>             | <b>72.6</b> | <b>48.7</b> | <b>27.9</b>   | <b>65.5</b>   | <b>87.2</b>  |
| Capital expenditure                    | (24.7)      | (38.3)      | (44.9)        | (62.8)        | (62.0)       |
| (Acquisitions)/divestments             | 1.6         | 32.9        | 0             | 0             | 0            |
| Other                                  | 0           | 0           | 0             | 0             | 0            |
| <b>Funding available/(required)</b>    | <b>49.5</b> | <b>43.2</b> | <b>(17.0)</b> | <b>2.7</b>    | <b>25.2</b>  |
| Dividends paid                         | (21.5)      | (21.5)      | (12.2)        | (18.7)        | (21.5)       |
| Equity raised/(returned)               | 0           | 0           | 0             | 0             | 0            |
| <b>(Increase)/decrease in net debt</b> | <b>28.0</b> | <b>21.7</b> | <b>(29.2)</b> | <b>(16.0)</b> | <b>3.7</b>   |

**Balance Sheet (NZ\$m)**

|                              | 2018A        | 2019A        | 2020E        | 2021E        | 2022E        |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Working capital              | 63.2         | 66.3         | 88.5         | 86.9         | 82.2         |
| Fixed assets                 | 130.8        | 141.8        | 163.8        | 198.8        | 228.8        |
| Intangibles                  | 506.2        | 493.1        | 493.1        | 493.1        | 493.1        |
| Right of use asset           | 0            | 0            | 0            | 0            | 0            |
| Other assets                 | 74.1         | 70.9         | 69.9         | 69.6         | 70.2         |
| <b>Total funds employed</b>  | <b>774.3</b> | <b>772.1</b> | <b>815.3</b> | <b>848.4</b> | <b>874.3</b> |
| Net debt/(cash)              | 152.4        | 130.7        | 159.8        | 175.9        | 172.2        |
| Lease liability              | 0            | 0            | 0            | 0            | 0            |
| Other liabilities            | 40.0         | 53.3         | 53.3         | 53.3         | 53.3         |
| Shareholder's funds          | 581.3        | 587.5        | 601.5        | 618.6        | 648.2        |
| Minority interests           | 0.6          | 0.7          | 0.7          | 0.7          | 0.7          |
| <b>Total funding sources</b> | <b>774.3</b> | <b>772.1</b> | <b>815.3</b> | <b>848.4</b> | <b>874.3</b> |

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

**Valuation Ratios**

|                          | 2018A | 2019A | 2020E | 2021E | 2022E |
|--------------------------|-------|-------|-------|-------|-------|
| EV/EBITDA (x)            | 8.0   | 7.9   | 10.1  | 8.2   | 6.5   |
| EV/EBIT (x)              | 10.4  | 10.4  | 15.3  | 12.3  | 9.2   |
| PE (x)                   | 13.4  | 13.3  | 19.6  | 14.8  | 10.6  |
| Price/NTA (x)            | 7.1   | 5.7   | 4.9   | 4.3   | 3.4   |
| Free cash flow yield (%) | 9.0   | 1.9   | -3.2  | 0.5   | 4.7   |
| Net dividend yield (%)   | 4.0   | 4.0   | 2.3   | 3.5   | 4.0   |
| Gross dividend yield (%) | 5.6   | 5.6   | 3.2   | 4.9   | 5.6   |

**Capital Structure**

|                           | 2018A | 2019A | 2020E | 2021E | 2022E |
|---------------------------|-------|-------|-------|-------|-------|
| Interest cover EBIT (x)   | 8.3   | 8.2   | 6.8   | 9.0   | 14.4  |
| Interest cover EBITDA (x) | 10.7  | 10.9  | 10.3  | 13.4  | 20.6  |
| Net debt/ND+E (%)         | 20.8  | 18.2  | 21.0  | 22.1  | 21.0  |
| Net debt/EBITDA (x)       | 1.8   | 1.5   | 2.4   | 2.1   | 1.6   |

