

# Beston Global Food Co Limited (BFC)

FY19 Downgraded Guidance – New CEO puts out the trash

27 August 2019

Wayne Sanderson  
wsanderson@phillipcapital.com.au  
+61 3 8633 9930

## Summary

BFC is changing from a food related investment company, to an operating company focussed on Dairy and pre-cooked Meat products. Assets currently comprise:

- Dairy** (80% of estimated segment assets) – Two recently refurbished and upgraded cheese factories at Murray Bridge and Jervis in South Australia (capacity: 300 million litres milk processing, 25m tonnes pa of cheese) plus four dairy farms near Mt Gambier SA (~17m litres annual milk production).
- Provincial Food Group** (9% of segment assets, now 100% owned) – Specialist provider of pre-cooked meat products to supermarkets, food service and exports, based at Shepparton Vic. Significant new business recently won.
- China Division** – Shanghai trading office (6 staff) - closing. Thailand operation – closing.
- Associates & Incubator investments** (9% of assets):
  - Seafood \$10.6m book value (Ferguson Australia)
  - Health BV\$4.7m (mineral water) & Beston Technologies

### FY19 Downgrade and Significant Restructuring

- BFC's FY19 results are expected by Friday 30<sup>th</sup> August. BFC has foreshadowed a weaker than expected operating result and significant further restructuring charges.
- The operating result will be impacted by significantly lower cheese volumes and margins mainly in Q3 (drought impact). Whilst there was a significant improvement in Q4, it sounds like it was not enough to rescue the 2H. We lower our EBIT forecast by \$4.8m to a forecast \$13.8m loss.
- BFC has flagged that there has been significant redundancies, restructuring costs, inventory disposals and other costs, including closure of its China and Thailand operations and warehouses.
- There were \$5.9m of write-downs in 1H19. We pre-emptively factor in a further \$7m of abnormal charges and write-downs for 2H19.
- BFC expects these changes will reduce operating costs by nearly \$6m pa going forward (includes \$2m previously announced).
- We estimate net debt could rise to around \$35m from \$31m at December. ND/E could be 40% up from 31% in Dec.

### Our Opinion

We had warned investors previously of the likelihood of further write-downs and restructuring costs. We are pleased that Management has taken decisive action to clear the decks and point BFC towards profitability. However these changes will reduce Shareholders Funds and NTA, and increase debt.

Our previous recommendation and valuation are under review until we see the full details in the audited result.

## Recommendation

### Risk Rating

### 12-mth Target Price (AUD)

Share Price (AUD)

12-mth Price Range

Forecast 12-mth Capital Growth

Forecast 12-mth Dividend Yield

### 12-mth Total Shareholder Return

Market cap (\$m)

Net debt (net cash) (\$m)(June 19e)

Enterprise Value (\$m)

Gearing (Net Debt/ Equity)

Shares on Issue (m)

Sector

Average Daily Value Traded (\$)

ASX 300 Weight

## Under Review

High

Under Review

\$0.094

\$0.94 - \$0.205

N/a

N/a

N/a

41.7

35.0

76.7

40%

443.3

Food & Beverages

\$34,000

n/a

## Financial Forecasts & Valuation Metrics

Years ending June \$m	17(a)	18(a)	19(e)	20(e)	21(e)
Sales revenue	23.8	47.9	83.2	108.8	123.7
EBITDA	-9.7	-11.6	-11.8	1.9	9.1
NPAT (rep'd Incl. NRI's)	-7.7	-12.6	-23.4	-1.8	3.1
NPAT (normalised)	-7.7	-8.8	-10.5	-1.8	3.1
EPS (norm) (cents)	-1.8	-2.0	-2.4	-0.4	0.7
EPS growth	237%	9%	19%	-83%	Large
DPS (cents)	0.6	0.0	0.0	0.0	0.0
P/E	-5.2	-4.7	-4.0	-23.5	13.3
EV/ Ebitda	-1.3	-5.1	-6.5	46.8	9.9
Yield	6.4%	0.0%	0.0%	0.0%	0.0%
Net debt/ equity	net cash	14.0%	39.8%	53.3%	54.4%

Source: Phillip Capital estimates

## BFC SHARE PRICE PERFORMANCE



## Profit Downgrade for FY19

BFC's FY19 results are expected on or before Friday 30<sup>th</sup> August.

BFC has foreshadowed a weaker than expected operating result and significant further restructuring charges.

### Dairy Division

The operating result will be impacted by significantly lower cheese volumes and margins mainly in Q3 (drought impact and high feed costs saw farmers cull herds which reduced the supply of milk, and led to higher processing costs per tonne). Whilst there was a significant improvement in Q4, it sounds like it was not enough to rescue the 2H.

