# WINGARA AG LIMITED (WNR)

## Investing in strategic assets in the export food chain

### DIRECTORS

Gavin Xing, Executive Chairman, CEO
Zane Banson, Executive Director, CFO
Mark Hardgrave, Non-Executive Director

### MARKET DATA

| | |
|---|---|
| ASX Code: | WNR |
| Current Price (10/04/19): | $0.265 |
| 52-week Share Price Range: | $0.21 - $0.37 |
| Market Capitalisation: | $27.9 million |
| Enterprise Value: | $48.8 million |
| Total Assets: | $44.0 million |

### CAPITAL STRUCTURE

| | |
|---|---|
| Shares on Issue: | 105.1 million |

### FINANCIAL SUMMARY

| A$'m | FY2017 (A) | FY2018 (A) | FY2019 (F) |
|---|---|---|---|
| Revenue | 8.7 | 10.9 | 30.0 |
| EBITDA | 0.6 | 1.1 | 4.85 |
| Net Profit | (0.1) | (0.8) | 1.5 |
| EPS (c) | (0.24) | (0.55) | 1.4 |
| | | | |
| EBITDA/EV | 81.3x | 44.4x | 10.1x |
| PER | NA | NA | 18.9x |
| | | | |

Gordon Capital forecasts: FY 2019 is based on the mid-point of company guidance

### MAJOR SHAREHOLDERS

| | |
|---|---|
| NAOS Asset Management | 22.9% |
| Richard Gazal | 13.7% |
| Kellie Anne Barker – Co-founder | 10.3% |
| Gavin Xing – Co-founder | 10.3% |
| Management & connected parties | 5.5% |

### SENIOR ANALYST

Michael Gordon
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April 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.

The acquisition of Austco Polar Cold Storage in April 2018 and commissioning of a new greenfield fodder processing plant in January 2019 were transformative and provided the scale which has enabled the company to breakthrough to sustainable profitability.

Strong growth is anticipated over the next few years as the company realises efficiency gains, increases storage and processing capacity and further diversifies its infrastructure asset base.

## KEY POINTS

- Building an export marketing platform servicing Australia's food supply chain and focused on establishing direct relationships with farmers and end customers.
- 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.
- Asset investment is focused on strategic industrial assets with export accredited storage and logistics capabilities and quality enhancement value-adding processes.
- These export related capabilities and purpose built assets are major barriers to entry.
- Two established, profitable business have been acquired and integrated with considerable post acquisition investment at each business.
- JC Tanloden (JCT) has two processing assets in central Victoria and is a leading Victorian based exporter of fodder products, especially oaten hay. It will have an annual processing and throughput capacity up to 140KT and onsite storage capacity of 30KT.
- Austco Polar Cold Storage (APCS) is a Melbourne based meat export service and logistics business. It 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.
- Expansion of the asset base will come from organic growth and acquisition to diversify the product range and capabilities as well as broadening the geographic spread so as to further mitigate weather risk and earnings volatility.
- In February 2019, the company provided guidance regarding its expected results for the year ended 31 March 2019. Revenue is expected to be in the range of $29 million - $31 million, a gain in excess of 160%, and EBITDA is expected to be in the range of $4.7 million to $5.0 million, a gain of over 300%.

## RISKS AND CHALLENGES

Wingara faces some operational and market risks, which are typical for the agricultural markets in which it operates. However, the most significant individual risks are weather, commodity supply and power costs.

The overriding risk in agriculture is weather which Wingara's strategy is explicitly designed to mitigate. Accordingly, it does not invest in growing or primary processing. Nonetheless, weather does impact supply volumes and product quality and specific mitigation strategies include product and geographic diversification. The company's current asset base provides some degree of product diversification, being fodder and red meat, and further meat and grain-based products are likely to be added to the portfolio. Some degree of geographic diversification is already in place with hay which is sourced from most of Victoria stretching into South Australia and NSW.

