

6 December 2021

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Metcash Limited

Consumer Staples

HOLD

MTS A\$4.24 **TARGET PRICE A\$4.26**

Metcash Ltd. engages in the distribution and marketing of consumer goods. It operates through the following segments: Food, Liquor, and Hardware. The Food segment includes the distribution of a range of products and services to independent supermarket and convenience retail outlets. The Liquor segment offers liquor products to independent retail outlets and hotels. The Hardware segment consists of hardware products to independent retail outlets and the operation of company owned retail stores.

Company Data

Number of shares	965.54 M
Market Capitalisation	\$3,813.889M
Free float (%)	99.4
12-month high/low	\$4.25/\$3.22
Average Daily Turnover (\$m)	N/A
% S&P/ASX200	0.20%
DDM Ranking	N/A
% All Ordinaries	0.15%
GICS Industry Group	Food & Staples Retailing

Source: FactSet, Barclay Pearce Capital

Earnings summary

Earnings Summary (AUD)

Year end April	2021A	2022F	2023F	2024F
Revenue (\$M)	14,315.3	15,777.3	15,896.7	16,287.9
Reported NPAT (\$M)	239.0	259.1	262.6	276.1
Adjusted NPAT (\$M)	252.7	264.2	266.2	277.4
Reported EPS (c)	23.4	26.1	27.0	28.4
Adjusted EPS (c - FD)	24.7	26.7	27.5	28.5
Adjusted EPS growth (%)	13.3	2.0	3.3	3.8
Adjusted P/E (x)	16.0	16.6	16.1	15.6
Dividend (c/sh)	17.5	19.1	19.6	20.6
Gross yield (%)	6.3	6.9	7.1	7.5
Net yield (%)	4.4	4.8	5.0	5.2
ROIC (%)	21.3	20.9	19.5	14.1

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

FY22 Half Year Results

On 6th December, Metcash Limited (MTS) announced its FY22 Half Year Results with the following highlights:

Financial Result Snapshot

- Group Revenue \$8.2bn, up 1.5%;
- Group EBIT \$231.2m, up 13.9%;
- UPAT \$146.6m, up 13.1%;
- Underlying EPS 14.6c per share, up 15%;
- Interim Dividend 10.5c per share, up 31%;
- Operating cashflow \$212.1m;

Group Highlights

- All pillars continue to benefit from shift in consumer behaviour;
- Strategic acquisitions delivering material contributions to Group earnings;
- Continued investment in digital and technology infrastructure;
- Further improvement in ESG credentials: DJSI ranking up to 21 and 69th percentile (2020: 29 and 56th percentile);

Group Outlook

- Strong sales have continued in the first five weeks of 2H22 buoyed by the shift in consumer behaviour and improved retailer competitiveness;
- The Food and Liquor pillars are expected to benefit from a strong Christmas/New Year trading period and the network's extensive regional presence. Supply chain disruptions, increased DC labour and COVID-related costs continue to be a risk for all Pillars in 2H22;
- Additional Digital opex investment in 2H22 to accelerate online shopping rollout (Food ~\$3m, Liquor ~\$1m);
- Continued uncertainty over the potential impact of any future COVID-related trading restrictions or changes in consumer behaviour; and
- FY22 will include a 53rd week of trading in all Pillar.

Group CEO, Jeff Adams said: "It has been a very pleasing first half for both Metcash and our independent retailers as we continued to build on the very strong prior corresponding half. The preference for local neighbourhood shopping and shift from cities to regional areas helped our independent retail networks all deliver 'like for like' (LfL) sales growth in the half.

Compared with 1H20, substantial growth was delivered with IGA Supermarkets up 18.8%, IBA stores in Liquor up 27.0%, Independent Hardware Group (IHG) stores up 17.7% and Total Tools stores up 51.0%, improving the overall health of the network. This is a significant achievement given the many challenges in the half including staff isolations, labour shortages, supply chain issues, continuously changing health regulations and other lockdown-related impacts. "In Metcash, significant growth in underlying earnings was delivered through the strong trading performance and material contribution from strategic acquisitions, particularly Total Tools. Total Tools is proving to be a terrific acquisition and we remain excited about the further growth opportunities it provides."

Earnings changes

MTS reported H1FY22 Adjusted NPAT of \$146.6M. This compared to market expectations of \$141.0m. Also, the Group Outlook is very positive. Hence, we expect positive earnings revision of 6% for FY22 and future periods.

Valuation

We are initiating research coverage on MTS with a 12-month target price of \$4.26 and a HOLD recommendation. The price target is underpinned by our valuation.

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Barclay Pearce Capital Management provides research services to its clients. Mr Wright is General Manager of Research and has over thirty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2020 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	45.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	18.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	35.8%	(0.0% of stocks with recommendations are Barclay Pearce clients)