**Key Ratios**

|                              | 2018A | 2019A | 2020E | 2021E | 2022E |
|------------------------------|-------|-------|-------|-------|-------|
| Return on assets (%)         | 8.3   | 7.9   | 5.2   | 6.3   | 8.2   |
| Return on equity (%)         | 6.9   | 6.8   | 4.5   | 5.8   | 7.8   |
| Return on funds employed (%) | 6.9   | 5.8   | 4.3   | 5.1   | 6.5   |
| EBITDA margin (%)            | 16.8  | 15.7  | 13.9  | 15.1  | 17.9  |
| EBIT margin (%)              | 13.0  | 11.9  | 9.2   | 10.1  | 12.6  |
| Capex to sales (%)           | 4.8   | 7.0   | 9.3   | 11.3  | 10.3  |
| Capex to depreciation (%)    | 125   | 184   | 196   | 226   | 194   |
| Imputation (%)               | 100   | 100   | 100   | 100   | 100   |
| Pay-out ratio (%)            | 54    | 54    | 45    | 52    | 43    |

**Operating Performance**

|                                 | 2018A       | 2019A       | 2020E       | 2021E       | 2022E        |
|---------------------------------|-------------|-------------|-------------|-------------|--------------|
| <b>Revenue split (division)</b> |             |             |             |             |              |
| Wild catch                      | 365.6       | 370.7       | 287.6       | 345.2       | 366.2        |
| Mussels                         | 103.0       | 114.5       | 126.7       | 135.7       | 144.7        |
| Salmon                          | 46.3        | 60.0        | 68.0        | 75.7        | 89.1         |
| <b>Total</b>                    | <b>86.7</b> | <b>85.7</b> | <b>67.3</b> | <b>84.2</b> | <b>107.3</b> |

**Catch split (division GWT)**

|              | 2018A          | 2019A          | 2020E          | 2021E          | 2022E          |
|--------------|----------------|----------------|----------------|----------------|----------------|
| Wild catch   | 92,612         | 90,351         | 72,281         | 86,737         | 88,472         |
| Mussels      | 26,976         | 29,419         | 37,142         | 38,999         | 39,779         |
| Salmon       | 3,498          | 4,028          | 4,270          | 4,483          | 4,909          |
| <b>Total</b> | <b>123,086</b> | <b>123,798</b> | <b>113,693</b> | <b>130,219</b> | <b>133,160</b> |

|                     |      |      |      |      |      |
|---------------------|------|------|------|------|------|
| <b>EBIT</b>         | 67.0 | 64.8 | 44.4 | 56.4 | 75.3 |
| <b>EBIT (\$/kg)</b> | 0.53 | 0.56 | 0.43 | 0.48 | 0.62 |

## Trading update – COVID-19 challenges

- **For the 10 months to July total sales revenue (excluding Fishing Partners) is down -8% against the prior year period**
  - COVID-19 has had a significant impact on consumer purchasing behaviour with a temporary collapse in the foodservice channel. Market recovery has varied significantly by region and by species to date.
  - Wild catch revenue is down -33% on the prior comparable period in 3Q20 (June 2020 quarter). Commodity species such as squid are a key area of weakness. Sales of Hoki have swung back towards a lower margin fillet block focus.
  - China mussel sales are back above pre COVID-19 levels, however, sales into the key US market are c. -50% below prior levels.
  - King salmon sales are performing well, albeit below pre COVID-19 growth expectations, with c. 80% of SAN salmon sold domestically.
- **Inventory build expected**
  - We forecast FY2020 inventory of NZ\$69m (FY19 NZ\$46m).
  - Inventory build is a function of 1) soft frozen half shell mussel demand, and 2) a strategic decision to delay sale of higher value products Patagonian Toothfish and Orange Roughy with a view to achieve higher prices as markets open up.
  - These products are generally sold in a frozen format and are therefore not expected to experience price pressure as a result of freezing. Although the shelf life of frozen product is two years, we suspect achievable realised prices to fall over time. We expect inventory could be cleared in the future at low margin should the company require cash conversion.
- **Balance sheet healthy, July 2020 gearing 22%**
  - We forecast FY20 net debt of NZ\$160m, c. 2.5x net debt/EBITDA. We understand SAN has significant headroom under its borrowing covenants, although it has previously signalled 2.5x is towards the top end of its internal range.
  - SAN has slowed its near-term capex spend, guiding to FY20 capex of NZ\$45m–NZ\$50m (Forsyth Barr NZ\$45m).

