27 February 2019

PGG Wrightson announces first half result

PGG Wrightson Limited (PGW)* Chief Executive Ian Glasson announced today that Operating EBITDA** for the six months ending 31 December 2018 was $17.8 million (compared to the record $23.4 million for the corresponding period last year).

Mr Glasson said, "While this result is back on the previous year it is slightly ahead of first half Operating EBITDA for the Rural Services*** businesses for the 2017 financial year. The factors impacting performance have been felt across the rural sector and we have confidence that we have held, and in some cases grown, our market share. It is important to note that this Operating EBITDA result no longer includes any contribution from the Seed and Grain business, which is in the process of being sold to DLF Seeds A/S. We are confident the transaction will settle in the near future and accordingly the Seed and Grain business is now treated as a discontinued operation in our financial reporting."

PGW delivered a net profit after tax (NPAT) of $0.3 million for the period. This result includes a loss of $8.6 million from the discontinued Seed and Grain business.

On the basis of the Rural Services' result the Board has resolved to pay a fully imputed interim dividend of 0.75 cents per share on 5 April 2019 to shareholders on PGW's share register as at 5pm on 15 March 2019.

Rural Services

Mr Glasson said, "Late last year we advised that while our Rural Services businesses had been trading solidly for the first six months of FY2019, we signalled that it was likely the half year result would be behind the same period last year. That prediction has proven to be accurate. This softer result was largely due to a later start to spring sales and a delayed recovery following an unseasonably wet period in the last few months of 2018 across the country."

"In December 2018 the National Institute of Water and Atmospheric Research (NIWA) reported that many eastern and inland parts of the South Island recorded double their normal rainfall for that time of the year. Wet spring conditions throughout the country have favoured milk and beef production, with an increase in production by six percent across both sectors due largely to strong pasture growth. In contrast, wet growing conditions in most regions have delayed pasture renovation and the establishment of both arable and winter feed crops. These wet conditions were felt across most of our Rural Services businesses impacting the sales mix and some delayed spending."

"Turning to the two operating groups within Rural Services."

Retail and Water

"The Retail and Water group earnings are tracking broadly in line with last year. The first six months of the financial year are key for the Retail and Water group as it generally delivers more than 85 percent of its full year Operating EBITDA during this period. Despite some challenges with the weather and excluding the claim event noted below, year-on-year gains continue to be made by the Rural Supplies, Fruitfed Supplies and Agritrade businesses. However, the Water business continues to experience weak demand with the remainder of the year also looking extremely challenging."

"We have confidence that after this financial year Rural Supplies, Fruitfed Supplies and Agritrade will again revert to growth."

"Operating EBITDA was $23.0 million for the first half of FY2019, slightly back on last year's record $23.6 million, but well ahead of the $18.9 million recorded in the first half of FY2017. In addition, a claim event impacted the Retail and Water group's otherwise excellent trading result. In September 2018 a settlement was reached with a supplier and a number of growers in relation to a defective spray that was supplied to PGW and resold to fruit growers. The settlement partially compensated PGW for the consequences arising from the supply of the defective product with a financial impact of approximately $1.8 million that was not recovered. Customers were fully compensated."

"Our investment in the Retail business continues with key initiatives, such as the rollout of our new retail point of sale system in the first quarter of FY2019. The next phase in this digital journey is the establishment of an ecommerce solution which is currently in the discovery phase. In addition, our investment in technology infrastructure, our people, technical training and tools for our team continues."

Agency

"Our Agency business incorporates the Livestock, Wool, Real Estate, Insurance and Financial referral commission businesses. Trading for this group is weighted towards the second half and contributed $1.6 million Operating EBITDA for the six months ended 31 December 2018. This is back, on the record first half result for FY2018 of $4.6 million."

"Our Livestock business benefited from the favourable conditions for farmers due to good feed supply across most of the country which was buoyed by sustained high sheep and beef commodity pricing (with tallies for all stock and all sales channels similar to the prior year). However, this was offset by continued caution in the dairy sector due to the ongoing effect of Mycoplasma bovis and the lack of supply of good quality dairy livestock. Investment in the future continues to be a focus for this business with a number of digital initiatives and further supply chain developments scheduled to be implemented during FY2019. While Livestock is down on earnings at the half year mark, it rebounded in January 2019 and is on track to match FY2018 full year result.