- FY19 milk throughput 103 million litres (v 90 ml pcp) +14% but this was 23% below BFC's budget (implies 134 ml budget) and 10% below our forecast of 115ml. Guidance given at the time of the interim results was 117 ML annualised.
- FY19 total cheese production 5,790 metric tonnes (v 6,278 mt) down -8% on FY18 which only had the mozzarella line running for about 5 months. This is over 40% short of our expected production of around 11,000 tonnes.
- Approximately 73% of FY19 production was mozzarella (4,387 metric tonnes) which was also around 40% short of our expectation of over 7,000 tonnes.
- There should be a partial offset from sales of higher margin lactoferrin from January, and vintage hard cheeses now matured and ready for sale, but these won't claw back much.

We lower our Ebit forecast by approximately \$4.8m to a \$13.8m loss.

### Other Costs

BFC has flagged that there has been significant redundancies, restructuring costs, inventory disposals and other costs, including closure of its China and Thailand operations and warehouses.

There were \$5.9m of write-downs in 1H19. We pre-emptively factor in a further \$7m of abnormal charges and write-downs for 2H19.

BFC expects these changes will reduce operating costs by nearly \$6m pa going forward (includes \$2m pa previously announced).

### Balance Sheet impact

- We estimate net debt could rise from \$31.3m at December 2018 to around \$35m at June 2019.
- We are estimating an Operating Loss of around \$5m in 2H19 plus further abnormal restructuring charges of \$7m making a 2H19 loss of around \$12m. However until the audited accounts are released, we have a high degree of uncertainty on these estimates.
- Shareholders Funds could fall from \$99.6m at end December to around \$88m.
- Net debt / net equity could be around 40% up from 31% at end December and 14% a year ago. This is not a favourable trend.

We are forecasting a further loss in FY20 of around \$2m even after the significant cost cutting and restructuring now being implemented.

There is a possibility that BFC may need to raise further equity in order to keep gearing under control, to maintain its capital expenditure plans and to satisfy its lenders.

## Q4 Trading

Despite the large downgrades and restructuring charges flagged, there were a number of positives in the trading update, as follows:

- Monthly cheese production increased during Q4 with June a company record of 667 tonnes (vs FY19 monthly average 482 tonnes per month). July increased again to 801 tonnes.
- Q4 retail cheese sales in the domestic market up strongly (+206%, but presumably this is off a low base).
- Q4 operating cash flow was positive.
- Annualised costs of “close to \$6m being removed from the BFC businesses”. This includes the closure of the China and Thailand offices and warehouses, and liquidation of old inventories.
- BFC’s re-vamped sales network (external distributors plus direct Australian-based sales team) now covers domestic retail, foodservice and ingredient customers based across all mainland states. International retail and foodservice are covered by international distributors. We understand the revamped sales team has been getting some traction, and that BFC now has a more diversified customer base.
- Over 30 new distributors signed, with ranging commitments across 27 different supermarket groups reaching every state. Customers mentioned in the “Beston Chronical” newsletter were: Woolworths, Aldi, Costco, Foodworks, Ritchie’s, Drakes, Romeos, Cornetts, Champions, Chapley’s, Carlos, Bansal and negotiations currently with large South Australian firm On the Run.
- BFC says it now has all the “Big 4” national food distributor groups signed to trading terms (Countrywide, NAFDA, PFD, and Bidfood). Guzman Y Gomez has renewed for a further 12 months. A promotion with 5 Ways Foodservice, the biggest supplier to the pizza trade in Victoria was also mentioned.
- Further awards for BFC’s cheeses during the year, including the Dairy Industry Australia Association’s Christian Hansen Cup for best cheddar in Australia, and best mozzarella in May 2019.

## Changes in Estimates

We increase our forecast Reported Net Loss from -13.0m to -\$23.4m, factoring in the following possible items. We caution that until the actual audited accounts are released, these are purely our best estimates and we still have a high degree of uncertainty.

- Lower operational result in Dairy division - \$4.3m reduction in EBIT.
- Expected major restructuring charges and write-downs to assets and inventories \$7m.

We also lower our FY20 and FY21 forecasts for the Dairy division, partly offset by lower central / unallocated costs from the major restructuring, including closure of the China and Thailand overseas offices.