Supply, other than due to weather, is a risk against a background where farm commodities are traditionally sold through single product marketing groups or direct to processors. Wingara currently competes against other processors for supply but in developing strong farmer-based relationships, it hopes to achieve preferred access by purchasing multiple and potentially the full range of commodities produced by its farmer suppliers. These relationships are based on high levels of service, support and the value proposition for the farmer is in dealing with a single organisation for the sale and off-take of its production.

Power is a major cost item in running a cold storage facility and the addition of blast freezing capacity has significantly boosted usage. Costs have surged in recent years and in the absence of a consistent government energy policy, it is likely that power costs will continue to rise sharply. Solar power has been installed at APCS which will substantially reduce daytime external power requirements and a solar facility has recently been installed for JCT at Epsom and is proposed for JCT Raywood, which will fully meet its needs with surplus power available for sale into the grid or back into company owned facilities as an offset. These initiatives should significantly mitigate the risk exposure to ongoing price increases in the medium term.

## 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. Raywood was developed by Wingara in 2018 and expanded its potential annual throughput capacity to 140KT 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 consumer's 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.

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.

## LATEST PROFIT RESULT AND SHORT TERM EARNINGS OUTLOOK

Wingara Ag reported substantial gains in revenue, EBITDA and net profit in the six months ended 30 September 2018 primarily due to the increased volume at the Epsom fodder processing facility and the acquisition and integration of APCS. Revenue increased 130% over the prior year to $14.7 million, EBITDA was nearly 13 fold higher at $2.8 million and the net result was a profit of $1.3 million compared with a loss of $206K previously. An operating cash flow surplus of $3.2 million was generated compared with $588K previously. Total Assets as at 30 September 2018 amounted to $44 million compared with $12.2 million a year earlier.

In February 2019, the company provided guidance regarding its expected results for the year ended 31 March 2019. Revenue is expected to be in the range of $29 million - $31 million, a gain in excess of 160%, and EBITDA is expected to be in the range of $4.7 million to $5.0 million, a gain of over 300%. Future revenue contribution as a result of commissioning Raywood fodder processing facility will be reflected in FY2020.

Whilst these large gains are mostly attributable to the acquisition of APCS, they also include significant operational improvements which have driven strong, sustainable underlying growth. The improvements include business development by JCT in Japan, South Korea and China and post-acquisition efficiency gains at APCS.

## BUSINESS DRIVERS AND GROWTH PROFILE

Australia has built a formidable supply chain in the agricultural sector to efficiently move commodities from farm gate to export markets. The emergence of China as an economic powerhouse and the rapidly rising demand for protein and high quality, "green" food underpins the long-term future of the industry. However, Wingara has identified weaknesses in the supply chain which will create invaluable long term growth opportunities. In particular, it has identified that farmers, who mostly run multi-commodity operations, are generally confronted with single commodity sales and marketing structures whilst export sales are generally into wholesale distribution channels remote from the end customer. Accordingly, the company seeks opportunities to build close farmer relationships that are capable of securing multi-commodity supply and building distribution channels much closer to the end buyer. The outline of this strategy and the capabilities required to deliver it are already evident in the current business operations. Accordingly, Wingara has a multi-pronged growth platform. Wingara's key capabilities, which will drive growth are logistics and storage, traceability management, export accreditation and documentation processes, deep farmer and end customer relationships and networks.

The key elements of its growth platform are to further expand and develop the existing fodder and cold storage businesses and to strengthen their cost bases. JCT recently opened a second fodder processing and storage facility, at Raywood near Bendigo, that more than doubled capacity and has an option of a site in western Victoria for a potential third facility which will entrench the company's position as the dominant export processor on the east coast. The growth plan is to continually expand production which is dependent on the supply between 2019 and 2022. The opening of the Phase I - Raywood facility also enables the company to handle and store a wider variety of products beyond oaten hay. Further opportunities in fodder also lie in geographic diversification such as in WA which would balance out weather and associated supply risk in south eastern Australia.