## Earnings changes and valuation

We have made material negative revisions to our near-term earnings in response to an extended period of weak demand, in addition to an expected delay in SAN's growth path. FY20 downgrades reflect the significant drop in Wild catch sales revenue (-20% in the 10 months to July 2020), compounded by operating de-leverage. The timing of a demand recovery is highly uncertain, and earnings are likely to remain under pressure until we see a normalisation of the foodservice channel. We lower our FY21 forecasts with Wild catch the key earnings laggard, offsetting pockets of aquaculture growth. Our FY22 earnings changes represent a delayed return to our previous growth profile.

Figure 1. Earnings changes (NZ\$m)

|            | FY20E |       |        | FY21E |       |        | FY22E |       |        |
|------------|-------|-------|--------|-------|-------|--------|-------|-------|--------|
|            | Old   | New   | % chg  | Old   | New   | % chg  | Old   | New   | % chg  |
| Revenue    | 535.8 | 482.4 | -10.0% | 593.2 | 556.6 | -6.2%  | 636.9 | 599.9 | -5.8%  |
| EBIT       | 58.2  | 44.4  | -23.8% | 77.6  | 56.4  | -27.4% | 93.8  | 75.3  | -19.7% |
| Norm. NPAT | 36.1  | 27.2  | -24.6% | 50.6  | 36.1  | -28.7% | 62.0  | 50.5  | -18.6% |
| EPS (cps)  | 38.6  | 29.1  | -24.6% | 54.0  | 38.5  | -28.7% | 66.2  | 53.9  | -18.6% |
| DPS (cps)  | 15.0  | 13.0  | -13.3% | 23.0  | 20.0  | -13.0% | 23.0  | 23.0  | -      |

Source: Forsyth Barr analysis

### Target price unchanged at NZ\$7.45

Our target price is unchanged at NZ\$7.45, as changes to our cost of capital assumptions offset near-term forecast downgrades. Our WACC estimate has fallen from 8.4% to 6.7% following changes to our risk free rate (from 2.0% to 1.3%) and market risk premium (from 7.5% to 6.0%), consistent with our strategy report, *The Cost of Capital Conundrum – When TINA Came to Our Shores*, published 7 August 2020.

### Investment view – OUTPERFORM

Looking through the residual impacts of COVID-19, SAN offers attractive medium growth as it targets more value add product into high end retail and foodservice while it grows its earnings contribution from its aquaculture businesses. In addition, SAN has a resource consent application for a series of significant open ocean salmon farms, Project South, which if realised provides meaningful long term option value.

SAN's share price has fallen -15% in the past quarter and down -29% year to date (vs. the S&P/NZX 50 G up +4%). We believe the market had already started to price in the negative headwinds ahead of its trading update. Whilst we expect earnings to remain

subdued in the near term, we view recent weakness as an attractive entry point, with value backed by its unique quota holdings and extensive marine farm licenses. **OUTPERFORM.**

