

## Freedom Foods Group Ltd

### Raising FY18 revenue guidance to upper end of range

Freedom Foods Group Ltd (FNP) sources, manufactures, sells and distributes specialty cereal and snacks, plant and dairy based beverages and nutritional products. It markets, sells and distributes seafood and operates the largest dairy farm in Australia (6,000 cows). The company has just completed significant capital expenditure projects including a new state of the art UHT dairy and milk processing facility in Ingleburn in SW Sydney, completed the transition to the new facility from its Taren Point operations, which is now formally closed, and integrated the recently acquired Vital Strength business.. FNP reported H118 revenue growth of 29% to \$159.6m, excluding the impact of the Vital Strength contribution, revenue increased 24%. FNP has lifted its FY18 revenue guidance to the higher end of the \$360m to \$380m range set at its November AGM and expects this to flow through to improved margins and an increased operating EBITDA contribution from the 1<sup>st</sup> half.

### Strategy

FNP's strategy involves building capacity and operational capability in brands and in particular in the two key brands of 'Freedom Foods' and 'Australia's Own'. The current development phase (2018 to 2020) involves building scale and optimising this investment from 2019 onwards. FNP has been at the forefront of innovation in healthy food, for example making gluten-free foods in 1990 before there was a focus on allergen free foods. FNP controls the sourcing of ingredients via its approved supplier program and controls production in its own factories focusing on ensuring that its products are true to their claims as being 'free from' the specified allergens. FNP's operations are reported in five separate divisions – cereal and snacks, plant, dairy, nutritional, seafood. Cereal and snacks and plant account for 69% of underlying EBITDA in H118 and 56% of revenue. Its products are sold either directly to supermarket chains and convenience stores or via its partnership and distributor network in Australia, NZ, China, SE Asia, Middle East and North America.

### H118 result and Outlook

FNP reported H118 NPAT of \$2.95m, down 34% on pcp but including net one-off losses of \$1.5m from its Taren Point restructure (\$4.8m loss) and a \$3.4m gain from the sale and leaseback of the Ingleburn building and land. Excluding one-time charges NPAT was flat for the period. Guidance for FY18 was updated with revenue now expected to be at the higher end of the \$360m to \$380m range and earnings for H218 to accelerate. We note that consensus (derived from one broker) is below the bottom end of the revenue guidance range of \$360m to \$380m.

#### Earnings history and Consensus forecasts (A\$m)

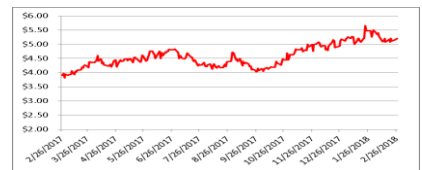
Y/E	Revenue	EBITDA	EBIT	NPAT	DPS (c)	EPS (c)	PE (x)	P/CF (x)	Yield (%)
06/16	170.4	17.8	11.4	50.5	4.0	28.9	18.0	78.3	0.8
06/17	262.5	23.4	12.0	7.5	4.3	4.3	120.4	96.6	0.8
06/18e	350.0	n/a	n/a	16.7	5.0	8.0	65.0	n/a	1.0
06/19e	424.0	n/a	n/a	24.9	6.0	12.0	43.3	n/a	1.2

Source: Company data; Consensus for FY18 and FY19 derived from Stockopedia.com \*Adjusted for non-recurring items

#### Share details

ASX Code	FNP
Share Price	\$5.20
Market Capitalisation	\$1,049M
Number of shares	201.7M
Enterprise Value	\$1,186M
Sector	Food Manufacturing
Free Float	32.0%

#### Share price performance



#### RaaS RAP 5-point score = 3/5

Revenue increasing (1); EPS increasing (1); Return on Capital Employed [ROCE] (0); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90%(0)

#### Upside Case

- Capital expenditure in last two years (\$232 m) has built scale which should fuel increased earnings
- Growing awareness of the health benefits available from eating well and focusing on natural products
- Well placed to serve growing Chinese and SE Asian markets

#### Downside Case

- Pricing pressure from supermarket chains
- Working capital investment
- Challenge of managing multiple brands and selling to global marketplace

#### Catalysts

- Meeting new FY18 revenue guidance
- Evidence that building scale will drive margins

#### Comparative companies (Australia & NZ)

A2M, BGA, BAL, BUB, CVT.NZ, CZZ, ELD, WHA

#### Substantial Shareholders

Arrovest Pty Ltd 55.54%, Bennelong Funds Management 5.53%

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