Monday, 14 May 2018

2018 first half financial results

- **Statutory net profit after tax of $41.4m, up 8% (+ $3.1m) from pcp**
- **Underlying profit after tax of $39.7m, up 13% (+ $4.5m) from pcp**
- **Underlying EBIT of $45.7m, up 10% (+ $4.2m) from pcp**
- **Underlying return on capital of 28.2%**
- **Operating cash inflow of $26.1m, up $31.4m from pcp**
- **Fully Franked interim dividend of 9 cents per share**

Elders Limited (ASX:ELD) today released its half year results for the six months to 31 March 2018, delivering improved statutory and underlying profit, while maintaining above target return on capital.

Statutory net profit after tax of $41.4 million compares with a $38.3 million profit in the prior corresponding period. Underlying net profit has improved $4.5 million on the prior corresponding period to $39.7 million.

Underlying earnings before interest and tax (EBIT) of $45.7 million were driven by continued strong performance in the Retail business and additional earnings through bolt-on acquisitions.

Average net debt over the six month period was $143 million, broadly in line with the prior corresponding period, reflecting strong conversion of profit to cash. The Company's balance sheet reflects continued improvement across leverage, interest cover and gearing ratios.

Elders' Chief Executive Officer and Managing Director, Mark Allison, said that the half year results reflect the Company's commitment to the strategic Eight Point Plan and the resolve to achieve continuous high quality growth.

"We are focused on improving our service offering for clients and delivering value to shareholders. We now have a solid and stable platform to capitalise on the many opportunities that lie ahead for Elders and Australian agribusiness," he said.

Operational Update

"Continued strength in the Retail business was driven by a combination of organic growth across southern Australia and the acquisition of Ace Ohlsson (a horticulture supplies business based in New South Wales), which has resulted in a $9.4 million improvement in margin."

"Strong wool performance and additional sheep earnings from Agency acquisitions, offset by declining cattle prices and volumes resulted in a $0.7 million uplift in Agency margins."

"Real Estate gross margin increased $0.7 million, with margins from acquisitions largely offset by a decline in farm land property earnings, resulting from limited supply of property stock."

"Similarly, Financial Services gross margins were boosted by earnings from the StockCo and Elders Insurance acquisitions and increased productivity across the portfolio, resulting in an increase of $2.7 million on the prior corresponding period."

Increased competition for young cattle at the Killara feedlot resulted in a slight reduction in margins in the Feed and Processing business.

Elders' return on capital remains above the 20 percent target, at 28.2 percent. This is largely driven by continued strong agency and retail earnings and stable capital levels.

Delivery on Key Priorities

Mr Allison said Elders is delivering on all key priorities set out in the Eight Point Plan, including in safety performance.

"Our lost time injuries reduced from five to two, with a 96 percent decrease in days lost. We continue to strive for an injury free workplace based on our risk based decision making training and development, and a continued emphasis on employee and community safety, health and wellbeing."

"Key relationships have also strengthened across the board. We've continued to work with retail key suppliers, and have improved our position in the Western Australian fertiliser market."

Elders continues to develop and improve digital and technical service offerings to assist clients in making data driven decisions to increase the productivity and profitability of their businesses.

"From a growth viewpoint, we have continued to do what we said we would do, in line with our aim of 50 percent organic and 50 percent acquisition growth plans."

Acquisition and Divestment Update

Elders expanded the Agency business footprint with the acquisition of Kerr & Co Livestock in December 2017, the largest privately owned independent livestock business in south west Victoria. Kerr & Co acts as agent in the sale of 416,000 sheep and 16,000 cattle annually.

Mr Allison said the Company also completed the acquisition of Titan Ag Pty Ltd (Titan) on 1 May 2018. The purchase will extend Elders' participation in the supply chain for quality agricultural chemicals.

"Titan is a quality brand that has the potential to significantly grow sales of its product range. Many Australian primary producers have already identified Titan products as effective and reliable and we look forward to growing what is already a very successful business."

Based on the historical performance of Titan, Elders expects Titan to generate annualised additional EBIT between $6.5m and $7.5m in its first full year of Elders' ownership (the year ending 30 September 2019).

Last month Elders confirmed it had entered into a conditional sale contract to divest its feedlot and processing assets from its Indonesian subsidiary, PT Elders Indonesia (PTEI), following a comprehensive performance review of its feed and processing business units in line with the Eight Point Plan.

“Elders prioritises investment in, and retention and growth of, business units which generate a consistent return on capital at a level which creates wealth for our shareholders. High cattle costs and changing Indonesian governmental policies have adversely affected the performance of our Indonesian business, making it appropriate to divest these assets,” Mr Allison said.

“Elders is committed to the red meat industries in Australia and we will continue to have a presence in Indonesia, China and Vietnam through our retail meat distribution businesses in those countries which we intend to grow.”

FY18 Outlook

“Cattle prices are expected to ease in the second half of FY18 due to strong international competition. This ease in Agency earnings will be offset by national footprint expansion and acquisition growth.”

“Supply of farm land property may continue to be subdued in line with the decline in livestock prices, while sheep prices are expected to remain steady. Wool is anticipated to maintain growth with a solid pipeline of wool in store, continued strong wool prices and slow supply growth.”

Winter cropping conditions are expected to be average with limited rainfall during April and May across most of Australia. This is anticipated to inhibit grower demand for cropping inputs in the second half.

“Retail earnings are expected to increase in the second half of FY18 following the Titan Ag acquisition.”

“Continued momentum and growth is likely in the banking and livestock funding products, which will contribute to the Financial Services margin.”

“Continued dry conditions will allow feedlot utilisation to remain at high levels, but will also increase feed costs at the Killara feedlot.”

Mr Allison also said that exiting from the feedlot and processing facilities in Indonesia will allow Elders to redirect $13 million of capital to other initiatives which are more aligned with the Company’s strategy and required returns.

Costs are expected to continue to increase in the second half in line with footprint growth and continued Eight Point Plan investment.

ENDS

Further information
Mark Allison, Chief Executive Officer, 0439 030 905
Richard Davey, Chief Financial Officer, 0437 167 772

Media enquiries
Annie Ashby, Elders Communications, 0427 570 518

Conference call and presentation
Details for the conference call and webcast slide presentation are as follows:

Conference call

10.00am (AEST) Monday, 14 May 2018

Phone: 1800 908 299

Quote conference ID: 428885

Webcast slide presentation

Register, view and listen to webcast

This webcast will stream the audio, so if you do not wish to ask a question, you do not have to call into the conference call. Note: the slide presentation will not be available until the presentation is scheduled to begin but you can use this link to test your browser.