Monday 15 May 2023

FY23 Half Year Results

Elders reports an $82.8 million underlying earnings before interest and tax (EBIT) and has determined to pay a dividend of 23 cents per share, 30% franked. Full year underlying EBIT guidance of between $180 million and $200 million.

Australian agribusiness Elders Limited (**ASX:ELD**) today released its half year results for the six months to 31 March 2023.

Elders reported a resilient HY23 performance against a volatile agricultural industry backdrop, impacted by softened livestock trading conditions, weaker crop input prices and unseasonably wet weather. This contrasts with the exceptionally favourable HY22 trading conditions which saw firmer livestock prices, a strong real estate market and ahead-of-season client procurement for winter crop, in response to the global supply chain uncertainty at that time. HY23 continued the similar trajectory seen in 4Q22 with the industry reverting to a more normalised trading environment.

Elders reported statutory net profit after tax (NPAT) of $48.8 million, down 46.5% on the prior corresponding period (PCP). Underlying EBIT of $82.8 million, down 37.7% on the PCP, but up 12.2% on HY21. Portfolio return on capital (ROC) for HY23 was 16.9%, 1.9% above the 15% benchmark set in its Eight Point Plan strategy. This result was impacted by higher working capital build in anticipation of a strong winter crop and accelerated recovery of supply chain lead times.

The Directors have determined to pay a dividend of 23 cents per share, 30% franked.

Financial Metric ($m)	HY23	HY22	Year-On-Year Change	
Sales revenue	1,657.3	1,514.8	142.5	9%
Statutory profit after tax	48.8	91.2	(42.4)	(47%)
Underlying profit after tax	50.6	91.2	(40.6)	(45%)
Underlying EBIT	82.8	132.9	(50.1)	(38%)
Underlying return on capital (%)*	16.9%	27.8%	(10.9%)	-
Operating cash flow	(86.9)	(55.4)	(31.5)	(57%)
Underlying earnings per share (cents)	32.3	58.3	(26.0)	(45%)
Total dividend per share (cents)	23	28	(5.0)	(18%)
Franked (%)	30%	30%	-	-

** Return on capital = Rolling 12 months Underlying EBIT / (working capital + investments + property, plant and equipment + intangibles (excluding Elders brand name) – DTL on acquisitions – lease liabilities – provisions)*

Agency services experienced a 22.1% decline in earnings, driven by lower prices for cattle and sheep, negatively impacted by challenging market and unseasonal conditions. US beef import prices were notably weaker during HY23, following a significant herd reduction amidst drier conditions, but have since shown signs of recovery.

Retail Products sales increased across fertiliser, animal health and crop protection products whilst margins declined due to the sales mix composition and pressure from softening crop input prices in core products, including fertiliser and glyphosate.

Wholesale Products expanding footprint and our backward-integration initiative supported a sales uplift of $10.2 million (+5%). This increase was offset by declining crop input prices throughout the period, placing downward pressure on gross margin, particularly glyphosate.

Real Estate Services experienced higher property management earnings offset by lower broadacre turnover. Residential sales remained resilient during the period, notwithstanding rising interest rates.

Financial Services continues to grow revenue, predominantly driven by increased demand for insurance products and rising premiums.

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Progress on Elders' third Eight Point Plan

In FY21 Elders embarked on its third Eight Point Plan, targeting 5% to 10% growth in EBIT and EPS through the agricultural cycles whilst maintaining strong financial discipline to generate a ROC of at least 15%.

Managing Director and Chief Executive Officer, Mark Allison said, "the half year financial results have been satisfactory given the market and seasonal conditions, especially in the flood impacted Q1. Elders continues to execute its plan to deliver growth through the cycles.

"FY22 was unusual with EBIT greater in the first half than the second, primarily because clients brought forward their winter crop procurement due to supply concerns and rising input prices. The freeing up of supply chains, lower freight costs and more sustainable fertiliser prices are a great benefit to the agricultural industry but make comparison between HY23 and HY22 challenging. Consequently, Elders has taken the decision to provide full year guidance to reinforce our expectation that second half earnings are likely to exceed the first half, a more typical earnings profile for Elders. We look forward to the second half given the strong winter crop outlook."