Changes in Estimates - BFC										
Years ended June (\$m)	FY18A	Old	FY19e New	Chge	Old	FY20e New	Chge	Old	FY21e New	Chge
Operating Revenue	47.9	97.7	83.2	-14.9%	121.7	108.8	-10.6%	138.5	123.7	-10.7%
EBITDA	-11.6	-7.0	-11.8	69%	3.2	1.9	-42%	12.1	9.1	-25%
EBIT	-13.7	-9.0	-13.8	54%	0.7	-0.6	-185%	9.4	6.5	-32%
NPAT (reported incl NRIs)	-12.6	-13.0	-23.4	80%	-0.7	-1.8	138%	5.2	3.1	-40%
Add back: Abnormal items	3.8	5.9	-12.9	-319%	0.0	0.0		0.0	0.0	
NPAT (normalised)	-8.8	-7.1	-10.5	47%	-0.7	-1.8	138%	5.2	3.1	-40%
EPS (normalised) cents	-2.0	-1.6	-2.4	47%	-0.2	-0.4	138%	1.2	0.7	-40%
DPS cents	0.0	0.0	0.0	0%	0.0	0.0	0%	0.0	0.0	0%
<b>Key assumptions:</b>										
Milk intake	90.0	115.0	103.0	-10%	135.0	122.0	-10%	155.0	130.0	-16%
<b>Total Revenue :</b>										
Dairy	44.7	91.8	77.2	-16%	105.3	92.4	-12%	121.1	106.3	-12%
Meat	0.9	6.1	6.1	0%	16.0	16.0	0%	17.0	17.0	0%
Seafood	0.7	0.4	0.4	0%	0.3	0.3	0%	0.3	0.3	0%
Health	1.0	0.2	0.2	0%	0.4	0.4	0%	0.4	0.4	0%
Unallocated	4.7	0.0	0.0	0%	0.0	0.0	0%	0.0	0.0	0%
<b>Total Revenue :</b>	<b>52.0</b>	<b>98.5</b>	<b>83.9</b>	<b>-15%</b>	<b>122.0</b>	<b>109.1</b>	<b>-11%</b>	<b>138.8</b>	<b>124.0</b>	<b>-11%</b>
<b>Segmental EBIT :</b>										
Dairy	-3.0	1.3	-3.0	-321%	7.3	3.5	-53%	15.0	8.6	-43%
Meat	0.1	-2.1	-2.1	0%	0.6	0.6	0%	1.6	1.6	0%
Seafood	0.4	0.4	0.4	0%	0.3	0.3	0%	0.3	0.3	0%
Health	-0.8	-0.1	-0.1	0%	0.0	0.0	0%	0.0	0.0	0%
Unallocated	-10.3	-8.5	-9.0	6%	-7.5	-5.0	-33%	-7.5	-4.0	-47%
<b>EBIT</b>	<b>-13.7</b>	<b>-9.0</b>	<b>-13.8</b>	<b>54%</b>	<b>0.7</b>	<b>-0.6</b>	<b>-185%</b>	<b>9.4</b>	<b>6.5</b>	<b>-32%</b>

Source: Phillip Capital estimates

## Valuation & Recommendation

Our valuation and recommendation are both "Under Review" until we are able to review the full year audited accounts.

Our estimates have been revised down, but are still subject to considerable uncertainty. These could change further once we see the detail in the forthcoming FY19 results.

There is also the possibility that BFC will need to raise some new equity to keep gearing under control, and to maintain its capital expenditure plans. BFC remains a high risk, potential turn-around stock.

## Description of Businesses

BFC listed in August 2015 at \$0.35 per share as an investment company to hold selected investments in the Australian food and beverage industry, and with a particular focus on products suitable for export to China and South East Asia. Today the BFC investment portfolio has three wholly owned businesses, and 4 investment positions in investee / incubator companies. A major restructuring has been underway since the new CEO Jonathan Hicks joined in January 2019.

### Dairy (82% of segment assets)

- Two recently refurbished and upgraded cheese factories at Murray Bridge (cheddar and other hard cheeses) and Jervois (mozzarella) in South Australia. These have a combined 300 million litres annual milk processing capacity, but are currently operating at about one third of that. These factories were purchased out of receivership in 2015 for \$4.5m, before an extensive refurbishment, reopening in December 2015. A new \$26.5m mozzarella line installed at Jervois, commenced production in February 2018 and full production in May 2018. Estimated capacity 10,000 tonnes pa at Murray Bridge and 16,000 tonnes pa at Jervois.
- Cream cheese processing and packing facility (acquired for \$2.2m and relocated from Thomastown Melbourne to Murray Bridge, and refurbished and upgraded).
- Contract manufacturing facility eg “Le Rice” dairy desserts for Lion Nathan.
- Lactoferrin extraction plant – located at Jervois, but acquired separately in 2015 for \$7.0m from Probiotec (PBP). PBP installed the plant here in 2012 at a cost of \$22.0m after relocating it from Malanda Queensland. This plant has been idle for over 3 years, restarted in February 2019 to process whey from the mozz plant into high value proteins for infant formula and pharmaceuticals.
- Four dairy farms in the Mt Gambier region of South Australia, with approximately 3,470 dairy cows and expected annual milk production of around 17m litres. Kurleah (314 hectares, located at Allendale East, 30klms south from Mt Gambier), cost \$7.2m including livestock, plant and equipment; and Pedra Branca (3 farms totalling 1,229 hectares, 20 klms south of Mt Gambier). Cost \$19.2m including livestock. BFC also believes these farms were acquired at prices below market value – the Pedra Branca farms were acquired from the banks out of receivership.

