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# WINGARA AG LIMITED (WNR) March Qtr 2020 Cash Flow

**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 (30/04/20): | $0.24 |
| 52-week Share Price Range: | $0.21 - $0.37 |
| Market Capitalisation: | $25.5 million |
| Enterprise Value: | $32.3 million |

## CAPITAL STRUCTURE

| | |
|---|---|
| Shares on Issue (listed): | 106.1 million |

## FINANCIAL SUMMARY

| $m Y/e March | FY 2018 (A) | FY 2019 (A) | FY 2020 (F)* |
|---|---|---|---|
| Revenue | 10.7 | 29.1 | 35.0 |
| EBITDA | 1.1 | 4.8 | 3.2 |
| Net Profit | (0.4) | 0.9 | -1.0 |
| EPS (c) | (0.6) | 0.9 | -1.0 |
| | | | |
| EV/EBITDA (x) | 29.4 | 6.7 | 10.1 |
| | | | |
| 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 | 27.8% |
| Gavin Xing & Kellie Anne Barker (Co-founders), Management & connected parties | 25.7% |
| Richard Gazal | 13.3% |

## SENIOR ANALYST

Michael Gordon
0414 501 442
May 2020

## 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.

Wingara is not immune to the impact of the Covid 19 virus but it is relatively well insulated with its two businesses continuing to operate relatively normally with sales primarily into export markets. Just as importantly, it now has a relatively healthy financial structure that should enable it to weather disruptions to its activities.

## EVENT

Wingara Ag has reported its March quarter 2020 results. The key data are shown in the able below.

| | Q1 FY19 June 2018 | Q2 FY19 September 2018 | Q3 FY19 December 2018 | Q4 FY19 March 2019 | TOTAL FY19 | Q1 FY20 June 2019 | Q2 FY20 September 2019 | Q3 FY20 December 2019 | Q4 FY20 March 2020 | TOTAL FY20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Receipts from customers | $6.05m | $8.78m | $8.45m | $6.69m | **$29.97m** | $7.63m | $8.13m | $9.34m | $10.58m | **$35.68m** |
| Net Cash from Operating activities | $1.03m | $2.02m | ($1.10m) | ($3.20m) | **($1.25m)** | $1.93m | $1.09m | ($1.13m) | ($0.32m) | **$1.58m** |
| Hay volumes MT (JCT) | 10,421 | 18,695 | 10,257 | 6,895 | **46,268** | 8,175 | 9,125 | 10,449 | 14,279 | **42,028** |
| Blast cartons (Austco) | 448,435 | 334,044 | 471,237 | 562,648 | **1,816,364** | 488,852 | 412,492 | 712,118 | 517,510 | **2,130,972** |

Wingara reported another strong quarter for the period ending March 2020 primarily driven by a substantial increase in fodder production on the back of a solid purchasing program. Record cash receipts in the March 2020 quarter were 58% higher than the same quarter last year. Overall cash receipts for the year ended 30 March 2020 of $35.7 million were 19% higher than the prior year. More significantly, the company achieved a $2.8 million gain in net cash flow generation in FY 2020 with a positive cash flow in the current year compared with a deficit in FY 2019, where a disrupted hay harvest season resulted in reduced fodder available for export sale. As at 30 March 2020, cash reserves amounted to $3.5 million.

In a sign of growing global market demand, AFR reported in a recent article that giant UAE agribusiness, Al Dahra is investing $10 million on an upgrade at its hay export facilities at Wannamal in Western Australia as a first step to boosting market share, and is eying acquisitions in other states including South Australia and Victoria.

