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Bega Cheese Ltd (BGA)

Updated guidance

Recommendation

Buy (unchanged)

Price

\$4.93

Target (12 months)

\$5.90 (unchanged)

GICS Sector

Food Beverage and Tobacco

Expected Return

Capital growth	19.7%
Dividend yield	2.2%
Total expected return	21.9%

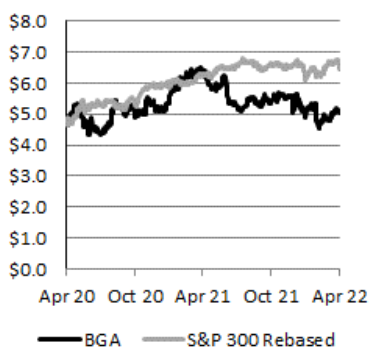
Company Data & Ratios

Enterprise value	\$1,903m
Market cap	\$1,494m
Issued capital	303.0m
Free float	100%
Avg. daily val. (52wk)	\$7.0m
12 month price range	\$4.51-6.42

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	4.88	5.13	6.41
Absolute (%)	3.48	-1.56	-21.22
Rel market (%)	5.14	-0.38	-24.28

Absolute Price



SOURCE: IRESS

BELL POTTER SECURITIES LIMITED
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Trading updates and indicative FMP open

In recent days BGA has announced revised FY22e earnings guidance and advised farmer suppliers of indicative opening 2022-23 farmgate prices. Main points:

FY22e earning guidance: FY22e EBITDA guidance has been downgraded from \$195-215m to \$175-190m. COVID-19 direct costs have been quantified at >\$40m, (following a quantifying of >\$20m in 1H22) and additional impacts have been experienced from flooding and sales slippage from Port of Shanghai congestion. Flood and COVID-19 related EBITDA impacts are expected to be largely contained to FY22e. At the headline level, the updated guidance is consistent with our previous FY22e forecasts, though a higher year end debt balance is now anticipated, with BGA's leverage ratio expected to exit FY22e at ~2.0x.

2022-23 opening FMP: BGA has indicated an average opening 2022-23 southern FMP of ~\$8.40/KgMS, which is a material step up from the revised 2021-22 FMP of ~\$7.40/KgMS, but consistent with commodity prices over 2H22e. Our revised FY23e forecasts are predicated on a higher FMP assumption, assuming that competition remains strong to June (+\$0.34/KgMS move in 2021-22 in the opening month). With direct retailer exposure in the generic supply chain to farmgate prices, we would expect farmgate inflation to put further upward pressure on retail shelf prices in FY23e.

We were already below management guidance in FY22e and as such have made only modest adjustments to our forecasts, largely reflective higher debt balances and assumed interest rate rises. Our NPAT forecasts are downgraded -5% in FY22e, -2% in FY23e and -5% in FY24e. Our target price is unchanged at \$5.90ps.

Investment view: Buy rating unchanged

There is no change to our Buy rating. FY22e is likely to bear material non-recurring costs related to the omicron outbreak, which is likely to mask the benefits of the LDD acquisition (and realisation of targeted synergies) and recent shelf price increases. We see the FY23-24e earnings base being higher and see the 8.2x FY23e EBITDA as undemanding relative to the sector.

Earnings Forecast

Year end June	2021	2022e	2023e	2024e
Sales (A\$m)	2073.4	3216.2	3457.4	3517.8
EBITDA (A\$m)	141.7	179.3	230.7	248.6
NPAT (reported) (A\$m)	72.2	43.1	73.9	86.8
NPAT (adjusted) (A\$m)	39.6	43.1	73.9	86.8
EPS (adjusted) (cps)	14.9	14.2	24.4	28.6
EPS growth (%)	0.0	-4.4	71.3	17.5
PER (x)	33.1	34.6	20.2	17.2
FCF Yield (%)	3.1	-4.3	4.1	4.7
EV/EBITDA (x)	13.4	10.6	8.2	7.7
Dividend (¢ps)	10.0	11.0	16.5	17.5
Franking (%)	100.0	100.0	100.0	100.0
Yield (%)	2.0	2.2	3.3	3.5
ROE (%)	3.8	3.4	5.8	6.6

SOURCE: BELL POTTER SECURITIES ESTIMATES

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BGA company overview

COMPANY DESCRIPTION

Bega Cheese Limited (BGA) is engaged in: (1) the processing, manufacturing and distribution of dairy and associated products to both Australian and international markets; and (2) the processing and manufacturing of spreads and condiments for consumer markets. BGA operates processing facilities across Australia with the capacity to process ~1.6-1.7BnL of milk annually.