### Provincial Food Group (nee Scorpio Foods); 9% of segment assets

- Specialist provider of pre-cooked meat products to supermarkets, food service and exports, based at Shepparton Vic.
- 100% owned since 23/8/18 (previously 45% indirect interest via convertible notes).
- Book value \$15.1m (including \$6.0m building) or about 10% of Total Group Assets.

### China Division

- Shanghai trading office (6 staff). Assists BFC export orders of Dairy and also looks for new export opportunities for BFC investee companies. Thailand office. Both China & Thailand operations are in the process of being closed.

## Incubator investments (9% of segment assets)

### Seafood \$10.6m book value

- Ferguson Australia – 32.0% equity stake in a third generation seafood company that catches, processes, packages and distributes live, chilled and frozen seafood (Southern rock lobster and other seafood delicacies), primarily to customers in China and Asia. Based in Adelaide, with operations at Kangaroo Island and Port MacDonnell South Australia.
- BFC also owns 100% of two Lobster quotas (5.4 tonnes and 4.2 tonnes) and \$0.5m of plant and equipment which are all leased to Ferguson.
- Now classified as “Assets held for sale” in the Balance sheet.

### Health & Nutrition Products (Segment book value \$4.7m)

- Aqua Essence (51% owned; BV \$370k at 30/6/18) - Mineral water business. Owns rights to ~ 140 million litres of water pa sourced from underground aquifers surrounding the Blue Lake in Mt Gambier.
- Neptune Bio-Innovations (9.9% equity stake of \$5.7m + \$5.9m C/note; BV of \$11.6m has now been written down to nil) - An accredited Research & Development food contract manufacturer operating in the food and beverage, nutritional, personal care and nutraceutical product industries. Sydney based.

### Beston Technologies (BV undisclosed)

- BFC has an option to purchase an 80% shareholding in Brandlok Protection Solutions Pty Ltd (BBPS). Data Dot Technology Limited (DDT) owns the other 20%. BBPS has developed an anti-counterfeiting system, whereby a BrandLok infrared and ultraviolet seal applied to a packaged product can be read by a consumer at the point of purchase to verify the authenticity of the product, and other information. The core technology was originally developed by the CSIRO. BFC has funded further development and applications of the technology to build a track and trace system, and applied it to some BFC food products. A proposed merger of Beston Technologies and Data Dot was announced in February 2018, valuing Beston Technologies at \$13.0m and DDT at \$7.0m, but the heads of agreement was terminated in August.

### Management Agreement

- BFC has an external management structure, with the senior management team employed by Beston Pacific Asset Management Pty Ltd (BPAM). BFC pays BPAM a management fee equal to 1.20% per annum (plus GST) of the gross portfolio value of BFC. This was \$2.380m in FY17 and \$2.422m in FY18.
- In addition, there is a performance fee of 17.5% of the out-performance of BFC shares over the All Ordinaries Accumulation index, subject to a clawback from prior negative years. BFC's share price out-performed the benchmark by 16.7% in FY16 (year 1), but BPAM waived the right to receive the outperformance fee entitlement for that year of \$4.351m. There was no performance fee payable for FY17 or FY18 as BFC's share price under-performed the benchmark by -58.24% and -35.95% respectively.
- The term of the agreement is 5 years plus an automatic extension for a further 5 years, unless terminated earlier (under very strict rules summarised in the prospectus p110; eg if the Investment Manager becomes insolvent). After the initial term, BFC may terminate the management agreement on 3 months' notice where an ordinary resolution of the shareholders is passed. A termination fee is payable to the Investment Manager in that circumstance. The termination fee is 5.0% of the Portfolio value reduced by one sixtieth for each calendar month elapsed between commencement of the term (or extended term). Portfolio Value is the “Fair market value of the portfolio at 30 June and 31 December of each year”.

- BFC has stated that the “fee paid to BPAM is less than the actual costs incurred by BPAM, which the fee was intended to cover”.
- In the recent Chairman’s AGM statement, the Chairman stated that “BPAM has made it known that at some point, it would accept the collapsing of this arrangement. However, that point would will be when it is in the best financial interest of the BFC shareholders to do so.”
- We think that collapsing this external agreement would help simplify the company, and so would be positively viewed by shareholders and investors, subject to the termination fee being calculated (and possibly negotiated) and the costs and benefits being explained adequately.

## Major Shareholders

BFC has two cornerstone shareholders, Dashang Group from the IPO in 2015 at \$0.35 per share and Kunteng / DHG from a placement at \$0.45 per share in 2016.

The relationship with Dashang was intended to be a strategic relationship, with significant orders for BFC products, but no orders were ever received.

The relationship with DHG we understand is passive. DHG has assisted with some customer introductions, but nothing significant.

