GORDON CAPITAL PTY LTD● Lvl 9, 440 Collins St, Melbourne, Vic, 3000 ● Ph: (03) 9607 1371 ● www.gordoncapital.com.au
Gordon Capital Pty Ltd, is Corporate Authorised Representative No. 338899 of InterPrac Financial Planning Pty Ltd (AFSL 246638)

# WINGARA AG LIMITED (WNR) INTERIM 2020 RESULT

**Investing in strategic assets in the export food chain, particularly with a North Asia focus**

## DIRECTORS

Gavin Xing, Executive Chairman, CEO
Zane Banson, Executive Director, CFO
Mark Hardgrave, Non-Executive Director
Jeral D'Souza, Non-Executive Director

## MARKET DATA

| | |
|---|---|
| ASX Code: | WNR |
| Current Price (28/11/19): | $0.275 |
| 52-week Share Price Range: | $0.21 - $0.37 |
| Market Capitalisation: | $28.9 million |
| Enterprise Value: | $35.5 million |

## CAPITAL STRUCTURE

| | |
|---|---|
| Shares on Issue (listed): | 105.1 million |

## FINANCIAL SUMMARY

| $m Y/e March | FY 2018 (A) | FY 2019 (A) | FY 2020 (F) |
|---|---|---|---|
| Revenue | 10.7 | 29.1 | 32.0 |
| EBITDA | 1.1 | 4.8 | 3.8 |
| Net Profit | (0.4) | 0.9 | -1.0 |
| EPS (c) | (0.6) | 0.9 | -1.0 |
| | | | |
| EV/EBITDA (x) | 32.3 | 7.4 | 9.3 |
| | | | |
| Net Debt | 0.6 | 26.8 | |
| Total Assets | 23.4 | 47.4 | |

Gordon Capital Forecasts
*Excl profit on sale & leaseback arrangement

## SHAREHOLDERS

| | |
|---|---|
| NAOS Asset Management | 26.5% |
| Gavin Xing & Kellie Anne Barker (Co-founders), Management & connected parties | 24.5% |
| Richard Gazal | 14.0% |

## SENIOR ANALYST

Michael Gordon
0414 501 442
November 2019

## INVESTMENT PROPOSITION

Wingara Ag is building an end-to-end export-oriented agricultural infrastructure platform capable of scaling industrial processing and marketing capacity within the food supply chain.

The platform is service oriented around export focused capabilities and strategic assets which are high barriers to entry. The company is and will continue to invest in strategic logistics and processing assets in the supply chain to provide greater control over the quality and movement of products.

Wingara's model provides great leverage to the rising demand from Asia for protein and high-quality agricultural produce whilst mitigating weather risk and earnings volatility which are traditional features of agricultural investment. The model is based on a multi-product strategy and geographic supply diversification which will be further developed as the company pursues additional investment opportunities.

Strong growth is anticipated over the next few years as the company realises efficiency gains, from increases in storage and processing capacity and as the company seeks to further diversify its asset base.

## EVENT

Wingara Ag has recently reported its interim results for the six months ended 30 September 2019. The key data are summarised below.

| | H2 FY18 | H1 FY19 | H2 FY19 | H1 FY20 |
|---|---|---|---|---|
| **Revenue** | $4.46m | $14.72m | $14.40m | $15.01m |
| **EBITDA** | $0.87m | $2.76m | $2.00m | $1.33m |
| **NPAT** | ($0.22)m | $1.31m | ($0.40)m | $1.43m |
| **Net Assets** | $12.09m | $15.53m | $15.14m | $16.53m |
| **Net Debt (ex Lease)** | $2.37m | $23.81m | $31.41m | $11.03m |
| **Basic EPS** | (0.55) cents | 1.32 cents | 0.88 cents | 1.36 cents |
| **NTA** | 10.62 cents | 13.05 cents | 12.68 cents | 14.00 cents |
| **Hay Volumes MT (JCT)** | 13,277 | 29,116 | 17,152 | 17,300 |
| **Blast Cartons (Austco)** | - | 782,479 | 1,033,885 | 901,344 |

## ANALYSIS AND COMMENT

Wingara has undergone considerable transformation over the past 18 months including the acquisition of Austco Polar Cold Storage in the June quarter 2018 which has been followed with significant capital investment, and the development of a new hay storage and processing facility at Raywood, near Bendigo, Vic and upgrading of the hay processing facility at Epsom, Vic. More recently, the company has sold and subsequently leased back the Austco property in Laverton with the funds applied to markedly reducing group debt. This transformation has had a profound impact on the company's balance sheet; it is both much larger and less geared. The benefits of the capex program, in particular, are expected to emerge in FY 2021 as higher revenues and stronger margins although there has been a short term negative impact evident in the results for the half year ended 30 September 2019.

