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Elders Ltd (ELD)

Mooving

Recommendation

Buy (unchanged)

Price

\$7.72

Target (12 months)

\$8.65 (previously \$8.15)

GICS Sector

Food Beverage and Tobacco

Expected Return

Capital growth	12.0%
Dividend yield	2.6%
Total expected return	14.6%

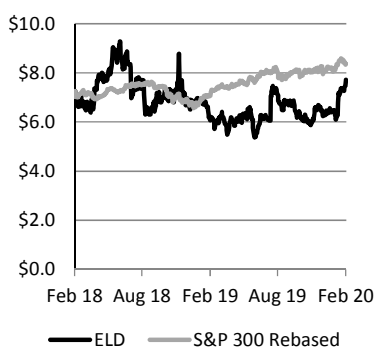
Company Data & Ratios

Enterprise value	\$1,263m
Market cap	\$1,202m
Issued capital	155.7m
Free float	100%
Avg. daily val. (52wk)	\$4.8m
12 month price range	\$5.31-7.87

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	6.47	5.90	6.28
Absolute (%)	19.32	30.85	22.90
Rel market (%)	15.47	27.00	4.54

Absolute Price



SOURCE: IRESS

Cattle prices becoming a tailwind

The onset of the northern wet season has seen a material +20% rally in the EYCI CYTD. Encouragingly the rally in the cattle price has been against the backdrop of modestly higher slaughter volumes (to which ELD is historically more correlated), up +2% YOY in Jan'19 (and +11% YOY FYTD), though softer saleyard throughput. Despite the recent rally, the EYCI continues to trade at an elevated discount to US90CL pricing, at ~3x its historical average. Elevated processor margins combined with the prospect of re-stockers entering the market, will in our view drive a continued rally in the EYCI, noting that in the 2014-16 cycle, the EYCI moved from a discount to a premium to US90CL.

Based on the latest NLRS, livelink and ABS data we estimate strong 1Q20 trends in livestock markets, with the value of cattle turned off up ~12% YOY and the value of ovine turned off up ~16% YOY. A higher number of cattle head turned off has mitigated lighter carcass weights, with ovine prices also mitigating softer head count.

No change to estimates

We have made no changes to our earnings forecasts, but have raised our target price to \$8.65ps (pre. \$8.15ps) on model roll forward and in part reflecting the tailwind we see emerging in livestock markets over 2H20e-FY21e.

Investment view: buy rating retained

Our FY20e forecasts assume a normal winter cropping season, a 10 month contribution of AIRR and continued transition of the ag-chem business to Titan. Rain is the earnings catalyst for ELD, with the benefits that naturally flow through to the rural merchandise, livestock agency and StockCo businesses. We estimate ProForma EBITDA of \$130-140m in normalised seasonal conditions, which implies ELD is trading at 10.0-10.8x EBITDA, prior to adjusting for tax losses. This compares to its two year average forward multiple of 11.3x. With valuation undemanding on a ProForma normalised basis and cattle prices becoming a tailwind and potential upgrade driver in 2H20-FY21e, we retain our Buy rating.

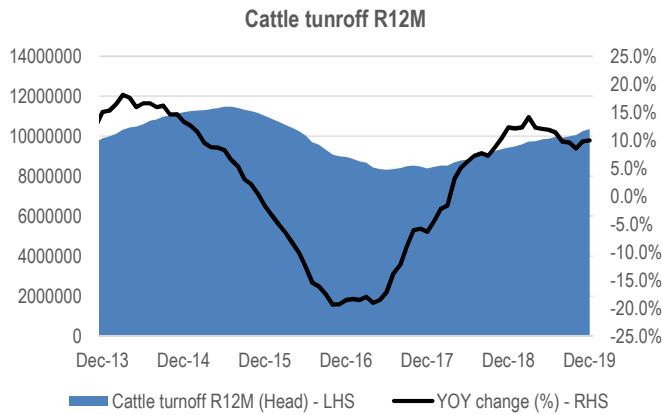
Earnings Forecast

Year end September	2019	2020e	2021e	2022e
Sales (\$m)	1675.7	2108.0	2372.0	2461.5
EBITDA (\$m)	78.7	103.3	140.6	150.5
NPAT (adjusted) (\$m)	63.6	86.5	120.7	130.6
NPAT (reported) (\$m)	68.9	86.5	120.7	130.6
EPS (adjusted) (cps)	51.8	56.0	76.6	83.0
EPS growth (%)	(4.5)	8.2	36.8	8.2
PER (x)	14.9	13.8	10.1	9.3
FCF Yield (%)	-1.3	1.2	6.8	6.4
EV/EBITDA (x)	16.0	12.2	9.0	8.4
Dividend (cps)	18.0	20.0	25.0	30.0
Franking (%)	100.0	100.0	100.0	100.0
Yield (%)	2.3	2.6	3.2	3.9
ROE (%)	12.9	15.3	18.6	17.9