Major Shareholders	No.	%	Comment
Australia Aulong Auniu Wang Food Holdings Pty Ltd (Dashang Group Co. Ltd)	66,894,345	15.09%	Acquired at IPO at 35 c (A\$23.4m)
Kunteng Pte Ltd (Singapore based subsidiary of Dalian Hairunlai Group "DHG")	64,051,111	14.45%	Acquired in a placement on 31/8/16 at \$0.45 per share (A\$28.3m)
I.G. Investment Management Ltd (Hong Kong & Canada)	28,810,000	6.50%	
Allianz SE	21,955,164	4.95%	
First Bloom Investments Ltd	19,760,000	4.46%	
Roger Sexton	18,310,000	4.13%	
<b>Total</b>	<b>443,315,867</b>	<b>100.00%</b>	

Source: Refinitiv

Beston Global Food Company Limited (BFC) \$ 0.094

**Profit & Loss**

Year end June	FY18	FY19e	FY20e	FY21e
	A\$m	A\$m	A\$m	A\$m
Op. Revenue	47.9	83.2	108.8	123.7
Cost of Goods Sold	(32.7)	(62.0)	(76.9)	(84.9)
<b>Gross Profit</b>	<b>15.2</b>	<b>21.2</b>	<b>31.9</b>	<b>38.7</b>
<b>Gross Profit Margin</b>	<b>31.8%</b>	<b>25.5%</b>	<b>29.3%</b>	<b>31.3%</b>
Other Income	3.2	1.6	1.2	1.2
Cash Operating Expenses	(30.0)	(29.5)	(29.6)	(30.2)
<b>EBITDA</b>	<b>-11.6</b>	<b>-11.8</b>	<b>1.9</b>	<b>9.1</b>
<b>Ebitda Margin</b>	<b>-24.3%</b>	<b>-14.2%</b>	<b>1.7%</b>	<b>7.3%</b>
Depreciation & Amort	(2.1)	(2.0)	(2.5)	(2.6)
<b>EBIT</b>	<b>-13.7</b>	<b>-13.8</b>	<b>-0.6</b>	<b>6.5</b>
<b>Ebit Margin</b>	<b>-28.6%</b>	<b>-16.6%</b>	<b>-0.6%</b>	<b>5.2%</b>
Net Interest Income (Expense)	1.0	(1.2)	(1.9)	(2.0)
Share of Assoc NPAT	(0.0)	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>-12.7</b>	<b>(15.0)</b>	<b>(2.5)</b>	<b>4.5</b>
Income Tax Credit (Expense)	3.4	4.5	0.8	(1.3)
<b>Tax Rate</b>	<b>-26.9%</b>	<b>-30.0%</b>	<b>-30.0%</b>	<b>-30.0%</b>
Minorities (share of loss)	0.5	0.0	0.0	0.0
Abnormals	-3.8	-12.9	0.0	0.0
<b>NPAT (reported incl NRIs)</b>	<b>-12.6</b>	<b>-23.4</b>	<b>-1.8</b>	<b>3.1</b>
Adjustments	3.8	12.9	0.0	0.0
<b>NPAT (normalised)</b>	<b>-8.8</b>	<b>-10.5</b>	<b>-1.8</b>	<b>3.1</b>

**Balance Sheet**

Cash	4.5	-1.5	-0.7	-3.9
Receivables	26.6	23.8	30.1	33.2
Inventories	22.6	19.4	20.3	21.1
Other	10.1	10.1	10.1	10.1
<b>Total current assets</b>	<b>63.8</b>	<b>51.8</b>	<b>59.9</b>	<b>60.5</b>
PP&E	55.9	66.0	72.0	78.0
Investments	11.6	0.0	0.0	0.0
Intangibles	8.4	14.6	14.6	14.6
Deferred tax assets	8.4	12.9	12.9	12.9
Other	10.7	5.0	5.0	5.0
<b>Total non-current assets</b>	<b>94.9</b>	<b>98.5</b>	<b>104.5</b>	<b>110.5</b>
<b>Total Assets</b>	<b>158.7</b>	<b>150.3</b>	<b>164.4</b>	<b>171.1</b>
Payables	-14.0	-16.6	-21.8	-24.7
Interest bearing liabilities - Current	-21.4	-14.2	-14.2	-14.2
Provisions	-0.2	-5.2	-5.2	-5.2
Other	0.0	0.0	0.0	0.0
<b>Total Current Liabilities</b>	<b>-35.7</b>	<b>-36.2</b>	<b>-41.3</b>	<b>-44.2</b>
Interest-bearing liabs - Non-current	0.0	-19.2	-30.9	-30.3
Provisions	-0.1	-0.1	-0.1	-0.1
Other	-1.6	-7.0	-10.6	-12.5
<b>Total Non-current Liabilities</b>	<b>-1.6</b>	<b>-26.3</b>	<b>-41.6</b>	<b>-42.9</b>
<b>Total Liabilities</b>	<b>-12.2</b>	<b>-62.5</b>	<b>-82.9</b>	<b>-87.2</b>
<b>Total Shareholders' Equity</b>	<b>121.3</b>	<b>87.8</b>	<b>81.6</b>	<b>83.9</b>