The key drivers of the interim result were:

- Lower volumes of hay processed during the period under review was mostly due to limited funding capacity to build inventory during the 2018 hay harvest. Accordingly, inventory volumes in storage at the end of the harvest in early 2019 were insufficient to maintain processing volumes in the period post-harvest, that is in the six months ended 30 September. Further, some inventory, which otherwise would have been available for processing during the period, was held over to maintain sales in October and November when the 2019 harvest was just getting underway.
- Lower processing volumes were largely offset by a considerably higher average realised price (~$520/t compared with ~$311/t) reflecting both shortage of supply and higher quality. Accordingly, Hay revenue was only slightly lower than the previous corresponding period.
- The EBITDA contribution from Hay was some 56% lower than the previous corresponding period. In addition to lower absorption of fixed costs, major additional costs were incurred in bringing the new

Raywood facility on stream including commissioning and training and further costs were incurred in refurbishing the Epsom facility and its subsequently recommissioning.

- The EBITDA contribution from the Cold Storage division (Austco) was about 26% lower than the previous corresponding period despite a 6% increase in revenue and a 15% increase in the number of Blast Cartons handled. The lower result was primarily due to one-off restructuring costs undertaken during the period.
- Additional costs were also incurred with the development of a new process IT platform.
- Depreciation and amortisation expenses more than doubled compared with the previous corresponding period due to major capital investment at both JC Tanloden (JCT - Hay) and Austco. Following the sale and leaseback of the Austco property, depreciation charges will fall in future periods although this will be offset by lease amortisation costs.
- The overall increase in net profit for the period was attributable to a $4.2 million gain on the sale of the Austco property. Excluding the impact of this sale, Wingara achieved a loss of $2.6 million for the six months ended 30 September 2019.

Although the interim 2020 EBITDA was below the previous year, the return on assets and return on equity is still satisfactory and well above FY 2018 levels. Nonetheless, the result highlighted key vulnerabilities, in particular, the lack of financial and storage capacity in the hay business, both of which have been addressed with the resources now in place to support a large expansion in the JCT's revenue potential.

The sale and leaseback exercise was a fundamental element in the company's overall strategic and a balance sheet management strategy. The overriding strategic objective is to control key assets in the export protein supply chain. To achieve this, Wingara has and will continue to acquire profitable businesses in which it will subsequently invest significant capital to improve and expand operations. In medium to long term, the company has little interest in owning the physical assets (primarily property and buildings) and will typically seek a financing structure that enables it to realise the enhanced value whilst retaining long term control over those assets. A sale and leaseback arrangement similar to the Austco transaction is a likely model.

With the considerable strengthening of the balance sheet, the company now has the financial capacity to build inventory through the harvest season which will enable sales volumes to be supported through the year as well as building a multi-year buffer against dry conditions, low harvest volumes and high prices. Moreover, the stage 1 development at Raywood, which was commissioned early this year, and potentially further stages, provides ample storage capacity to manage relatively steady sales and processing volumes through the year. Capacity is also available to hold inventory, without any deterioration in quality for up to three years. Capex and restructuring at Austco will also enable higher throughput of high margin blast freezing. Blast freezing capacity has been increased from 1.9 million cartons to 2.3 million cartons.

Hay storage and processing capacity have been considerably expanded at Epsom and Raywood, both near Bendigo, Vic, since the beginning of 2019. Storage capacity has been increased from 10,000 tonnes last season to 30,000 tonnes currently. Based on a target inventory turnover of 2.5 to 3.5 times, processing and throughput capacity is now around 100,000 tonnes compared with about 30,000 tonnes last season. The plan is to ensure that there is full nor near full utilisation of the storage capacity at the end of the harvest in March 2020 which will require net inventory purchases of around $9 million if full capacity is achieved.

The March half year is seasonally strongest due to the hay harvest occurring during this period. With the financial and storage capacity at JCT to support much larger processing volume and expanded blast freezing capacity at Austco, Wingara is expected to report a much stronger result in the current period compared with H2 2019 when an EBITDA of $2.0 million was achieved. We think an EBITDA of over $2.5 million in the half year to end March 2020 is achievable. Nonetheless, it is not likely to be high enough to enable the first half net loss to be offset. Accordingly, we think an overall net loss of around $1.0 million, excluding the impact of the property sale, is likely in FY 2020.

The key drivers in the March half year will be the volume of hay processed and sold (we estimate around 25,000 tonnes), average price (we estimate around $450 per tonne) and the volume of blast cartons handled at Austco (we estimate around 1 million).