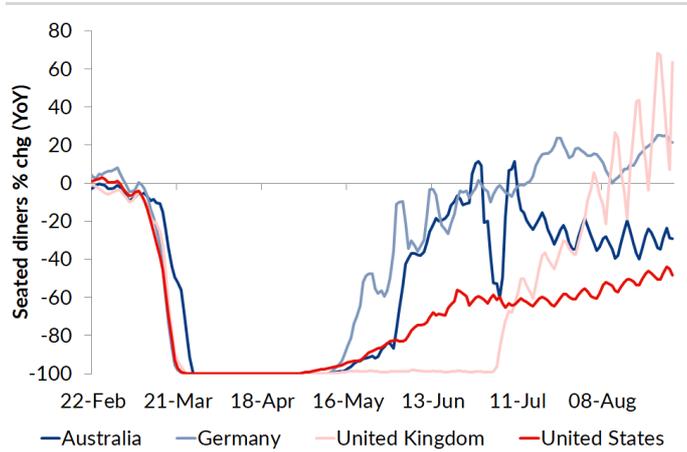
**Charts of interest**

**Figure 2. SAN sales revenue growth (% chg, year on year)**

|                                       | 1H20*      | 3Q20        | July 2020 | 10 month YTD |
|---------------------------------------|------------|-------------|-----------|--------------|
| Wild catch (excl. Fishing Partners)   | -9%        | -33%        | 7%        | -20%         |
| Mussels                               | 13%        | 9%          | -36%      | 8%           |
| Salmon                                | 6%         | 2%          | 27%       | 9%           |
| <b>Total (excl. Fishing Partners)</b> | <b>-7%</b> | <b>-15%</b> | <b>2%</b> | <b>-8%</b>   |

Source: Company reports, Forsyth Barr analysis \*1H20 Wild catch and Total changes include Fishing Partners but exclude pelagic sale

**Figure 3. % change in restaurant table bookings (YoY)**



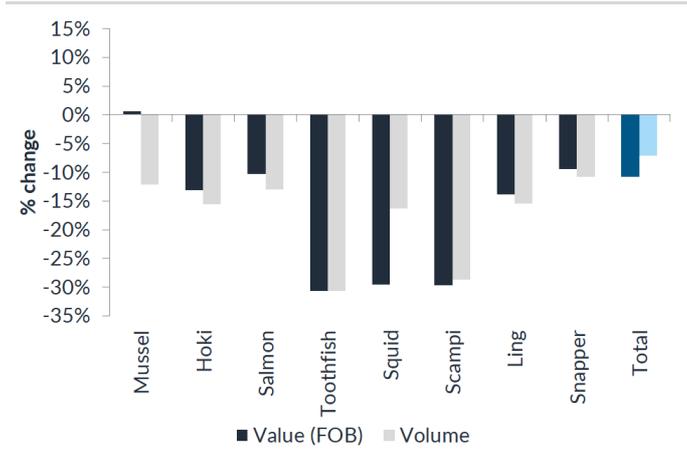
Source: Opentable, Forsyth Barr analysis

**Figure 4. Recovery in Foodservice slow - YoY % chg**

|           |             | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 |
|-----------|-------------|--------|--------|--------|--------|--------|--------|--------|
| Australia | Foodservice | 2%     | 1%     | 2%     | -23%   | -50%   | -35%   | -17%   |
|           | Food retail | 3%     | 3%     | 3%     | 27%    | 5%     | 13%    | 14%    |
| US        | Foodservice | 5%     | 6%     | 5%     | -27%   | -52%   | -38%   | -26%   |
|           | Food retail | 2%     | 2%     | 4%     | 29%    | 12%    | 15%    | 12%    |
| China     | Foodservice | 9%     | -43%   | -43%   | -47%   | -30%   | -19%   | -15%   |
|           | Food retail | 10%    | 10%    | 10%    | 19%    | 18%    | 11%    | 9%     |