SOURCE: BELL POTTER SECURITIES ESTIMATES

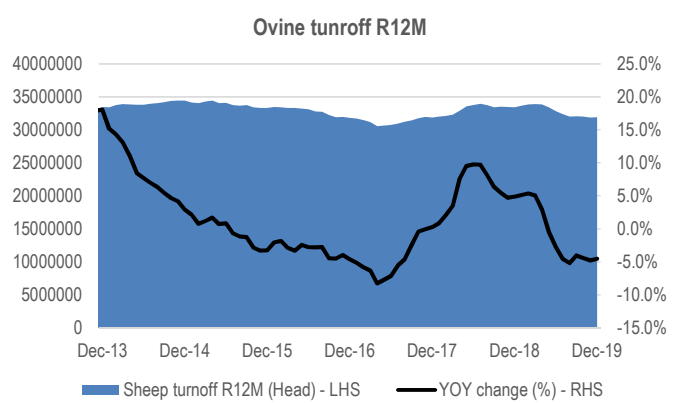
Livestock drivers

Figure 1 – 1Q20 Cattle turnoff up +16% YOY, +10% YOY R12M



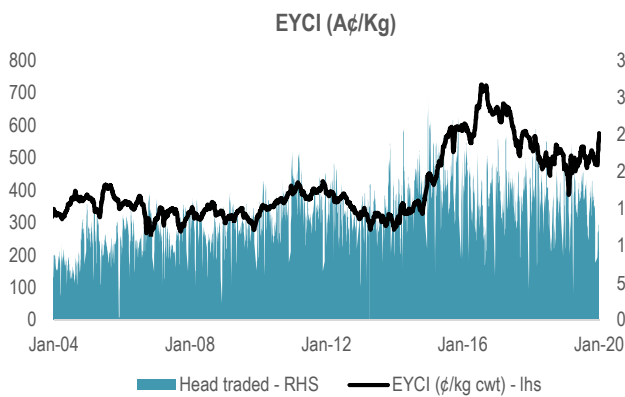
SOURCE: BASED ON ABS AND MLA DATA

Figure 2 – 1Q20 Ovine turnoff down 2% YOY, down 5% YOY R12M



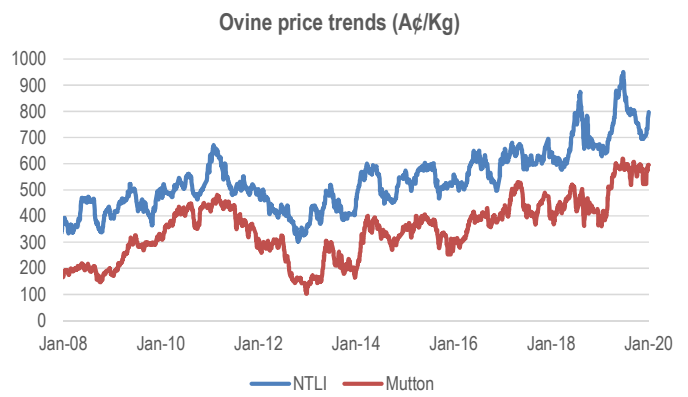
SOURCE: BASED ON ABS AND MLA DATA

Figure 3 – YTD EYCI up +2% YOY, spot price up +22% YOY



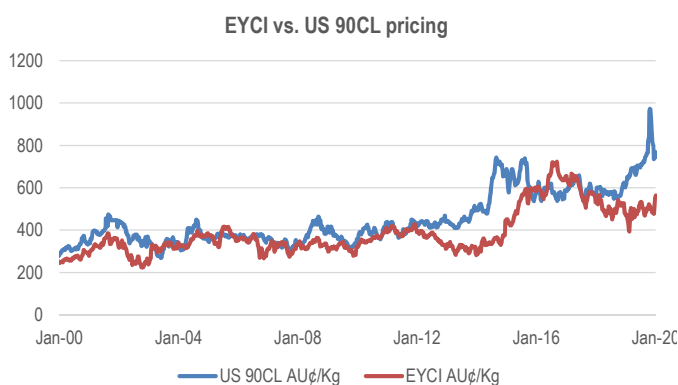
SOURCE: BASED ON MLA DATA

Figure 4 – YTD lamb up +8% YOY and mutton up +37% YOY



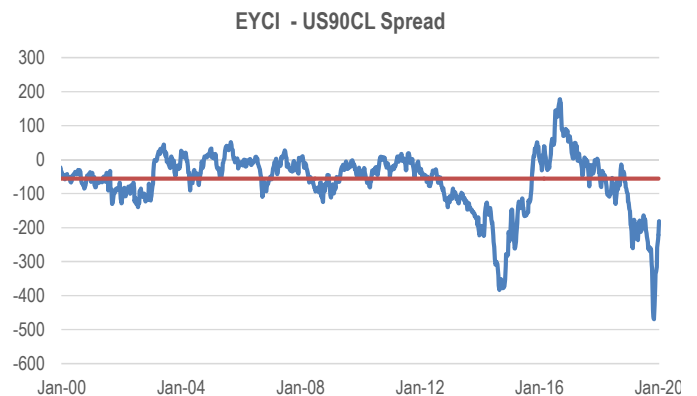
SOURCE: BASED ON MLA DATA

Figure 5 – US90CL meat prices up +24% YOY in AUD terms.



SOURCE: BASED ON MLA DATA

Figure 6 – EYCI discount to US90CL at 3.3x historical average.



