

# ArborGen Holdings

Key US market unaffected by COVID-19 so far

Year-end and  
COVID-19 update

Basic materials

16 April 2020

**Price** **NZ\$0.17**

**Market cap** **NZ\$85m**

NZ\$/US\$0.61

Net debt (US\$m) at 30 September 2019 31.6

Shares in issue 499.9m

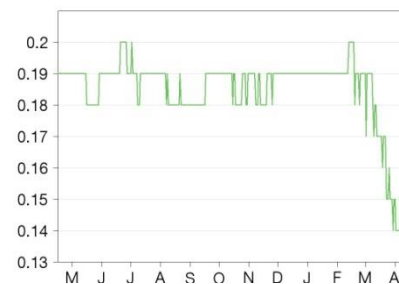
Free float 53%

Code ARB

Primary exchange NZX

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (2.9) (14.1) (14.1)

Rel (local) (8.1) (2.8) (16.1)

52-week high/low NZ\$0.20 NZ\$0.14

## Business description

ArborGen is an NZX-listed investment company and is the world's largest integrated developer, commercial manufacturer and supplier of advanced forestry seedlings with operations in the US, Brazil and Australasia.

## Next events

FY20 results TBC

## Analyst

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ArborGen's US sales appear to have fared well in H220 as management has reaffirmed guidance for FY20. While we are aware of COVID-19 risks – which will continue to be monitored – the seasonal H2 bias to dominant US sales along with current customer planting intentions suggest no reason to change the FY21 outlook for now. Consequently, our estimates are unchanged and show good year-on-year progress for both FY20 and FY21, generating low earnings multiples at the current share price.

Year end	Revenue (US\$m)	EBITDA** (US\$m)	PBT* (US\$m)	EPS* (c)	P/E (x)	EV/EBITDA** (x)
03/19	49.1	4.6	4.7	1.1	10.1	13.3
03/20e	58.2	7.7	7.1	1.5	7.1	10.3
03/21e	64.4	10.1	9.5	1.9	5.6	7.7
03/22e	71.7	12.5	12.2	2.4	4.4	5.9

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items. No tax charge is anticipated in our estimates. \*\*US GAAP.

## Limited COVID-19 impact on FY20 and outlook so far

A year-end trading update refined guidance for FY20 pre-central cost US GAAP EBITDA to 'at least 40% higher' than last year's US\$6.1m. The minimum implied US\$8.6m compares to our existing US\$9.2m, so a difference of US\$0.6m or less at this level, subject to final audit. Our group EBITDA estimate of US\$7.7m in the above table is after US\$1.5m central costs; the reported H120 equivalent was a US\$4m loss and the swing to full-year profitability provides a clear sense of both the (H2 FY) seasonality of the US seedling lifting/planting season and the scale importance of this geographic region. There was clearly no material COVID-19 impact on the FY20 outturn. Current indications are that customers are committed to their 2020/21 planting programmes. ArborGen has already implemented appropriate COVID-19 working practices across its sites, all of which are continuing to operate, and is taking a prudent stance on discretionary cost and capex items.

Planting rates in **Brazil** – which has a more evenly spread seedling selling season – are said to have slowed moderately for now to accommodate revised COVID-19 working practices. Separately, a third eucalyptus nursery lease has been taken on, this time in Mato Grosso do Sul state to take internal annual eucalyptus seedling production capacity up to in excess of 30m at full run rate (total network capacity including pine seedlings is c 100m). Previous company comments that **New Zealand** nursery operations were continuing to cultivate seedlings for FY21 sale (and operate quarantine services) but also complying with national government lockdown guidance remain valid.

## Valuation: Financial headroom and low multiples

No comment was made on the group core net debt position; our unchanged model anticipates a c US\$28m position at the end of FY20 (versus US\$31.6m at the H120 stage) and, as our [previous note](#) pointed out, the company has facilities in place with funding capacity in excess of US\$40m. On unchanged estimates, ArborGen's share price generates mid-single digit P/E multiples with EV/EBITDA (US GAAP) declining from 10.3x for FY20 to 5.9x by FY22 based on our model.