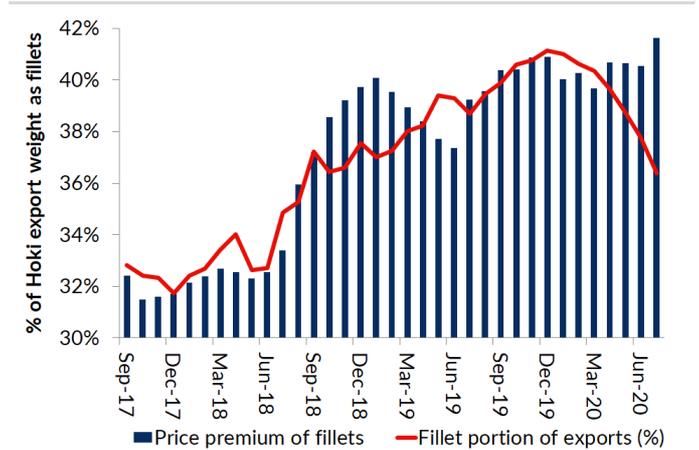
Source: Rabobank, Forsyth Barr analysis

**Figure 5. Export growth by species (10 month FYTD vs pcp)**



Source: StatsNZ, Forsyth Barr analysis

**Figure 6. Hoki export data — the shift back to blocks**



Source: StatsNZ, Forsyth Barr analysis

## Investment Summary

SAN has a unique asset in its significant fishing quota holdings and marine farm licenses. SAN is targeting EBIT/kg of NZ\$1.00/kg through a range of initiatives such as improved product utilisation, a directed sales and marketing strategy, and internal efficiency gains. While earnings volatility is likely to be a feature in the near-term, execution on its value add strategy will be a key driver of share price performance in the medium-term and will reduce commodity exposures over time. OUTPERFORM.

### Business quality

- **Property rights:** SAN holds ~19% of commercial fishing quota as well as extensive aquaculture interests in salmon and mussels.
- **Growing demand and sustainable supply:** Global demand for protein is expected to rise as population and protein consumption increases. New Zealand fisheries are regarded as one of the most sustainable in the world.
- **Diversity of operations:** SAN has one of the most diverse earnings exposures by species in the world with operations in wild capture and aquaculture. Diversity of exposure mitigates, to some extent, year on year fluctuations in single species.

### Earnings and cashflow outlook

- **COVID-19:** COVID-19 has had a significant impact on consumer purchasing behaviour with a temporary collapse in the foodservice channel partially offset by a surge in retail and online sales. The demand recovery profile is highly uncertain although SAN is actively attempting to redeploy product into channels experiencing strong demand, namely retail.
- **Seafood volumes and quality:** Changes in catch and climatic impacts on fish stocks make volume and quality forecasts challenging.
- **EBIT/kg:** SAN's key performance metric of execution on value add strategy. SAN is targeting NZ\$1.00 EBIT for every kg of fish by FY23.

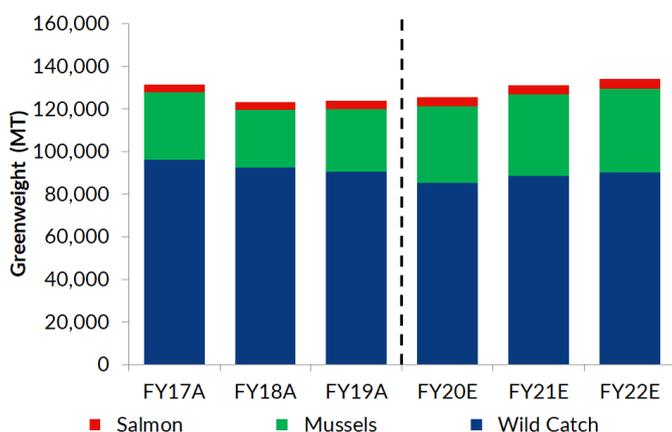
### Financial structure

- **Elevated capex cycle:** SAN has entered an elevated capex cycle with a mix of rejuvenation and business transformation investments occurring. Dividends are expected to remain flat as SAN reinvests in the business.
- **Balance sheet capacity:** SAN has a medium-term net debt to EBITDA target of 1.75x. Despite inventory build up and suppressed earnings, SAN's balance sheet remains healthy with gearing of 22%.

