

Pandemic proof growth

DGL Ltd listed on the ASX on 24th May 2021, raising \$100m at \$1/share with the founder CEO and major shareholder retaining his entire holding. The group is an integrated chemicals business operating in Australia and New Zealand since 1999. DGL offers its customers a full logistics service for chemicals formulation, manufacturing, warehousing, distribution, waste and recycling. The vendors of Chem Pack, acquired by DGL in October 2020, received, under escrow, 9.8m deferred consideration shares at the time of IPO. The IPO funds remaining were used to reduce short-term debt with the balance of \$49m earmarked for a new warehouse and systems and future expansion via investment and acquisition. Since IPO, the group has commenced building a new warehouse in Auckland, approved a new facility at Hawkes Bay, acquired the main supplier of labels to the Chem Pack business for \$1.55m, acquired the freehold of DGL's operating base in Victoria, expanded via an acquisition in Townsville, and acquired a West Australian chemical and hazardous waste business.

Business model

The company has three divisions – Chemical manufacturing, Warehousing and Distribution and Environmental Solutions. DGL sells its own chemical products and manufactures on behalf of customers using DGL and client IP. The company manages manufacture, storage, and distribution of products on behalf of large and small customers with the top ten clients comprising 57% of group revenues of a total of over 1,300 customers during 2020. The group also transports large volumes of chemicals on behalf of clients and recycles batteries and liquid waste, charging for collection and disposal and deriving revenue from sale of recycled waste products. DGL can manage the entire chemical supply chain on behalf of a client or provide components of the production and logistics package as necessary.

FY21 – the year to list and expand

Since IPO earlier in the year, DGL has moved rapidly to fill in gaps and geographic coverage with the acquisitions and investment noted above. The company appointed a CFO to assist in managing this expansion and hopes to continue to grow through cross-selling of services to existing customers and through organic growth. The company reported FY21 results ahead of prospectus with sales up 9%, (3% ahead), EBITDA up 46%, (8% ahead) on a pro-forma basis. DGL acquired the Chem Pack business during the year which did not contribute in the first half and benefited from a large debt forgiveness arrangement prior to IPO. Management is confident of exceeding prospectus forecasts for FY22 of \$209.7m and NPAT of \$10.5m. The company saw no impact from COVID on its business but management of staff exposure risk was significant.

DGL is expanding rapidly in old and new markets

Similar chemical manufacturers include Incitec Pivot, Nufarm and Orica however strongly growing small- to- medium- sized companies may be a better comparison. DGL is moving quickly to fill gaps in the coverage of ANZ markets and benefitting from onshoring of chemical production in the face of current shipping delays.

Historical earnings and ratios (A\$m)

Year	Revenue	EBITDA Adj.*	NPAT Adj.*	NPAT Rep.	EPS Adj.*(c)	EPS Rep.	EV/Sales	EV/EBITDA	P/E Adj.
06/19a	163.5	14.8	2.2	2.2	0.84	0.84	4.1	45.2	nm
06/20a	180.1	19.2	4.8	4.8	1.88	1.88	3.7	34.8	nm
06/21a	196.5	28.1	11.3	47.2	4.40	18.35	3.4	23.8	59.6

Source: Company data *EBITDA and NPAT adj for one-time, non-cash items

10th September 2021

Share details

ASX Code	DGL
Share price	\$2.62
Market Capitalisation	\$673.3M
Shares on issue	257.0M
Net cash at 30/06/2021	\$5.9M
Free float	37.3%

Share performance (since listing)



Upside Case

- Continuing move to outsource to specialists
- Strong focus on logistics chain brings more customers
- Impact of acquisitions is greater than expected

Downside Case

- Increased costs of recycling hazardous materials
- Industrial accidents
- Economic slowdown and increased competition

Catalysts/upcoming events

- AGM November 2021
- Interim results FY22 February 2022

Comparable companies (Aust/NZ)

Orica (ASX:ORI), Incitec Pivot (ASX:IPL), Nufarm (ASX:NUF)

Top 5 shareholders

Simon Henry	57.28%
National Nominees	11.78%
Citicorp Nominees	6.83%
HSBC Custody Nominees	6.74%
Spalding Holdings	3.31%

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FINANCIAL SERVICES GUIDE

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