Mr Allison attributed higher costs to the significant strategic investments in business transformation and growth initiatives.

"To deliver on growth beyond the third Eight Point Plan, Elders must invest in strong leadership and capable people to deliver initiatives like our Systems Modernisation program, Rural Products supply chain optimisation and Elders Wool Handling. These investments are critical to remaining a leading and trusted partner to farming clients into the future. The first stage (*Wave 1)* of our Systems Modernisation program is on track for successful completion within budget and on time," Mr Allison said.

"Elders has also made a series of strategically important acquisitions in the first half of the financial year and opened new branches to increase points of presence. The pipeline of quality bolt-on acquisitions remains strong.

"Elders continues to invest in an expanded product portfolio through the TitanAG brand, as well as growing its service offerings and branch network to better cater to the changing needs of Australian farming clients and emerging markets."

Elders recorded two Lost Time Injuries (LTI) in the first half of FY23, resulting in a decrease in its total recordable injury frequency rate (TRIFR) to 11.9. Elders continues to invest in safety initiatives in its ambition to achieve a zero-injury workplace.

FY23 Outlook

Demand for agricultural commodities is anticipated to support favourable trading conditions in the second half of FY23.

The outlook for Rural Products in the second half is encouraging with sowing now under way supported by generally favourable soil moisture profiles and neutral climactic conditions.

The outlook for Agency Services is forecast to improve in the second half but overall remain below FY22 levels. Cattle prices are expected to remain subdued on volume growth, supported by the recent improvement in United States beef import prices. Lamb prices are expected to remain under pressure given mixed quality and higher volumes, while mutton prices have shown signs of improvement. The wool market is expected to remain robust.

In Real Estate, softer broadacre market conditions are expected to persist for the foreseeable future, with residential remaining robust despite elevated interest rates and inflation. Property management is expected to remain strong, supported by the acquisition of six offices in NSW.

The strong performance of the Financial Services business is expected to continue into the second half of FY23.

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Mr Allison said, "demand for food and fibre remains strong globally and Elders' long-term earning potential persists with equal strength.

"We remain confident in the strategic foundations and principles set for Elders under its Eight Point Plan and its ability to deliver expected earnings and shareholder value at full year."

In light of this outlook, and performance since the end of the first six months, Elders expects FY23 underlying EBIT to be between $180 million and $200 million[1], the midpoint of which is 18.1% lower than FY22 but up 13.8% on FY21.

CEO Transition and Leadership

Mr Allison noted, "Elders has strengthened its leadership team with executive appointments that bring the skills and vision required to grow the business over the coming years and enable us to better service existing and new customers."

Chair, Ian Wilton, said "the process of identifying a suitable successor to Mark Allison as CEO of Elders is continuing. The board expects to make a further announcement in July."

Investor Briefing

An investor briefing (webcast conference call) on these results will be held today at 10.00am AEST. Participants can register for the conference by navigating to https://s1.c-conf.com/diamondpass/10029462-ayt6fs.html. Please note that registered participants will receive their dial in number upon registration.

About Elders Limited

Elders is focused on creating value for all its stakeholders in Australia and internationally. We achieve this with the expertise and commitment of approximately 2,700 employees across Australia.

In Australia, Elders works closely with primary producers to provide products, marketing options and specialist technical advice across rural, wholesale, agency and financial product and service categories. Elders is also a leading Australian rural and residential property agency and management network. This network includes both company-owned and franchise offices operating throughout Australia in major population centres and regional areas. Our feed and processing business operates a top-tier beef cattle feedlot in New South Wales.

Elders is invested in the ongoing prosperity and well-being of rural and regional communities across Australia and remains committed to investing in, and developing, a resilient business. Elders is focused on future-proofing the Australian agriculture industry through sustainable initiatives across the areas of environment, people and community.

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Authorised by:
The Board of Elders Limited

[1]This guidance is subject to a range of variables including: the potential of supply chain disruptions as a result of external events, including geopolitical events; unexpected and un-forecast changes to seasonal conditions and severe weather events; and unexpected and un-forecast changes in commodity prices.