Whilst FY 2020 result is likely to be significantly lower than we expected, the company is in a much stronger position than at the same time last year. The capital investment programs have markedly increased capacity and reduced operating costs whilst the sale and leaseback has released considerable capital enabling the balance sheet to be markedly strengthened. Our early expectations are that with finance available for building inventory, hay volume processed and sold in FY 2021 will exceed 50,000 tonnes (compared with 46K in FY 2019 and likely around 42K in FY 2020) and APCS will blast freeze over 2 million cartons (1.8 million in FY 2019 and about 1.9 million in FY 2020). On this basis, we believe that FY 2021 revenue of about $38 million and EBITDA of about $7 million is achievable.

## KEY POINTS

- **Building a portfolio of export oriented, agricultural service businesses**: Wingara is leveraging its key skill sets and capabilities in project development, acquisition, finance, commodities and international trading, logistics and storage, product traceability management, export accreditation and documentation processes to build an export marketing platform servicing Australia’s food supply chain and focused on establishing direct relationships with farmers and end customers.
- **Focussed on strategic assets with high barriers to entry:** Investment is focused on strategic industrial assets with export accredited storage and logistics capabilities and quality enhancement, non-transformational, value-adding processes. These export related capabilities and purpose-built assets are typically industry choke points and major barriers to entry.
- **Two established, profitable business have been acquired**: JC Tanloden (JCT) is a leading Victorian based exporter of fodder products, especially oaten hay and Austco Polar Cold Storage (APCS) is a Melbourne based meat export service and logistics business. APCS mainly provides blast freezing, storage and export management services for meat exporters in Victoria, South Australia and NSW but also offers logistics services to some domestic clients. Combined revenue in FY 2019 was $29 million.
- **Considerable post acquisition capital investment:** Fodder processing and handling capacity was doubled in FY 2019 with the stage 1 development of a new a facility at Raywood, near Bendigo, whilst blast freezing and storage capacity at APCS has been upgraded. A wide range of operational improvements have also been introduced at each business. These investments will have a positive impact on FY 2020 results and beyond.

- **Positive operational outlook:** The outlook for both business units is positive and underpinned by intensified marketing efforts and a strong client focus. Operational improvements and capacity expansion are expected to flow through to margin gains. Further, the hay harvest, currently underway, is expected to be considerably larger than 2018.
- **Strong market dynamics:** Exports of fodder and red meat have been rising over the past ten years and this trend is expected to continue. North Asia is Australia's strongest market. The US/China trade war and a devastating outbreak of swine flu in China may result in a switch to red meat to fill the supply gap, further boosting demand from that market.
- **China's demand for oaten hay outstrips capacity to supply:** Demand for Australian oaten hay is strong and exceeds the markets capacity to supply. Growing demand from China in recent years has intensified competition for oaten hay from traditional markets in Japan and Korea. China accounts for about 20% of JCT's hay sales and JCT is well placed to supply this fast growing market for oaten hay, which has the potential to become the largest market.
- **More M&A likely:** Wingara is on record with an objective to further diversify its product base with a view to expanding its export opportunities and further mitigating agricultural risks.
- **Balance sheet now rock solid:** The sale of lease back of ASPC's Laverton North property releases substantial capital enabling a large part of the debt load to be retired. As at 30 September 2019, Wingara had net debt of $6.6 million with an equity base of $16.5 million.

## BUSINESS OVERVIEW

Wingara Ag is developing a farm gate to end customer marketing platform for agricultural products building on its capabilities in project development, asset management and international trading. It has established a strong end customer network in Asia and continues to build long term farmer relationships and networks for product accumulation.

Gaps, opportunities and choke points in Australia's food export supply chain have been identified, where there is limited competition, lack of pricing transparency and high barriers to entry. Assets have been and will continue to be acquired that fit these criteria and strengthen the company's capabilities. In particular, the focus is on assets with export accredited storage and logistics facilities and value-added processes that enhance quality with limited transformation of the underlying product, such as blending, blast freezing and fumigation and so on.

These capabilities provide Wingara with sustainable competitive advantages and are major barriers to entry. Export of agricultural and horticultural products is tightly regulated and subject to licencing. Import licences are also often required at the end of the supply chain. These licenses are designed to protect food safety and biosecurity. Accordingly, processing plants, manufacturing and operating processes and the tracing through the supply chain of inputs and outputs is highly regulated and audited by Department of Agriculture and Water Resources and its equivalent counterparts in importing countries. Licenses are typically issued to the processing, manufacturing or storage facility which is 'site specific' and for example there are 11 export licences issued for fodder products of which JCT holds two. On the other hand, China only licences the import of oaten hay from Australia of which JCT is a holder.

