

1 November 2021

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

McPherson's Ltd

Consumer Staples

UNDERPERFORM

MCP A\$0.96
TARGET PRICE A\$0.78

McPherson's Ltd. (MCP) operates as a supplier of health and beauty, consumer durable and household consumable products. It offers beauty care, hair care, skin care and fragrance product ranges, kitchen essentials such as baking paper, cling wrap and aluminium foil, and personal care items such as facial wipes, cotton pads, and foot comfort products. The company was founded in 1860 and is headquartered in Kingsgrove, Australia.

Company Data

Number of shares	128.6 M
Market Capitalisation	\$124.1 M
Free float (%)	90.7
12-month high/low	\$2.28/\$0.96
% S&P/ASX200	0.01%
DDM Ranking	389
% All Ordinaries	0.005%
GICS Industry Group	Household and Personal Products

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	200.5	214.5	263.0	267.1
EBITDA (\$M)	16.4	16.0	21.9	23.6
Reported NPAT (\$M)	-5.0	7.5	11.1	12.1
Adjusted NPAT (\$M)	6.5	7.5	7.5	12.1
Reported EPS (c)	-4.1	5.8	8.6	9.4
Adjusted EPS (c - FD)	5.3	7.1	9.3	9.9
Adjusted EPS growth (%)	-63.7	51.0	8.9	6.1
Adjusted P/E (x)	18.2	9.3	10.3	9.7
Dividend (c/sh)	5.0	3.2	7.3	8.0
Gross yield (%)	7.4	4.7	10.9	11.8
Net yield (%)	5.2	3.3	7.6	8.3
ROIC (%)	5.3	5.9	8.6	9.3

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

1H22 Trading Update and FY22 Trading Expectations

On 1st November, McPherson's Limited (MCP) concluded an updated review of its 1H22 and FY22 trading expectations with the following highlights:

Summary

- Improved FY22 performance was subject to Dr. LeWinn's returning to growth in China and no significant interruption of supply chain or significant economic impact resulting from COVID lockdowns;
- There will be no material improvement in the short-term;
- Year to date sales growth of core brands Manicare and Swisspers are approximately 18% and 30% respectively;
- Net bank debt at 30 June 2022 forecast to be similar to that recorded at 30 June 2021 (FY21: \$8.4 million);

FY22 Outlook

- Total sales growth in the range of 8% to 10% is forecast in 1H22 (1H21: \$101.7 million)
- 1H22 underlying profit before tax is expected to be between \$0.4 million to \$0.7 million below 1H21 (1H21: \$7.1 million), excluding the non-recurring provision and other nonrecurring items of approximately \$1.0 million;
- Sales growth in the range of 6% to 8% is forecast for the full financial year FY22 (FY21: \$200.5 million);
- FY22 underlying profit before tax is expected to be in the range of \$1 million to \$2 million above FY21 (FY21: \$10.1 million), excluding non-recurring items;
- 2H22 underlying profit before tax projected to be positively impacted by more favourable FX hedging result and cost reduction initiatives, including a reduction in the executive team headcount, and productivity improvements in the Kingsgrove distribution centre;
- The company's visibility on the performance of core brands, underlying cash conversion is forecast to be in the range of 85% to 90% in FY22.

Earnings Changes

MCP expects FY22 underlying profit before tax to be in the range of \$1 million to \$2 million above FY21 (FY21: \$10.1 million), excluding non-recurring items. This compares to market expectations for growth of in profit before tax of \$3.7m. Hence, we expect negative earnings revisions of the order of 15% for FY22.

Valuation

We are initiating research coverage on MCP with a 12-month price target of \$0.78 and with a 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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employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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)