**Exhibit 1: Financial summary**

	US\$m	2018	2019	2020e	2021e	2022e
Year end 31 March (from 2018 onwards)		6m to March		IFRS 16	IFRS 16	IFRS 16
<b>PROFIT &amp; LOSS</b>						
Revenue		35.4	49.1	58.2	64.4	71.7
Cost of Sales		(19.4)	(30.3)	(36.2)	(40.1)	(44.5)
Gross Profit		16.0	18.8	22.0	24.3	27.2
EBITDA - US GAAP		6.0	4.6	7.7	10.1	12.5
EBITDA - NZ IFRS		6.2	9.8	12.2	14.8	17.3
Operating Profit (before GW and except.)		5.0	6.9	9.2	11.8	14.3
Intangible Amortisation - acquired		(2.6)	(5.8)	(5.8)	(5.8)	(5.8)
Exceptionals		(1.4)	(3.6)	(2.8)	0.0	0.0
Associate		0	0	0	0	0
Operating Profit		1.0	(2.5)	0.6	6.0	8.5
Net Interest		(1.4)	(2.2)	(2.2)	(2.3)	(2.2)
Profit Before Tax (norm)		3.6	4.7	7.1	9.5	12.2
Profit Before Tax (statutory)		(0.4)	(4.7)	(1.5)	3.7	6.4
Tax		2.6	0.5	0.4	0.0	0.0
Minorities		0	0	(0)	0	0
Discontinued		0	(0.1)	0.0	0.0	0.0
Profit After Tax (norm)		6	5.2	7.5	9.5	12.2
Profit After Tax (statutory)		2	(4.2)	(1.1)	3.7	6.4
Average Number of Shares Outstanding (m)		487.9	496.9	499.3	499.9	499.9
EPS - normalised (c)		1.3	1.1	1.5	1.9	2.4
EPS - statutory (c)		0.5	(0.8)	(0.2)	0.7	1.3
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		45.2	38.4	37.8	37.8	37.9
EBITDA Margin (%)		17.5	20.0	21.0	23.0	24.2
Operating Margin (before GW and except.) (%)		14.1	14.1	15.9	18.3	20.0
<b>BALANCE SHEET</b>						
Fixed Assets		156.0	152.3	154.2	150.0	145.9
Intangible Assets		106.7	105.6	104.0	102.6	101.3
Tangible Assets		43.3	42.7	48.2	45.4	42.6
Investments		6.0	4.0	2.0	2.0	2.0
Current Assets		57.8	41.7	49.1	54.6	61.0
Stocks		24.8	29.4	33.2	37.7	42.9
Debtors		10.0	9.1	10.5	11.5	12.6
Cash		23.0	3.2	5.4	5.4	5.4
Current Liabilities		(36.2)	(15.8)	(27.6)	(26.3)	(23.3)
Creditors		(20.4)	(15.0)	(16.3)	(17.2)	(18.2)
Short term borrowings		(15.8)	(0.8)	(11.3)	(9.1)	(5.1)
Long Term Liabilities		(26.2)	(30.6)	(30.3)	(29.2)	(28.1)
Long term borrowings		(22.8)	(16.5)	(23.9)	(23.9)	(23.9)
Other long term liabilities		(3.4)	(14.1)	(6.4)	(5.3)	(4.2)
Net Assets		151.4	147.6	145.4	149.1	155.5
<b>CASH FLOW</b>						
Operating Cash Flow		3.5	4.1	6.1	10.9	12.8
Net Interest		(1.4)	(2.1)	(2.2)	(2.3)	(2.2)
Tax		0	0	0	0	0
Capex		(3.0)	(6.6)	(20.4)	(5.4)	(5.5)
Acquisitions/disposals		0.9	(7.6)	0	0	0
Financing		0	0	0	0	0
Dividends		0	0	0	0	0
Net Cash Flow		0	(12.2)	(16.4)	3.3	5.1
Opening net debt/(cash)		33.0	9.6	9.8	27.8	25.6
HP finance leases initiated		0	0	(1.1)	(1.1)	(1.1)
Other		23.4	0	(0.4)	0	0
Closing net debt/(cash)		9.6	21.8	27.8	25.6	21.6

Source: ArborGen, Edison Investment Research. Note: 2017R was restated to show discontinued operations separately. Significant other items in 2017R and 2018 cash flow relate to M&A activity associated with the disposed Tenon operations. \*\*FY20 opening net debt has been restated to exclude IFRS 16 leases (which are now shown at projected year ends); the group's purchase of its US head office property in August 2019 moved this from a leased asset to an owned one.

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