**Interims**

Year end June	1H18	2H18	1H19	2H19e
Sales	18.3	29.5	43.3	39.9
Sales Growth (g)	84.3%	112.9%	135.9%	35.2%
EBITDA	-3.0	-8.6	-6.6	-5.1
<b>EBITDA Margin</b>	<b>-16.2%</b>	<b>-29.3%</b>	<b>-15.3%</b>	<b>-12.9%</b>
EBIT	-3.9	-9.8	-7.5	-6.3
Equity Share of Assocs NPAT	-0.022	0.000	0.0	0.0
NPAT (Reported incl.NRIs)	-3.0	-9.6	-11.4	-11.9
<b>NPAT (Normalised)</b>	<b>-3.0</b>	<b>-5.9</b>	<b>-5.5</b>	<b>-4.9</b>
<b>EPS (norm)(cents)</b>	<b>-0.7</b>	<b>-1.3</b>	<b>-1.2</b>	<b>-1.1</b>
EPS growth (g)	-25.7%	43%	87.3%	-16%
DPS (cents)	0.0	0.0	0.0	0.0

Source: Phillip Capital estimates

**Per share & Ratio data**

Year end June	FY18	FY19e	FY20e	FY21e
Reported EPS (cents)	(2.8)	(5.3)	(0.4)	0.7
Growth	56.0%	85.7%	-92.4%	-276.5%
P/E ratio (x)	-3.3x	-1.8x	-23.5x	13.3x
<b>EPS (norm)(cents)</b>	<b>(2.0)</b>	<b>(2.4)</b>	<b>(0.4)</b>	<b>0.7</b>
Growth	9.2%	18.9%	-83.1%	-276.5%
<b>P/E ratio (x)</b>	<b>-4.7x</b>	<b>-4.0x</b>	<b>-23.5x</b>	<b>13.3x</b>
DPS (cents)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
<b>Yield</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
OCF per share (cents)	-6.7	-1.4	-0.5	1.4
Price/OCF (x)	-1.4x	-6.6x	-19.1x	6.8x
EV/ Sales	1.2x	0.9x	0.8x	0.7x
<b>EV/EBITDA</b>	<b>-5.1x</b>	<b>-6.5x</b>	<b>46.8x</b>	<b>9.9x</b>
EV/EBIT	-4.3x	-5.6x	-139.2x	14.0x
<b>Liquidity &amp; Leverage</b>				
Net Cash (Debt) \$m	(17.0)	(35.0)	(45.8)	(48.5)
Net Debt / Equity %	14%	40%	53%	54%
Net Debt / EBITDA	n/a	n/a	24.5x	5.3x
ROA (EBIT / TAssets) %	-8.6%	-9.2%	-0.4%	3.8%
ROE (NPAT / TEquity) %	-7.3%	-11.9%	-2.1%	3.5%
Interest Cover (EBIT)	14.4x	-11.5x	-0.3x	3.2x
Dividend Cover	n/a	n/a	n/a	n/a

**Cash Flow**

EBITDA	-11.6	-11.8	1.9	9.1
Chge in Working Capital	-14.8	8.7	-2.2	-0.9
Interest Received (Paid)	0.1	-1.2	-1.9	-2.0
Income taxes paid	0.0	0.0	0.0	0.0
Other	-3.5	-2.0	0.0	0.0
<b>Operating cash flows</b>	<b>-29.8</b>	<b>-6.3</b>	<b>-2.2</b>	<b>6.2</b>
Capex	-13.7	-5.0	-8.5	-8.6
Acqns & Investments	-4.6	-6.4	0.0	0.0
Sale of non-current assets	1.9	0.3	0.0	0.0
Other	-0.7	-0.2	-0.2	-0.2
<b>Net investing cash flows</b>	<b>-17.1</b>	<b>-11.3</b>	<b>-8.7</b>	<b>-8.8</b>
Equity raised (bought back)	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0
Change in Debt	21.4	12.0	11.7	-0.6
Other	0.9	0.0	0.0	0.0
<b>Financing cash flow</b>	<b>22.3</b>	<b>12.0</b>	<b>11.7</b>	<b>-0.6</b>
<b>Change in Cash</b>	<b>-24.6</b>	<b>-5.6</b>	<b>0.8</b>	<b>-3.2</b>