SOURCE: BASED ON MLA DATA

Table 1 - Financial summary

Year end Sep	2016	2017	2018	2019	2020e	2021e	2022e	Rating	Buy
Profit & Loss (A\$m)								Share price (\$ps)	\$7.72
Sales revenue	1421.1	1607.9	1628.6	1675.7	2108.0	2372.0	2461.5	Target price (\$ps)	\$8.65
... Change	3.5%	13.1%	1.3%	2.9%	25.8%	12.5%	3.8%	Shares on issue (m)*	155.7
EBITDA	59.8	74.6	79.4	78.7	103.3	140.6	150.5	Market cap (\$m)	1201.8
Deprec. & amort.	(3.6)	(4.1)	(4.8)	(5.1)	(6.0)	(6.1)	(6.1)	Enterprise Value (\$m)	1262.5
EBIT	56.2	70.4	74.6	73.6	97.3	134.5	144.4	* Enterprise value reflects AIRR adj. FY19 net debt offset by NPV available tax losses.	
Interest expense	(9.4)	(7.3)	(6.9)	(7.7)	(7.7)	(8.6)	(8.5)	* Share on issue and market cap includes issue for AIRR	
Pre-tax profit	46.8	63.2	67.7	65.9	89.6	125.9	135.8	Year end Sep	2016
Tax expense	(2.9)	(2.9)	(1.7)	(0.5)	(1.5)	(2.6)	(2.6)	2017	2018
... tax rate	6%	5%	2%	1%	2%	2%	2%	2019	2020e
Minorities	(2.7)	(2.6)	(2.4)	(1.8)	(1.5)	(2.6)	(2.6)	2021e	2022e
Net Profit	41.2	57.7	63.7	63.6	86.5	120.7	130.6	Valuation Ratios	
Hybrid coupon payments	-	-	-	-	-	-	-	Adjusted EPS (\$ps)	44.5
Core NPAT	41.2	57.7	63.7	63.6	86.5	120.7	130.6	Change (%)	24.7%
Abs. & extras.	10.4	58.3	7.9	5.3	-	-	-	Adjusted PE (x)	17.3
Reported Profit	51.6	116.0	71.6	68.9	86.5	120.7	130.6	EV/EBITDA (x)	21.1
Cashflow (A\$m)								EV/EBIT (x)	22.5
EBITDA	59.8	74.6	79.4	78.7	103.3	140.6	150.5	NTA (\$ps)	1.55
Net Interest Expense	(7.6)	(7.1)	(5.5)	(6.8)	(7.7)	(8.2)	(8.6)	P/NTA (x)	4.99
Tax Paid	(1.5)	(3.5)	(2.8)	(3.4)	(1.0)	(2.1)	(2.6)	Book Value (\$ps)	1.64
Change in Wkg Capital	24.0	9.6	(67.4)	(50.2)	(44.5)	(8.0)	(13.4)	Price/Book (x)	4.71
Other	(26.1)	8.0	(15.9)	(7.1)	(3.5)	(4.6)	(4.6)	DPS (\$)	-
Operating Cash Flow	48.7	81.6	(12.1)	11.2	46.5	117.8	121.3	Payout (%)	-
Capex	(6.0)	(3.5)	(4.1)	(3.7)	(5.0)	(5.0)	(5.0)	Yield (%)	0.0%
Div Paid (gross of DRP)	-	-	(25.8)	(23.2)	(26.8)	(31.1)	(38.9)	Performance Ratios	
Free Cash Flow	42.7	78.1	(42.1)	(15.7)	14.7	81.7	77.4	EBITDA/sales (%)	4.2%
Acquisitions	(19.1)	(42.7)	(34.6)	(41.7)	(187.0)	(40.0)	(40.0)	EBIT/sales (%)	4.0%
Disposals	1.5	4.5	0.3	3.0	-	-	-	OCF Realisation (%)	118%