### Risk factors

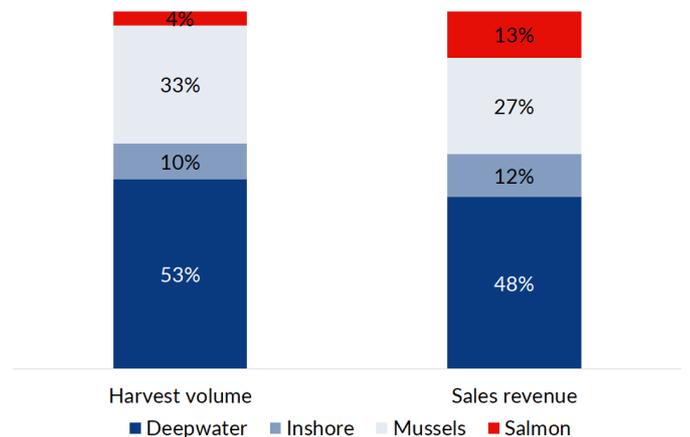
- **Environmental and food safety regulations:** A biosecurity event is likely to impact production outcomes and can affect market access.
- **Catch volume and commodity mix:** Catch volumes can fluctuate from year to year with upside and downside risk to quota numbers following material swings. The diverse species exposure can mean catch mix varies, with a risk that commodity exposure may be greater in any given year.

Figure 7. Catch/harvest weight by division



Source: Company reports, Forsyth Barr analysis

Figure 8. 1H20 harvest and sales split



Source: Company reports, Forsyth Barr analysis

**Figure 9. Price performance**


Source: Forsyth Barr analysis

**Figure 10. Substantial shareholders**

| Shareholder  | Latest Holding |
|--|----------------|
| Amalgamated Dairies Ltd                              | 12.0%          |
| Harbour Asset Management & Jarden Securities Limited | 8.1%           |
| Forsyth Barr Investment Management                   | 5.6%           |

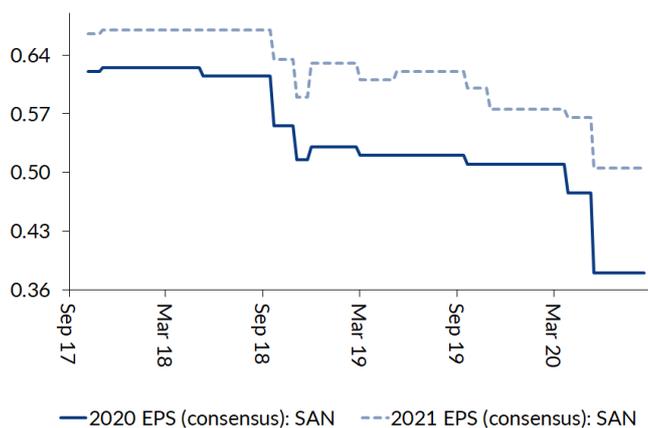
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 11. International valuation comparisons**