VALUATION

Our \$5.90ps target price for BGA is derived from a combination of: **(1) Underlying ROIC based approach:** which is based on 8.1-9.1% ROIC when earnings are reflective of normal seasonal conditions and annualised LDD synergies. This derives an EV/EBITDA multiple of 7.3-8.5x; and **(2) Value for surplus land assets and franking credits:** We have incorporated a value for the Port Melbourne land acquired in the MLDZ acquisition and a value for expected surplus franking credit.

RISKS

Risks facing BGA include but are not limited to:

COVID-19: The substantial impact of COVID-19 on the global and domestic economies together with the Saudi Arabia-Russia oil price war is creating enormous volatility and uncertainty in global share markets. The forecasts in the report may be subject to significant changes if this situation continues for an extended period of time.

AUD commodity prices: With ~20-25% of revenues exposed to commodity markets and a further 15-20% exposed to export FMCG or Nutritionals based revenue streams, BGA is exposed to both movements in the AUD and global dairy commodity prices. While the impact is insulated via the groups domestic FMCG and cut & pack operations, sharp movements up or down can have a meaningful impact on profitability, particularly in the Tatura business;

Seasonal risk factors: BGA is exposed to the impact of weather conditions such as droughts and other factors that may reduce the level of milk produced in the catchment area;

Milk supply and costs: BGA purchases milk from dairy farmers on annual basis, seasonal factors or competitive response may limit supply or result in changes to farmgate milk pricing assumptions greater than we have allowed;

Change in long-term relationships: BGA distributes its branded and other cheese products through long term cost plus contracts with companies including Fonterra, Kraft, Woolworths and Aldi Any loss of a material cheese contract could hamper returns in the business; and

Execution risk on LDD acquisition: Failure of BGA to execute on integrating the LDD acquisition and achieving stated synergy targets may result in BGA failing to achieve our earnings estimates or target price.

Customer and supplier relationships: There is a risk that as a result of acquiring MDLZ grocery business and competing in the markets some of its products, contractual relationships with customers may result in decreased sales volumes and increased costs which could affect the financial performance of BGA.

Brand, product and reputation risk: Earnings could be impacted by failing to meet customer expectations of quality; contamination or recall; adverse media coverage or other factors outside of the control of BGA.

Industry risk: There are a number of industry factors outside the control of the company, including regulatory, compliance and variations in legislation and government policies.

Failure to retain key customers: Given BGA's reliance on several key customers, a failure to maintain these relationships could adversely impact the financial performance of BGA.

Bega Cheese Ltd

as at 27 April 2022

Recommendation

Buy

Price

\$4.93

Target (12 months)