Wingara acquired its first business, JC Tanloden (JCT), a producer of oaten hay, in 2015 and subsequently listed on the ASX in early 2016. In April 2018, it acquired Austco Polar Cold Storage (APCS), a Melbourne based meat export service and logistics business. Both businesses have export accredited storage and logistics facilities, require tight process control over product traceability and have key value added, quality enhancing processes.

JCT has one of the largest fodder production capacities in eastern Australia and is one of the largest exporters of oaten fodder in south eastern Australia. It operates storage and processing facilities at Epson and Raywood, both near Bendigo, Victoria. Stage 1 at Raywood was developed by Wingara in 2018 and expanded its potential annual throughput capacity to around 100KT and storage capacity to 30KT. Wingara also has an option to develop a new site near Horsham, Victoria with similar scale. Victoria has a long history of growing oaten hay and JCT's supply could be sourced from a network of farmers in a radius of about 300 km and processed to customer specification and baled and packed in containers primarily at Raywood for export to Japan, South Korea, China and Taiwan. Oaten fodder is an important diet supplement for dairy cattle and is in high demand in Asia due to consumers growing appetite for fresh dairy products. Despite appearances, fodder is typically blended to meet end-customer specifications for sugar and moisture content. The fodder is also fumigated and compressed before loading into containers for shipment.

Oaten hay is also grown as a rotational crop to manage weeds. Cereal farmers typically allocate 10% to 25% of their area to oaten hay which is harvested between October and December and delivered to processors through to March. Off farm storage is an industry-wide bottleneck with the peak requirement around February/March each year.

APCS operates a major blast freezing and cold storage facility at Laverton North, in Melbourne's west, which is accredited for managing red meat for export to Europe, US, China and Japan. The facility has a sizable handling and storage capacity as well as blast freezing capability. Blast freezing extends the shelf life from 3 weeks to over two years and key clients process more than 30% of Victoria's meat production.  APCS is a tolling-service provider to exporters and its responsibilities are primarily storage, freezing, handling, packing and export documentation. Export services are accredited to China, Japan, Korea, EU, USA and the Middle East with Halal certification. Whilst there are a large number of export accredited cod storage facilities in Victoria, APCS is one of only three with a blast freezing capability, a major competitive advantage.

APCS is located close to Melbourne Port and has storage capacity for 10K standard size pallets and blast freezing throughput capacity of 25K packs per week. It services some of the leading meat exporters in southern Australia. The storage facility is also used by domestic food manufacturers and distributors.

**GENERAL ADVICE WARNING:** The information contained in this Report is only of a general nature and does not constitute personal financial product advice. In preparing the advice no account was taken of the objectives, financial situation or needs of any particular person. Therefore, before acting on the advice readers should consider the appropriateness of the advice with regard to their particular objectives, financial situation and needs. Readers should obtain and consider any relevant Product Disclosure Statements before making any decisions about the subject matter of this Report and should seek independent professional advice.

**DISCLAIMER:** Although every attempt has been made to verify the accuracy of information contained in this Report, Gordon Capital Pty Ltd (**Gordon Capital**) and InterPrac Financial Planning Pty Ltd (**InterPrac**) make no warranties about the accuracy or completeness of any advice or information. The officers, agents, related affiliates, related body corporate and employees of Gordon Capital and Interprac accept no liability for any loss or damage whatsoever arising from any investment decisions or use of the information or advice in this Report. All information and advice contained in the Report are subject to change without notice.

All investment decisions are subject to risks. Past performance should not be taken as an indication of future performance. Any 'forward looking statements' contained in this Report are based on current expectations about future events. Words such as "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" may identify forward looking statements. Such forward looking statements are based on views held at the date of publication of this Report and are not guarantees as to future events. Forward looking statements are subject to risks, uncertainties and other factors beyond the control of Gordon or InterPrac. Therefore, actual results may differ from those referred to in such statements.

**DISCLOSURE:** This publication has been prepared by Gordon Capital Pty Ltd, as Authorised Representative of InterPrac Financial Planning Pty Ltd, Australian Financial Services Licence No. 246638. The registered office of InterPrac Financial Planning Pty Ltd is Level 8, 525 Flinders St, Melbourne, VIC 3000.

Please note that Gordon Capital has been retained by **WINGARA AG LIMITED** to provide this report for a fixed fee. Gordon Capital does not provide specific investment recommendations and does not receive any additional benefit for the provision of this report. Gordon Capital aims to provide a balanced and objective analysis in this report.

**MICHAEL GORDON** the analyst responsible for this report does not receive any indirect benefits or assistance from **WINGARA AG LIMITED.** Our remuneration is not linked to the views expressed in this report. At the time of writing the report the author does not hold shares in **WINGARA AG LIMITED.**

Please see our **Analyst Qualifications** and **Financial Services Guide**, available at www.gordoncapital.com.au or by calling 03 9607 1371 for further information.