

22 February 2021

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Costa Group Holdings Ltd

Consumer Staples

BUY

CGC A\$4.01
TARGET PRICE A\$4.91

CGC's Principal Activity is the growing of mushrooms, blueberries, raspberries, glasshouse grown tomatoes, citrus, avocados and other selected fruits within Australia; the packing, marketing and distribution of fruit and vegetables within Australia and to export markets; provision of chilled logistics warehousing and services within Australia; and licensing of proprietary blueberry varieties and berry farming in international markets.

Company Data

Number of shares	400.8 M
Market Capitalisation	\$1,607.3 M
Free float (%)	90.4
12-month high/low	\$4.37/\$2.5
Average Daily Turnover (\$m)	4.0
% S&P/ASX200	0.08%
DDM Ranking	187
% All Ordinaries	0.07%
GICS Industry Group	Food, Beverage & Tobacco

Source: FactSet, Barclay Pearce Capital

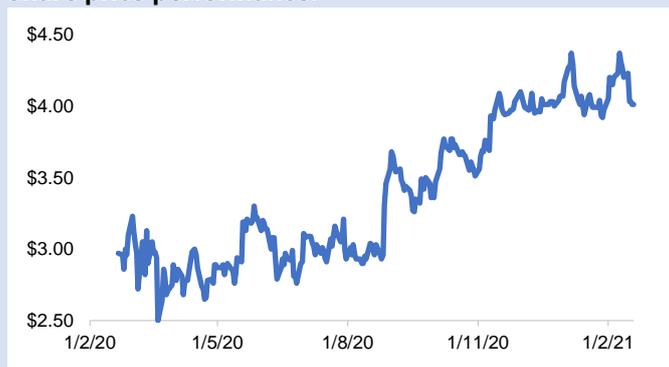
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F
Revenue (\$M)	1,164.0	1,401.8	1,514.0
EBITDA (\$M)	144.8	243.8	266.1
Reported NPAT (\$M)	60.8	78.0	91.6
Adjusted NPAT (\$M)	59.4	76.1	89.8
Reported EPS (c)	14.8	19.4	22.9
Adjusted EPS (c - FD)	14.1	18.7	21.5
Adjusted EPS growth (%)	64.6	48.1	15.3
Adjusted P/E (x)	28.4	21.5	18.6
Dividend (c/sh)	5.0	11.2	12.7
Gross yield (%)	1.8	3.6	4.1
Net yield (%)	1.2	2.5	2.9
ROIC (%)	6.4	6.1	6.8

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

Share price performance.



Source: FactSet, Barclay Pearce Capital

Full Year Results Announcement

On 22th February, Costa Group Holdings Ltd (CGC) released their results for the full year ended 27 December 2020 with the following highlights:

Key Headlines

- Revenue of \$1.164bn – growth of 11.2% on CY19;
- Underlying EBITDA - \$144.8m compared to \$98.3m CY19. Improvement of 47.2%;
- Underlying NPAT - \$59.4m increase of 108.4% on CY19;
- Strong full year result;
 - Recovered from drought challenges;
 - International segment performance well up on previous year;
 - Sustained Australian category momentum through 2HCY20 driving increased earnings;
 - Balance sheet strength and strong cash flow position, highlighting resilience;
- Successful execution of business fundamentals including yields, quality, cost and COVID -19 management;
- Favourable market conditions were supported by positive demand and pricing, especially in the citrus, berry, and avocado categories; and
- Leveraged market leading position by realising benefits of fully vertically integrated produce; categories, diversified portfolio, and Costa blueberry IP (Arana variety), which delivered clear product differentiation and premium pricing during peak periods.

Quotes from Costa Group CEO, Harry Debney

“The company has delivered a strong result for CY20, in which we recovered from the drought, successfully managed our way through COVID-19 without any major disruption to our crop yields and supply, and once again demonstrated the benefits of being a market leader, operating fully vertically integrated produce categories, a 52-week production footprint and a diversified portfolio”. “There were favourable market conditions in CY20 supported by positive demand and pricing across a number of our produce categories, including citrus, berry, and avocado. Our superior blueberry IP, in particular our premium Arana variety, meant we were able to sell increased volumes while also receiving a significant price premium.”

Outlook

Demand and pricing across produce categories generally remains strong into CY21. There is continued focus on our competitive advantages in yield, geographical spread, quality and cost of production. Favourable conditions in Riverland over summer months, and early to mid-season navel crops are looking promising at this stage with CY21 season an ‘on year’. The New Year’s day ‘21 hailstorm damaged the Colignan grape crop, while citrus contribution to overall category from this farm is minor. Early season performance from the International segment has been positive, including strong pricing in China. There is uncertainty as to the extent of COVID-19 impacts, particularly given the UK/Europe situation. Translation of International segment results are likely to be impacted by the recent strengthening in AUD.

Earnings changes

For the full year of 2020, CGC reported underlying NPAT of \$59.4 million, which compares to market expectations of \$49.7m; a surprise of 20%. However, there is future uncertainty due to the COVID-19 pandemic and other issues. Hence, we expect positive earnings revisions of 10% for future periods.

Valuation

We are initiating on CGC with a price target of \$4.91 and a BUY recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

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employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)