"Despite holding its market share, our Wool business was materially impacted (circa $2.0 million) by several factors during the first six months of FY2019; mainly the reduction in the number of bales sold compared with the same period last year (a significant number of bales that had been stockpiled by growers were sold), wet conditions delaying shearing and the export business was adversely affected by weaker global demand which flowed through to soft international pricing for crossbred wools."

"The Real Estate business again experienced a slow start to the spring and summer selling period overall, with the horticultural and viticulture sectors proving to be the exception to this trend for the first half of FY2019."

Seed and Grain

"As previously mentioned, the Seed and Grain business is now accounted for as a discontinued operation, therefore its performance does not impact PGW's Operating EBITDA. The Seed and Grain groups' performance does impact net profit after tax, however. For the six months ending 31 December 2018 Seed and Grain reported a loss of $8.6 million, compared with a profit of $2.7 million in the same period in FY2018. This underperformance relates primarily to the South American operations, in particular the AgroCentro joint venture, of which Seed and Grain acquired the remaining 50 percent during the period to now wholly own the business. Conditions in the agricultural sector in Uruguay remain challenging given the continuing effects of the droughts and floods experienced in the region, combined with lower commodity prices."

"For PGW shareholders it is important to note that once the sale of the Seed and Grain business completes the risks and rewards of this business will have passed to the purchaser effectively from 1 July 2018."

Outlook

"Looking ahead at market conditions for the remainder of FY2019 and beyond the signals are somewhat mixed."

"Given the weather-affected spring we've had, there should be some pent-up demand for agricultural inputs to come through this coming autumn and spring. Milk, beef and particularly lamb prices are strong versus long-term averages, suggesting that farm profitability should remain robust. Horticulture continues to go from strength to strength – for example in December the Ministry for Primary Industries expected horticulture to be the fastest-growing export sector, increasing revenues 12 percent for the FY2019 year."

"There are several counterpoints to these positive signals. Farmer confidence surveys in New Zealand continue to reflect a degree of pessimism. Much of the country has been drier than usual for this time of year – particularly Taranaki and Tasman. Mycoplasma bovis remains a risk factor for the beef and dairy sectors, and abroad both Brexit and US-China trade relations have the potential to disrupt New Zealand's exports and therefore farmer returns."

"On balance we are cautious for the remainder of the year. Weather and commodity prices will continue to be risk factors for the business, particularly during the months of May and June, which are important contributors to the earnings of our Livestock business."

“With that in mind, we expect full year Operating EBITDA for FY2019 will be similar to FY2017, in the range of $25 to $30 million,” said Mr Glasson.

Seed and Grain transaction update

The sale of Seed and Grain to DLF Seeds A/S is now only conditional upon Overseas Investment Office approval and the completion of regulatory filings in Uruguay.

The agreed headline price of $434 million (including net debt of $21 million) will result in a purchase price of $413 million for the Seed and Grain business. After sales proceeds are received on settlement and debt repaid, PGW would be expected to have a cash surplus of circa $210 million (subject to transaction completion timing, working capital requirements that can fluctuate materially through the annual cycle and other transaction wash-up items).

Further guidance on the non-taxable capital distribution to shareholders will be provided after the remaining conditions are confirmed. Factors impacting the capital return include; the ultimate cash surplus, desired ongoing PGW debt profile, capital / cashflow requirements and alternative uses of funds to support growth etc.

Mr Glasson concluded, “We will continue to keep the market updated as the financial year progresses and as matters develop in relation to the sale of the Seed and Grain business.”

Ends

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*All references to PGG Wrightson Limited or the Group refer to the Company, its subsidiaries and interests in associates and jointly controlled entities.

**Operating EBITDA: Earnings before net interest and finance costs, income tax, depreciation, amortisation, the results from discontinued operations, fair value adjustments and non-operating items.

***Rural Services business incorporates Agency and Retail and Water operating groups, and Other (corporate services).

PGW has used non-GAAP profit measures when discussing financial performance in this document. For a comprehensive discussion on the use of non-GAAP profit measures, please refer to the policy “Non-GAAP Accounting Information” available at www.pggwrightson.co.nz