**Segment Revenue**

Dairy	44.7	77.2	92.4	106.3
Meat	0.9	6.1	16.0	17.0
Seafood	0.7	0.4	0.3	0.3
Health	1.0	0.2	0.4	0.4
Unallocated/ Other	4.7	0.0	0.0	0.0
<b>Total Sales + Other Rev</b>	<b>52.0</b>	<b>83.9</b>	<b>109.1</b>	<b>124.0</b>

**Segment EBIT**

Dairy	-3.0	-3.0	3.5	8.6
Meat	0.1	-2.1	0.6	1.6
Seafood	0.4	0.4	0.3	0.3
Health	-0.8	-0.1	0.0	0.0
Unallocated/ Other	-10.3	-9.0	-5.0	-4.0
<b>Total EBIT</b>	<b>-13.7</b>	<b>-13.8</b>	<b>-0.6</b>	<b>6.5</b>

**Segment Margins**

Dairy	-6.8%	-3.8%	3.7%	8.0%
Meat	6.4%	-34.6%	3.8%	9.5%
Seafood	61.6%	100.0%	100.0%	100.0%
Health	-81.7%	-50.0%	0.0%	0.0%
Unallocated/ Other	N/a	N/a	N/a	N/a
<b>Total EBIT</b>	<b>-26.3%</b>	<b>-16.4%</b>	<b>-0.6%</b>	<b>5.2%</b>

## CONTACT INFORMATION

CEO					
John Miles	+61 3 8633 9838	jmiles@phillipcapital.com.au			
Research					
Wayne Sanderson	+61 3 8633 9930	wsanderson@phillipcapital.com.au			
Corporate Finance					
Sharon Cardy	+61 2 9233 9611	scardy@phillipcapital.com.au			
Institutional Sales					
Enzo Salvatore	+61 3 8633 9924	esalvatore@phillipcapital.com.au	Chris Walker	+61 3 8633 9928	cwalker@phillipcapital.com.au
Institutional Execution					
Craig Stephens	+61 3 8633 9881	cstephens@phillipcapital.com.au			
Private Wealth					
Enzo Salvatore	+61 3 8633 9924	esalvatore@phillipcapital.com.au	Mark Wiseman	+61 3 9618 8228	mwiseman@phillipcapital.com.au
Ben Roper	+61 7 3338 3835	broper@phillipcapital.com.au	Michael Cori	+61 2 9233 9648	mcori@phillipcapital.com.au
Bo Xin	+61 7 3338 3840	bxin@phillipcapital.com.au	Nick Katiforis	+61 3 8633 9847	nkatiforis@phillipcapital.com.au
Chris Forte	+61 3 8633 9841	cforte@phillipcapital.com.au	Nigel Ormiston	+61 7 3149 8630	normiston@phillipcapital.com.au
Chris Walker	+61 3 8633 9928	cwalker@phillipcapital.com.au	Patricia Harrison	+61 2 9994 5505	pharrison@phillipcapital.com.au
Daniel McFarlane	+61 3 8633 9917	dmcfarlane@phillipcapital.com.au	Patrick Trindade	+61 3 8633 9926	ptrindade@phillipcapital.com.au
David Dwyer	+61 2 9233 9643	ddwyer@phillipcapital.com.au	Prasanna Wickramatunge	+61 3 9618 8270	pwickramatunge@phillipcapital.com.au
David Thang	+61 3 8633 9923	dthang@phillipcapital.com.au	Rob Hughes	+61 3 8633 9846	rhughes@phillipcapital.com.au
Dinesh Magesan	+61 7 3338 3831	dmagesan@phillipcapital.com.au	Sam Sheffield	+61 7 3338 3837	ssheffield@phillipcapital.com.au
Howard Elton	+61 3 9618 8233	helton@phillipcapital.com.au	Shane Langham	+61 7 3338 3838	slangham@phillipcapital.com.au
Jim Yong	+61 7 3338 3839	jyong@phillipcapital.com.au	Sue McDonald	+61 3 9618 8211	smcdonald@phillipcapital.com.au
Joel Christie	+61 7 3338 3834	jchristie@phillipcapital.com.au	Xiaoming Huang	+61 3 8633 9912	xhuang@phillipcapital.com.au
Josh Graham	+61 3 9233 9645	jgraham@phillipcapital.com.au			
Kate Hanrahan	+61 3 8633 9909	khanrahan@phillipcapital.com.au			
Lachlan Owen	+61 3 8633 9842	lowen@phillipcapital.com.au			
Funds Management					
Glenn Tan	+61 3 8633 9905	gtan@phillipcapital.com.au	Monica (Mengnu) Yu	+61 3 8633 9810	my@phillipcapital.com.au
Jessica Bell	+61 3 8633 9998	jbell@phillipcapital.com.au	Zane (Zheng) Song	+61 2 9233 9640	zsong@phillipcapital.com.au

