

24 February 2021

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Blackmores Limited

Consumer Staples

HOLD

BKL A\$74.10
TARGET PRICE A\$71.82

Blackmores Limited (BKL) is natural health company engaged in the development, sales and marketing of natural health products for humans and animals. It combines traditional naturopathic expertise with scientific research to produce products that include vitamins and herbal and mineral nutritional supplements. Products are distributed through retail pharmacies, supermarkets, health food stores, mass merchants and distributors.

Company Data

Number of shares	19.3M
Market Capitalisation	\$1,433.7M
Free float (%)	74.8
12-month high/low	\$85.74/\$60.33
Average Daily Turnover (\$m)	3.42
% S&P/ASX200	0.08%
DDM Ranking	207
% All Ordinaries	0.06%
GICS Industry Group	Household & Personal Products

Source: FactSet, Barclay Pearce Capital

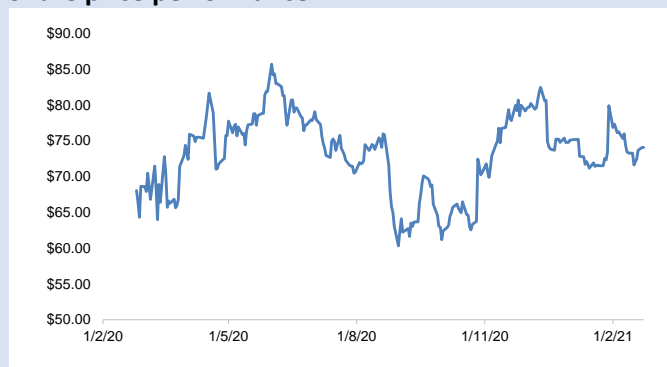
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	568.4	666.6	702.2	764.3
EBITDA (\$M)	52.4	81.0	98.2	114.0
Reported NPAT (\$M)	18.1	52.8	47.8	59.9
Adjusted NPAT (\$M)	16.1	34.7	47.8	59.9
Reported EPS (c)	103.5	174.9	280.4	366.0
Adjusted EPS (c - FD)	86.6	190.1	256.4	312.6
Adjusted EPS growth (%)	-72.8	119.5	34.9	21.9
Adjusted P/E (x)	85.6	39.0	28.9	23.7
Dividend (c/sh)	0.0	101.6	188.0	229.6
Gross yield (%)	0.0	1.8	3.5	4.2
Net yield (%)	0.0	1.2	2.4	3.0
ROIC (%)	4.5	9.1	12.6	14.9

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

Share price performance.



Source: FactSet, Barclay Pearce Capital

H1 FY21 Results

On 24th February, Blackmores Limited (BKL) released their Interim results for the half year ended 31 December 2020 with the following highlights:

- Revenue: \$302.6m up 4% on pcp (3% at actual FX);
- Underlying EBIT: \$30.8m up 15% on pcp (statutory EBIT \$25.8m up 1%);
- Underlying NPAT: \$19.4m up 8% on pcp (statutory NPAT \$18.9m up 4%);
- Net cash surplus: \$71m at end of H1;
- Australia segment revenue down 10% on pcp, retains #1 vitamin and dietary supplement (VDS) position in the market;
- China segment revenue up 27% on pcp (25% at actual FX);
- International segment revenue up 19% on pcp (13% at actual FX);
- Significant progress made on operating efficiency programs; and
- Interim dividend of 29 cents per share (cps) (fully franked).

CEO, Alastair Symington:

"This time last year we outlined our three-year strategy to set us on the path for sustainable, profitable growth. Since then, we have taken the necessary steps to hit important turnaround milestones and made positive strides toward simplifying our operating model in line with our new strategic direction.

The strengthening of our balance sheet, ability to pay down debt and move to a positive net cash position enabled us to step up investments in Asia. This has resulted in accelerated growth in our key markets in Asia in the first half of FY21.

Our transformation program and first half result have been achieved despite the disruptions and uncertainty brought on by COVID-19 which affected traditional retail channels and shopper behaviour in Australia.

We remain focused in the second half on continuing to deliver against our strategic priorities. I am confident we will delight our consumers by giving a more distinctive brand experience with Blackmores, BioCeuticals and PAW by Blackmores while maintaining cost discipline and operational excellence to support future growth and shareholder value creation."

Outlook

- As BKL looks to the second half, revenue growth in Asia will continue with positive signs of health and economic recovery underway;
- The Australian vitamin and supplement market will continue to face structural challenges as international borders remain closed and the focus on vaccine rollout will disrupt consumer behaviour for at least the rest of the 2021 calendar year;
- Despite a full half of realisation from our 1 October price increases, revenue for the second half will be slightly lower than the first half which was impacted by seasonal and key customer events;
- In the second half, BKL will maintain their focus on cost mgmt;
- For the remainder of the year BKL will respond to changing retail demands and restore much needed brand investments to levels before the onset of the pandemic; and
- BKL remains mindful of the ongoing uncertainty around COVID-19.

Earnings changes

For H1 FY21, BKL reported a revenue of \$302.6M an underlying NPAT of \$19.4M. This NPAT is higher than the market consensus of \$15.9M. Hence, we expect positive earnings revisions of 10% for FY21 and 5% for future periods.

Valuation

We are initiating on BKL with a price target of \$71.82 and a HOLD recommendation. The price target is underpinned by our 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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Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)