

23 May 2022

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Elders Ltd (ELD)

Process Industries

Underperform

ELD A\$15.15 **TARGET PRICE A\$12.45**

Elders Ltd (ELD) is engaged in providing financial, real estate services to rural, agricultural and automotive businesses. The firm operates its business through the following segments: Branch Network, Wholesale Products, Feed and Processing Services, and Corporate Services and Other.

Company Data

Number of shares	156.6
Market Capitalisation	\$2,143.7
Free float (%)	95.8
12-month high/low	\$14.59/\$10.84
Average Daily Turnover (\$m)	6.09
% S&P/ASX200	0.102
DDM Ranking	340
% All Ordinaries	0.079
GICS Industry Group	Agriculture

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end September	2021A	2022F	2023F	2024F
Revenue (\$M)	2,548.9	3,179.8	3,141.1	3,193.3
EBITDA (\$M)	207.4	270.4	259.7	262.2
Reported NPAT (\$M)	149.8	161.5	151.5	145.8
Adjusted NPAT (\$M)	151.1	160.0	150.2	145.6
Reported EPS (¢)	95.5	96.9	91.3	91.3
Adjusted EPS (¢ - FD)	96.7	101.8	96.7	95.1
Adjusted EPS growth (%)	36.8	-3.9	-4.5	-1.5
Adjusted P/E (x)	14.2	16.3	17.1	17.4
Dividend (¢/sh)	42.0	52.0	52.0	54.6
Gross yield (%)	3.1	3.8	3.8	4.0
Net yield (%)	3.1	3.8	3.8	4.0
ROIC (%)	16.4	16.7	16.2	15.9

Source: Barclay Pearce Capital

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

Share price performance.



Source: FactSet, Barclay Pearce Capital

H1 FY22 Earnings Results

On 23rd May 2022, Elders Ltd (ELD) announced its H1 FY22 results for the year ended 31st March 2022 with the following highlights:

Highlights:

- Sales revenue of \$1,514.8m, up 38% from \$1,100.5m in 1H21;
- EBIT of \$132.8m, up 80% from \$73.8m in 1H21;
- NPAT of \$91.2m, up 34% from \$68.2m in 1H21;
- Underlying EPS of 58.3c, up 36% from 42.9c in 1H21;
- Dividend per share of 28c (30% franked), up 40% from 20 (20% franked) in 1H21;
- ROIC of 27.8%, up 7.7% from 20.1% in 1H21;
- Agency Services gross margin improvement to \$82.2m, up 11% largely driven by high livestock prices more than offsetting reduced volume caused by favourable seasonal conditions;
- Real Estate Services contributing gross margin of \$33.3m, up 38%, with significant growth in farmland agency (15% increase in transactions), residential agency (7% increase in transactions), and property management operations;
- Financial Services margin improvement of \$2.8m, up 14% to \$23.3m, driven by a 9% increase in gross written premiums in Elders Insurance and improved Livestock in Transit product penetration rates; and
- Ongoing bolt on acquisitions continuing to fill strategic geographic gaps and grow earnings.

Comments:

ELD's MD and CEO, Mr Mark Charles Allison, commented: "The strong first half performance has continued in April and we now expect to deliver full year 2022 Underlying EBIT in the range of 30% to 40% above full year 2021 Underlying EBIT. This expectation replaces the guidance we gave to the market on 14 March 2022.

Lower cash flow in the first half reflects that we have built an inventory position to allow us to meet anticipated increases in winter cropping demand. Consistent with last financial year, we are targeting 90% cash conversion for the full year."

Outlook:

- Cattle and sheep prices are expected to remain high, benefitting the Agency business and offsetting anticipated lower volumes resulting from feed availability and livestock restocking; and
- Current awaiting settlement volumes and buyer demand indicate that Real Estate Services will continue to outperform against the prior year.

Guidance:

- ELD has updated its full year 2022 Underlying EBIT from the range of 20% - 30% (March 2022) to the range of 30% - 40%.

Earnings changes

ELD has upgraded its earnings guidance for FY22, expecting and underlying EBITDA range of 30%-40%. This is upgraded from previous guidance of 20-30% underlying EBITDA. Hence, we expect positive earnings revision of 10% for FY22 and for future periods.

Valuation

We are initiating research coverage on ELD with a 12-month price target of \$12.45 and with an UNDERPERFORM recommendation. The price target is underpinned by our valuation.

Disclaimer

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 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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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

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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Valuation Methodology

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Buy	37.9%	0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	22.8%	0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	39.4%	0.0% of stocks with recommendations are Barclay Pearce clients)