## CONTACT INFORMATION (Regional Member Companies)

### SINGAPORE

#### Phillip Securities Pte Ltd

Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101

Tel +65 6533 6001

Fax +65 6535 6631

[www.phillip.com.sg](http://www.phillip.com.sg)

### HONG KONG

#### Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway  
Hong Kong

Tel +852 2277 6600

Fax +852 2868 5307

[www.phillip.com.hk](http://www.phillip.com.hk)

### INDONESIA

#### PT Phillip Securities Indonesia

ANZ Tower Level 23B,  
JI Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia

Tel +62-21 5790 0800

Fax +62-21 5790 0809

[www.phillip.co.id](http://www.phillip.co.id)

### THAILAND

#### Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand

Tel +66-2 6351700 / 22680999

Fax +66-2 22680921

[www.phillip.co.th](http://www.phillip.co.th)

### UNITED KINGDOM

#### King & Shaxson Capital Limited

6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS

Tel +44-20 7426 5950

Fax +44-20 7626 1757

[www.kingandshaxson.com](http://www.kingandshaxson.com)

### MALAYSIA

#### Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur

Tel +603 2162 8841

Fax +603 2166 5099

[www.poems.com.my](http://www.poems.com.my)

### JAPAN

#### Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026

Tel +81-3 3666 2101

Fax +81-3 3666 6090

[www.phillip.co.jp](http://www.phillip.co.jp)

### CHINA

#### Phillip Financial Advisory (Shanghai) Co. Ltd

No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001

Tel +86-21 5169 9200

Fax +86-21 6351 2940

[www.phillip.com.cn](http://www.phillip.com.cn)

### FRANCE

#### King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France

Tel +33-1 45633100

Fax +33-1 45636017

[www.kingandshaxson.com](http://www.kingandshaxson.com)

### UNITED STATES

#### Phillip Futures Inc

141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA

Tel +1-312 356 9000

Fax +1-312 356 9005

### INDIA

#### PhillipCapital (India) Private Limited

No. 1, C - Block, 2nd Floor, Modern Center,  
Jacob Circle, K. K. Marg, Mahalaxmi  
Mumbai 400011

Tel: (9122) 2300 2999

Fax: (9122) 6667 9955

[www.phillipcapital.in](http://www.phillipcapital.in)

### TURKEY

#### PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi  
No. 2 Kat. 6A Caglayan  
34403 Istanbul, Turkey

Tel: 0212 296 84 84

Fax: 0212 233 69 29

[www.phillipcapital.com.tr](http://www.phillipcapital.com.tr)

## Recommendation Criteria

### Investment View

PhillipCapital Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Accumulate	Hold	Reduce	Sell
>20%	10% – 20%	0% – 10%	0% to -10%	>-10%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

### Risk Rating

PhillipCapital has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

### Disclaimer/Disclosure

This publication has been prepared solely for the information of the particular person to whom it was supplied by Phillip Capital Limited ("PhillipCapital") AFSL 246827.

### Warning

This report is intended to provide general securities advice, and does not purport to make any recommendation that any securities transaction is appropriate to your particular investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from your adviser, on whether any relevant part of this report is appropriate to your financial circumstances and investment objectives.

PhillipCapital's Research policy is to update research reports as and when the Research Analyst and Research Management deem appropriate, based on developments with the issuer, the sector, or the market that may have a material impact on the research views or opinions stated therein. The information contained in this report is drawn from sources believed to be reliable, but the accuracy and completeness of the information is not guaranteed, nor in providing it does PhillipCapital assume any liability. This information is given as of the date appearing on the report and PhillipCapital assumes no obligation to update the information or advise on further developments relating to these securities.

PhillipCapital and its associates within the meaning of the Corporations Act may hold securities in the companies referred to in this publication. This publication must not be distributed to retail investors outside of Australia.

### Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of the author about the subject issuer and its securities. No part of the analyst's compensation was, is or will be directly or indirectly related to any recommendation or view expressed in this report.

The author of this report does hold an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence this report:

### Disclosure of Corporate Involvement

PhillipCapital has not in the previous 24 months been involved in a publicly-announced transaction involving the payment of a fee to PhillipCapital by the corporate issuer described in this report. PhillipCapital may and may seek to do business with companies covered in its research.

PhillipCapital reports are available on Bloomberg, Reuters, FactSet, Capital IQ and [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

### Important Notice

Copyright 2018. The Contents contained in this report are owned by Phillip Capital Limited ("PhillipCapital") and are protected by the Copyright Act 1968 and the copyright laws of other countries. The material contained in this report may not be copied, reproduced, republished, posted, transmitted or distributed in any way without prior written permission from PhillipCapital. Modification of the materials for any other purpose is a violation of the copyrights and other proprietary rights of PhillipCapital.

### Regulatory Disclosure

This report was prepared solely by PhillipCapital. ASX did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation, by PhillipCapital, in accordance with the ASX Equity Research Scheme. ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports.