

28 September 2020

Russell Wright | T+02 8288 6900 | E:russell@barclaypearce.com.au

## A2 Milk Company Limited

### Consumer Staples

#### HOLD

**A2M A\$18.86**
**TARGET PRICE A\$18.38**

The a2 Milk Co. Ltd. engages in the distribution and sale of milk and dairy products. It operates through the following segments: Australia and New Zealand, China and Other Asia, and United Kingdom and USA.

#### Company Data

Number of shares	742.6M
Market Capitalisation	\$12,742.8M
Free float (%)	99.6
12-month high/low	\$19.94/\$11.31
Average Daily Turnover (\$m)	88.0370
% S&P/ASX200	0.77%
DDM Ranking	358
% All Ordinaries	0.66%
GICS Industry Group	Consumer Staples

Source: FactSet, Barclay Pearce Capital

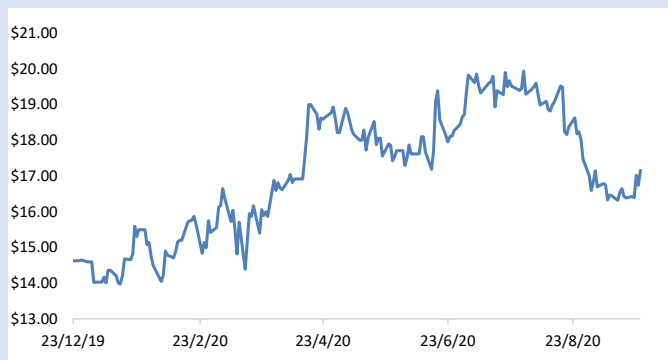
#### Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	1,575.0	1,900.0	2,196.6	2,460.8
EBITDA (\$M)	502.2	589.0	682.7	772.1
Reported NPAT (\$M)	351.0	415.9	483.5	553.1
Adjusted NPAT (\$M)	353.2	416.6	484.4	550.7
Reported EPS (c)	47.4	55.6	64.6	75.4
Adjusted EPS (c - FD)	47.7	56.1	64.7	73.7
Adjusted EPS growth (%)	28.7	17.6	15.4	13.9
Adjusted P/E (x)	36.0	30.6	26.5	23.3
Dividend (c/sh)	0.0	0.0	3.5	16.0
Gross yield (%)	0.0	0.0	0.2	0.9
Net yield (%)	0.0	0.0	0.2	0.9
ROIC (%)	131.1	122.6	138.1	178.6

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

#### Share price performance



Source: FactSet, Barclay Pearce Capital

## Updated FY21 Outlook

On 28 September 2020 A2 Milk Company Limited (A2M) announced their updated FY21 outlook with the following highlights:

- A2M have determined it appropriate to provide an update to the outlook of the Group revenue as follows:
  - Group revenue for 1H21** of \$725m to \$775m
  - Group revenue for FY21** of \$1.80b to \$1.90b
  - Group EBITDA margin for FY21** in the order of 31%;
- For FY21 there continues to be uncertainty resulting from COVID-19 and the potential for moderation of economic activity which could have various impacts, including on participants within the supply chain;
- In September, emerging additional disruption to the corporate daigou/reseller channel was observed, particularly due to the Stage 4 lockdown in Victoria;
- A2M is witnessing a contraction in the daigou channel beyond previous expectations and without the replenishment orders that would typically be anticipated at this point;
- Disruption in daigou channel is impacting September sales and it is anticipated that this will continue for the remainder of the first half of FY21;
- However, based on continuing strong growth in our underlying China IMF brand health metrics and performance of the rest of the business, A2M believes it is a single channel logistics issue and are continuing to see strong underlying customer demand for the brand in China;
- Hence, impact to daigou channel will prove to be temporary, assuming stabilisation of COVID-19 related issues in Australia;
- Performance in all other areas of the A2M business is strong, including liquid milk businesses in Australia and the US. Local China business is performing strongly, notably in Mother & Baby Stores (MBS), which A2M anticipates to continue; and
- A2M will continue to see positive impact from the marketing investment in activation and brand building activities from 4Q20.

On 19 August 2020, A2M released their results presentation with the following highlights:

- FY21 EBITDA margin is expected to be in the order of 30% to 31% reflecting

## Earnings changes

A2M's revenue guidance of \$1.9b and EBITDA margin of 31% for FY21 are consistent with market expectations. Hence, we do not expect any significant earnings revisions.

We are initiating research coverage on A2M with a 12-month price target of \$18.38 and with a HOLD recommendation. The price target is underpinned by our DDM valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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**NR** – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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