The company also seeks to position itself at the low end of the cost curve to maintain competitive advantage. The big expansion in scale at JCT will contribute to this but it is also investing in solar energy at both JCT and APCS and is working with clients at APCS to more efficiently move product and there is also the potential to convert existing refrigerated storage into additional blast freezing capacity which will further boost margins.

The next phase of development will see the company expand the range of commodities and products that it handles. This will probably involve an acquisition to secure the handling and processing capacity and will be targeted to leverage existing farmer and potentially customer relationships. It is conceivable that the company will also seek value adding opportunities from blending and mixing various commodity inputs or packaging existing products (maybe on a toll basis) to meet customer specifications.

Wingara AG Limited

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## FINANCIAL SUMMARY

| INCOME STATEMENT | | | |
|---|---|---|---|
| **($'000)** | **HY 18** | **FY 18** | **HY 19** |
| **Revenue** | **6415** | **10,931** | **14,722** |
| **EBITDA** | **214** | **1,089** | **2,757** |
| Depreciation | (259) | (602) | (899) |
| Finance Cost | (129) | (382) | (691) |
| Net Transaction Exp | (32) | (858) | 318 |
| **Pre Tax Profit** | **(206)** | **(753)** | **1,485** |
| Tax | - | 319 | (176) |
| **Net Profit** | **(206)** | **(434)** | **1,308** |

| BALANCE SHEET | | | |
|---|---|---|---|
| **($'000)** | **Sept 2017** | **March 2018** | **Sept 2018** |
| Current Assets | | | |
| Cash & Equivalents | 4,954 | 8,702 | 4,452 |
| Receivables | 548 | 395 | 1,031 |
| Inventories | 832 | 1,225 | 536 |
| Other | 615 | 488 | 275 |
| | 6,949 | 10,810 | 6,294 |
| Non-Current Assets | | | |
| Plant & Equipment | 2,506 | 8,211 | 35,463 |
| Intangibles | 1,816 | 1,816 | 1,816 |
| Other | 961 | 2,524 | 434 |
| **Total Assets** | **12,232** | **23,361** | **44,007** |
| Current Liabilities | | | |
| Payables | 914 | 1,869 | 3,165 |
| Debt | 3,883 | 4,809 | 6,973 |
| Other | 70 | 116 | 341 |
| | 4,867 | 6,794 | 10,480 |
| Non-Current Liabilities | | | |
| Debt | 1,345 | 4,476 | 17,518 |
| Other | | | 477 |
| | 1,345 | 4,476 | 17,994 |
| Shareholders' Equity | 6,020 | 12,091 | 15,533 |
| **Liabilities & Equity** | **12,232** | **23,361** | **44,007** |

| CASH FLOW | | | |
|---|---|---|---|
| **($'000)** | **HY 18** | **FY 18** | **HY 19** |
| Net Cash Flow From Operations | 589 | (4) | 3,228 |
| Net Cash Flow From Investing | (1,473) | (7,464) | (24,676) |
| Net cash Flow From Financing | (950) | 9,356 | 17,197 |
| **Net Change In Cash** | **(1,834)** | **1,888** | **(4,251)** |

### Commentary

Wingara Ag's financial reports clearly highlight the transformation of the company over the past 2 years. The almost four-fold increase in the asset base between September 2017 and September 2018 reflects the investment in Raywood and the acquisition of APCS. These investments have also markedly transformed the income and cash flow profiles of the company.

The balance sheet is typical of an industrial concern with a large investment in plant and equipment as well as working capital. Inventories are attributable to the holdings of fodder and together with payables has a high seasonal factor, with purchases and payments due concentrated in the December and March quarters.

The value of intangibles is primarily attributable to export licences.

The acquisition of APCS was completed in April 2018 so the first impact on the financial results was in the interim 2019 period. Whilst there was a large jump in the overall EBITDA margin, in part attributable to the better absorption of group overheads, the benefits of efficiency improvements won't be evident until the second half of the FY and into FY 2020.

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