## ANALYSIS AND COMMENT

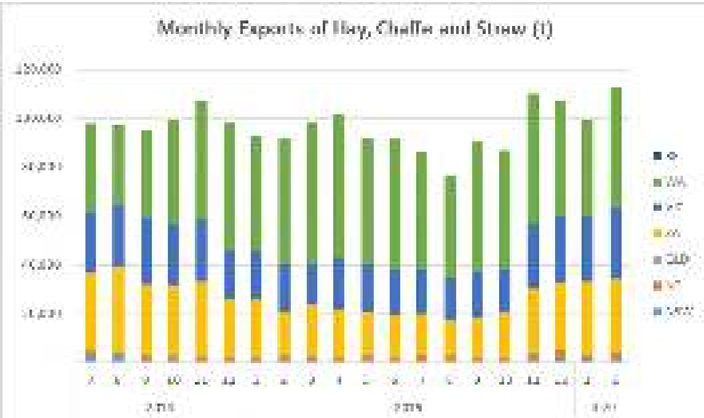
Wingara reports that overall business activity has remained at high levels despite the impact of the COVID 19 virus. Demand for hay remains strong and activity has experienced minimal disruption. Whilst export meat handling and blast freezing activity declined in the March quarter from the abnormally high activity in the December quarter it has remained at levels generally higher than experienced over the past year or so. Nonetheless, slower processing through the shipping terminals is contributing to reduced throughput.

The December and March quarters traditionally demand high cash outflow as the hay inventory is acquired during this post harvest period. Notwithstanding the inventory build up during this period, the overall cash flow deficit for the six months was lower than same period last year. This was due to the very high throughput of blast cartons at APCS, especially in the December quarter, but also the markedly higher level of fodder output in the March quarter. Increased sales in the March quarter were a direct result of Wingara’s investment in the Raywood hay storage and processing facility which substantially increased overall handling capacity.


The adjacent chart shows that Wingara has experienced a steep rise in cash receipts over the past two years reflecting firstly the acquisition of APCS and more recently the investment in new hay storage and processing capacity at Raywood. With the benefit of the first full sales season from Raywood, cash receipts over the next twelve months will head towards $40 million or higher. This increased scale is expected to lead to more consistent positive net cash flow generation and a higher overall outcome in FY 2021.

Although hay sales volumes were lower in FY 2020, average prices were markedly higher. With much greater storage and processing capacity, hay sales are expected to be in the range of 55KT and 60KT, albeit at slightly lower average prices. This points to significantly higher profitability in FY 2021.

The volume of blast frozen cartons handled by APCS in FY 2020 was 17% higher than the prior year primarily due to a surge of activity in December 2019 quarter. Inasmuch as the company expects throughput to slow down through to the spring, overall volumes in FY 2021 are likely to be lower, partially offsetting some the expected gains in the hay business.




The adjacent chart, from ABS data, clearly points to a recovery in hay export sales in 2020 from the drought affected lows in mid-2019. Moreover, recent activity is at or near record levels and significantly above the 97Kt average monthly rate over the past two years.

This trend is a positive sign for industry investment.

In Australia, Al Dahra owns Glenvar Hay based at Wannamal, north of Perth. According to Farm Weekly, a $10 million upgrade will triple capacity to 80,000 tonnes. Glenvar processes lucerne hay, oaten hay and straw. By way of comparison, Wingara commissioned a brand new processing facility at Raywood, north of Bendigo in early 2019. At a cost of about $12 million, the company built two sheds with a storage capacity of 30,000 tonnes and a processing plant with annual capacity of about 75,000 tonnes. Although not necessarily directly comparable, this investment compares favourably with Al Dahra's proposed investment at Wannamal.

Al Dahra's Animal Feeds Division is a substantial global business with operations in 14 countries and has annual capacity of about 3 million tonnes and is the leading forage exporter in the US with over 700,000 tonnes annually handled by its various (lucerne) hay export processing facilities. This investment suggests a high degree of confidence in the outlook for the Australia hay export industry.

As the data in the chart above shows, exports have been running at high levels for the past four months with export volumes in February 2020, 22% ahead of year earlier. With plentiful supply, after a much improved 2019-20 harvest, volumes are expected to remain strong through the current year. With very good late summer and early autumn rains, there is a high degree of confidence that the up-coming growing season will again deliver a strong harvest.

## 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.

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