

The A2 Milk Company Ltd (A2M)

22 August 2018

RESULTS	Full Year 2018	Full Year 2017	CHANGE
Net Profit After Tax (NPAT) (\$m)	195.68	90.65	+115.9%
NPAT (\$m) Consensus	189.77	-	-
Revenue (\$m)	922.67	549.5	+68%
EBITDA (\$m)	283	141	+101%
EBITDA (\$m) Consensus	277.1	-	-
EBITA (\$m)	280.9	138.5	+103%
Final Distribution (\$)	n/a	n/a	-

*All figures expressed in NZ\$

The A2 Milk Company Ltd (A2M) profit more than doubles on strong demand for infant formulas

- The A2 Milk Company (A2M) has reported a 116% increase in full year NPAT to \$195.7m, ahead of the \$189.7m figure, which was the average of analyst's expectations surveyed by Bloomberg. Total revenue increased by 68% to \$922.7m compared to the prior corresponding period (pcp), marginally ahead of expectations. Earnings before interest tax depreciation and amortisation (EBITDA) increased by 101% to \$283m on the pcp, a result which was ahead of a consensus figure of \$277m. Earnings per share of 27 cents was ahead of an estimate of 26 cents and marked an increase from 12.7 cents in the pcp.
- Infant nutrition was the overwhelming driver of earnings for the period, with revenue increasing by almost 84% to \$724.2m. By comparison, liquid milk revenue rose by 13% to \$142.4 million. In regional terms, while there is much focus on the Chinese market, Australia & NZ is the largest market for A2 Milk products. Market share for fresh milk in the region grew to approximately 9.8% from 9.3% in the pcp, with the measure continuing to grow to 10% in the latest quarter. By contrast, A2M's market share for infant formula grew strongly in the last year from approximately 26% to 32%. Over the year revenue for the geographical area grew by 49.4% from \$439.6m to \$656.6m. EBITDA, similarly saw a strong increase, rising by 68.8% from \$155.3m to \$262.2m.
- China & Asia was the fastest growing region for A2M. Revenue grew by 162.9% from \$88.9m to \$233.6m. EBITDA for the same period rose by 148.2%, from \$32.7m to \$81.3m. Importantly, A2M estimates its market share in China (according to Kantar data used by A2M) increased from ~2.8% to ~5.1%. The result was supported by improving brand awareness and distribution, with approximately 10,000 Mother and Baby stores now carrying A2M infant formula, compared to around 3,800 in June 2017.
- The UK and US businesses remained in transition making little contribution to overall earnings. In the UK, sales of fresh milk increased by more than 50% on the pcp helped by expanded distribution and increased in-store sales, although the market in general remains a challenging one in which to achieve scale. In the US, sales doubled as distribution increased to approximately 6,000 stores in California, the Southeast, the Northeast, the Mid-Atlantic and through natural retail chains.
- Looking ahead, A2M offered no formal earnings guidance. The focus will remain firmly on its 2 key markets Australia and China, where further growth will be underpinned by infant formula products in Australia & New Zealand and China, while liquid milk will expand its presence in the United States. Costs are expected to be higher in the next 12 months reflecting an increased headcount in China and in administration to support continued growth. Even though expenditure is expected to be higher, A2M expects the relationship between EBITDA and sales to be similar to 2018 in the year ahead.

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