Share Issues (incl DRP)	30.5	(45.5)	-	132.5	79.0	-	-	FCF Realisation (%)	104%
Other	(5.5)	(3.5)	(1.8)	1.1	-	-	-	ROE (%)	22.4%
(Inc.) /dec. in net debt	50.0	(9.1)	(78.1)	79.2	(93.3)	41.7	37.4	ROIC (%)	21.6%
Balance Sheet (A\$m)								Asset turn (years)	16.41
Cash & near cash	35.2	35.2	11.6	7.3	11.6	11.6	11.6	Capex/Depn (x)	1.64
Receivables	381.3	385.6	444.8	481.1	569.2	616.7	640.0	Interest cover (x)	5.98
Inventories	145.7	155.7	180.3	181.4	231.9	249.1	258.5	Net Debt/EBITDA (x)	1.44
Other	-	-	3.5	0.4	0.4	0.4	0.4	Net debt/equity (%)	46%
Current assets	562.2	576.5	640.2	670.3	813.1	877.8	910.5	Divisional EBIT overview	
Fixed assets	30.6	29.9	27.3	27.4	28.5	29.8	31.1	Retail	126.3
Intangibles	10.4	72.0	81.1	106.9	106.9	106.9	106.9	Agency	140.6
Other	88.1	123.7	181.5	212.2	313.5	347.7	381.8	Financial Services	26.2
Non current assets	129.1	225.6	289.9	346.5	448.8	484.4	519.8	Network GP	293.1
Total assets	691.3	802.2	930.2	1,016.7	1,261.9	1,362.2	1,430.2	Feed & Processing GP	14.5
Creditors	331.6	355.5	371.9	359.2	453.2	510.0	529.2	Rural Services GP	307.6
Borrowings	121.3	130.5	184.0	100.7	198.1	156.4	119.0	Network overheads	(203.3)
Other	43.8	49.2	47.0	44.2	23.9	27.3	29.6	Feed & Processing cost	(10.7)
Current liabilities	496.6	535.2	602.9	504.1	675.3	693.7	677.9	Corporate Overheads	(37.4)
Borrowings	-	-	1.1	0.9	1.1	1.1	1.1	EBIT	56.2
Other	8.2	9.3	17.7	18.8	18.8	18.8	18.8	Cost to serve ratio (%)	81.7%
Non current liabilities	8.2	9.3	18.7	19.7	19.9	19.9	19.9	Livestock turnover (\$m)	2,899
Total liabilities	504.8	544.5	621.6	523.8	695.2	713.6	697.8	Wool bales handled ('000)	349
Net assets	186.5	257.7	308.5	492.9	566.8	648.5	732.5		371
Share capital	1,422.4	1,422.3	1,426.8	1,562.4	1,641.1	1,641.1	1,641.1		2,971
Hybrid Equity	36.8	-	-	-	-	-	-		3,141
Reserves	(29.1)	(27.6)	(26.0)	(27.2)	(27.2)	(27.2)	(27.2)		3,269
Retained earnings	(1,246.1)	(1,139.1)	(1,094.0)	(1,043.5)	(1,048.3)	(966.5)	(882.6)		294
Outside equity interests	2.4	2.1	1.8	1.2	1.2	1.2	1.2		310
S/holders' funds	186.5	257.7	308.5	492.9	566.8	648.6	732.5		
Net Debt (Cash)	86.1	95.3	173.4	94.3	187.5	145.8	108.5		

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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