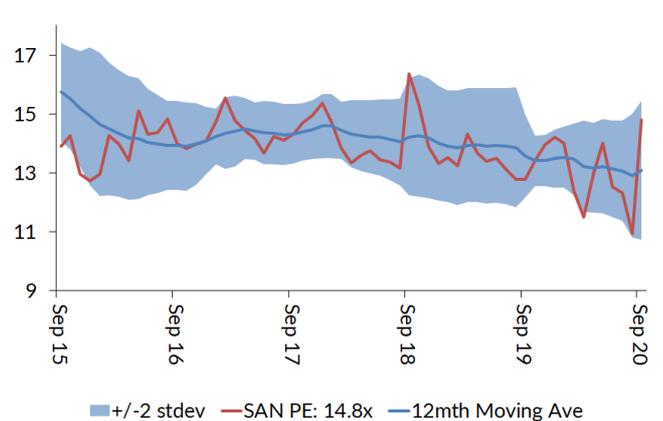
| Company   | Code    | Price    | Mkt Cap (m) | PE           |              | EV/EBITDA   |             | EV/EBIT      |              | Cash Yld    |
|---|---------|----------|-------------|--------------|--------------|-------------|-------------|--------------|--------------|-------------|
| (metrics re-weighted to reflect SAN's balance date - September) |         |          |             |              |              |             |             |              |              |             |
|   |         |          |             | 2020E        | 2021E        | 2020E       | 2021E       | 2020E        | 2021E        | 2021E       |
| Sanford   | SAN NZ  | NZ\$5.70 | NZ\$534     | 19.6x        | 14.8x        | 9.9x        | 7.9x        | 15.0x        | 11.8x        | 3.5%        |
| NEW ZEALAND KING SALMON *                                       | NZK NZ  | NZ\$1.77 | NZ\$246     | 18.5x        | 28.8x        | 11.0x       | 11.5x       | 17.6x        | 19.4x        | 2.0%        |
| NIPPON SUISAN KAISHA  | 1332 JT | ¥468.00  | ¥146,217    | 10.2x        | 9.6x         | 8.2x        | 8.1x        | n/a          | n/a          | 1.9%        |
| HIGH LINER FOODS INC  | HLF CN  | US\$8.13 | US\$271     | 13.4x        | 8.8x         | 7.8x        | 7.3x        | 10.5x        | n/a          | n/a         |
| HUON AQUACULTURE GROUP  | HUO AT  | A\$2.90  | A\$255      | 41.3x        | 9.9x         | 9.3x        | 8.0x        | 52.0x        | 19.4x        | 2.4%        |
| TASSAL GROUP  | TGR AT  | A\$3.64  | A\$762      | 10.7x        | 10.5x        | 7.1x        | 7.4x        | 11.0x        | 10.4x        | 5.2%        |
| SCALES *  | SCL NZ  | NZ\$4.95 | NZ\$703     | 21.0x        | 21.2x        | 9.8x        | 9.6x        | 13.5x        | 13.4x        | 4.1%        |
| COMVITA *   | CVT NZ  | NZ\$3.35 | NZ\$239     | >50x         | 20.8x        | 13.0x       | 11.8x       | 27.5x        | 20.8x        | 1.3%        |
| <b>Compco Average:</b>  |         |          |             | <b>19.2x</b> | <b>15.7x</b> | <b>9.5x</b> | <b>9.1x</b> | <b>22.0x</b> | <b>16.7x</b> | <b>2.8%</b> |
| <b>SAN Relative:</b>  |         |          |             | <b>2%</b>    | <b>-5%</b>   | <b>4%</b>   | <b>-13%</b> | <b>-32%</b>  | <b>-29%</b>  | <b>24%</b>  |

EV = Current Market Cap + Actual Net Debt

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

**Figure 12. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 13. One year forward PE (x)**


Source: Forsyth Barr analysis

**Analyst certification:** The research analyst(s) primarily responsible for the preparation and content of this publication ("Analysts") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this report.

**Analyst holdings:** The following Analyst(s) have a threshold interest in the financial products referred to in this publication: N/A. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

**Ratings distributions:** As at 1 Sep 2020, Forsyth Barr's research ratings were distributed as follows:

|  | <b>OUTPERFORM</b> | <b>NEUTRAL</b> | <b>UNDERPERFORM</b> |
|--|-------------------|----------------|---------------------|
|  | <b>44.4%</b>      | <b>42.6%</b>   | <b>13.0%</b>        |

Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

**Disclosure:** Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

**Investment banking engagements:** Other than confidential engagements, Forsyth Barr has not within the past 12 months been engaged to provide investment banking services to the issuer that is the subject of this publication. For information about whether Forsyth Barr has within the past 12 months been engaged to provide investment banking services to any other issuer referred to in this publication, please refer to the most recent research report for that issuer's financial products.

**Not personalised financial advice:** The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

**Disclaimer:** This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

**Terms of use:** Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.