\$5.90

Table 1 - Financial summary

June year end	2018	2019	2020	2021	2022e	2023e	2024e		
Profit & Loss (A\$m)								Recommendation	Buy
Sales revenue	1252.0	1420.0	1493.2	2073.4	3216.2	3457.4	3517.8	Share price (\$ps)	4.93
... Change	2.1%	13.4%	5.2%	38.9%	55.1%	7.5%	1.7%	Target price (\$ps)	5.90
EBITDA	109.6	104.9	103.0	141.7	179.3	230.7	248.6	Diluted issued capital (m)	303.0
Deprec. & amort	(31.3)	(40.4)	(45.8)	(72.9)	(109.4)	(110.7)	(110.7)	Market cap (\$m)	1493.7
EBIT	78.3	64.5	57.2	68.8	69.9	120.1	137.9	Enterprise value (\$m)	1903.0
Interest expense	(9.8)	(19.6)	(11.0)	(8.7)	(13.3)	(14.5)	(14.0)		
Pre-tax profit	68.5	44.9	46.2	60.1	56.6	105.5	124.0	June year end	2018
Tax expense	(25.0)	(14.0)	(14.3)	(20.5)	(13.5)	(31.7)	(37.2)	Valuation Ratios	
... tax rate	37%	31%	31%	34%	24%	30%	30%	EPS (¢ps)	23.5
Minorities	-	-	-	-	-	-	-	Change (%)	18.2%
Net Profit	43.5	30.9	31.9	39.6	43.1	73.9	86.8	PE (x)	21.0
Abs. & extras.	(15.2)	(26.5)	(10.6)	32.6	-	-	-	EV/EBITDA (x)	17.4
Reported Profit	28.2	4.4	21.3	72.2	43.1	73.9	86.8	EV/EBIT (x)	24.3
Cashflow (A\$m)								NTA (\$ps)	1.19
EBITDA	109.6	104.9	103.0	141.7	179.3	230.7	248.6	PINTA (x)	4.14
Tax Paid	(79.2)	(13.3)	(12.3)	(0.7)	(15.2)	(27.1)	(35.8)	Book Value (\$ps)	3.42
Net Interest Expense	(9.8)	(20.4)	(11.0)	(10.4)	(11.0)	(13.9)	(14.3)	Price/Book (x)	1.44
Change in Wkg Capital	(39.6)	29.1	56.3	(95.1)	(68.0)	(21.3)	(5.3)	DPS (¢)	11.0
Other	25.0	(0.1)	(0.7)	66.6	(21.8)	-	-	Payout (%)	47%
Operating Cash Flow	6.0	100.3	135.3	102.1	63.3	168.3	193.2	Yield (%)	2.2%
Capex	(46.6)	(62.3)	(61.8)	(32.2)	(95.0)	(70.0)	(70.0)	Franking (%)	100%
Div Paid (gross of DRP)	(19.4)	(19.1)	(19.5)	(23.3)	(31.8)	(36.4)	(53.0)		
Free Cash Flow	(60.0)	18.8	54.0	46.6	(63.5)	62.0	70.2	Performance Ratios	
Acquisitions	(478.3)	(262.2)	(1.0)	(514.5)	-	-	-	EBITDA/sales (%)	8.8%
Disposals	12.7	1.4	5.3	-	4.8	-	-	EBITA/sales (%)	6.3%
Share Issues (incl DRP)	50.0	199.9	-	390.2	-	-	-	OCF Realisation (%)	8%
Other	(30.0)	0.3	7.7	(5.6)	-	-	-	FCF Realisation (%)	-93%
(Inc.)/dec. in net debt	(505.6)	(41.9)	65.9	(83.3)	(58.7)	62.0	70.2	ROE (%)	7.2%
Balance Sheet (A\$m)								ROIC (%)	13.2%
Cash & near cash	21.7	28.8	22.9	87.2	87.2	87.2	87.2	Asect Turn (years)	3.50
Receivables	200.6	179.9	117.4	348.9	362.8	390.0	396.8	Capex/Deprn (x)	1.49
Inventories	232.1	272.6	257.4	345.0	418.1	449.5	457.3	Interest cover (x)	7.97
Other	14.7	9.9	12.0	52.3	52.3	52.3	52.3	Net Debt/EBITDA (x)	2.24
Current assets	469.0	491.2	409.7	833.4	920.4	978.9	993.6	Net debt/equity (%)	38.8%
Fixed assets	323.6	443.3	445.9	908.5	894.1	853.5	812.8	Net debt/(Net debt + Ec)	28.0%
Intangibles	411.5	535.1	548.1	589.5	589.5	589.5	589.5		
Other	11.7	20.5	19.7	154.7	154.7	154.7	154.7	Model drivers	
Non current assets	746.8	999.0	1,013.7	1,652.7	1,638.3	1,597.7	1,557.0	Branded	822.1
Total assets	1,215.8	1,490.2	1,423.4	2,486.1	2,558.7	2,576.6	2,550.6	Ingredients	856.2
Creditors	225.9	274.9	253.4	477.4	496.4	533.6	542.9	Intercompany	(258.4)
Borrowings	0.1	0.0	-	-	-	-	-	Group revenue (\$m)	1,252.0
Other	52.3	49.2	52.6	207.5	192.6	211.4	212.5		1,420.0
Current liabilities	278.2	324.1	306.0	684.9	689.0	745.0	755.4	Branded	72.2
Borrowings	267.0	316.1	244.3	391.9	450.6	388.7	318.5	Ingredients	53.5
Other	38.7	31.5	59.2	148.6	148.6	148.6	148.6	Intercompany	(20.8)
Non current liabilities	305.6	347.6	303.4	540.5	599.2	537.3	467.1	EBITDA	109.6
Total liabilities	583.8	671.7	609.4	1,225.4	1,288.2	1,282.2	1,222.5		104.9
Net assets	632.0	818.6	814.0	1,260.7	1,270.5	1,294.4	1,328.1	BGA Southern FMP (\$/KgMS)	6.15
Share capital	274.9	477.5	480.5	875.7	875.7	875.7	875.7		6.90
Reserves	21.5	22.9	20.9	25.9	25.9	25.9	25.9		6.50
Retained earnings	335.7	318.2	312.7	359.1	368.9	392.8	426.5		7.40
Outside equity interests	-	-	-	-	-	-	-		8.60
S/holders' funds	632.0	818.6	814.0	1,260.7	1,270.5	1,294.4	1,328.1		
Net Debt (Cash)	245.4	287.3	221.4	304.7	363.4	301.5	231.3		

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

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

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