

## BELLAMY'S AUSTRALIA (BAL)

29 AUGUST 2018

RESULTS	Full Year 2018	Full Year 2017	CHANGE
Revenue (\$m)	328.7	240.2	+36.8%
Bloomberg Consensus (\$m)	324.0	-	-
Cost of Sales (\$m)	199.8	148.7	+34.4%
Gross Margin (%)	39.2	38.1	+2.9%
Normalised Net Profit (\$m)	47.0	28.2	+66.7%
Bloomberg Consensus (\$m)	44.6	-	-
Final Dividend (\$)	Nil	Nil	-

### Bellamy's (BAL) profits lift despite delays in key China licence

- **Bellamy's Australia (BAL)** posted a 66.7% lift in normalised net profit to \$47 million for the year to 30 June 2018. The Tasmania based organic infant formula maker's revenue and earnings were driven by a lift in volumes and was above Bloomberg consensus.
- Its **Australian Label portfolio** recorded 24% like-for-like sales growth over the year while revenue from its Chinese Label portfolio slumped by 51% due to licencing challenges in China over the second half. The group's gross margin improved modestly to 39.2% thanks to cost controls which it attributed to 'improved ingredient purchasing and manufacturing arrangements'. Small price increases and a drop in promotional activity helped boost revenue.
- BAL is still **awaiting a key licence it needs to sell Chinese-label products** in China. The group submitted its application to China's State Administration for Market Regulation (SAMR) in Dec 2017. CEO Andrew Cohen said the licence "...is important to concluding the [company's] turnaround" and relates exclusively to sales in offline channels in China which generated less than 6% of sales in FY18. BAL currently sells 'Australian label' formula via cross border e-commerce platforms in China. In FY17 BAL generated \$73 million in sales across China.
- Bellamy's (BAL) will not pay a **final dividend** to investors. Its most recent dividend was distributed in September 2016. The group has **no debt** and holds \$88 million in cash on its balance sheet.
- **Looking forward**, it only provided guidance for its Australian business given timing uncertainty for SAMR approval in China. It expects revenue growth of 10% for its Australian Label products which would be boosted should the Chinese label business receive the necessary licencing over FY19. BAL anticipates entry to the Vietnam market in 1H19. According to the company, Vietnam's baby formula and food market is growing 15-20% p.a. with similar concerns about food safety, quality and nutrition to China. BAL has plans to roll out a new product range/product refresh in FY19.
- Its **shares** fell immediately following the result however are slightly outperforming the broader market (ASX 200) so far this calendar year.

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