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549 Posts
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Breaking news. One of your favourite A2M posters has personally upgraded the stock to buy BUT

- DYOR
- Be accountable for your own money
- I'm not licensed to give financial advice

So the purpose of this post is trying to forecast near term A2M performance through to 4M20 and SP target based on mostly evidences and a little bit speculations.

1. China online sales

The most obvious observations since beginning of FY20 have been tremendous growth of China online sales, mostly over JD.com and Alibaba Tmall. The sales is literally over the roof.

Below is the latest customer reviews data from A2's flagship online store owned by JD.com (https://mall.jd.hk/view_page-83949296.html). Looking at second table below which means, in the past approx. 80 days, the daily average reviews added are 2127, compared with 1280 of almost the same period last year, which implies 66% increase.

24-Jul-18	15-Oct-18	83	days elapsed	
401505	507719	106214	reviews increased	
		1280	daily average	
25-Jul-19	10-Oct-19	77	days elapsed	
951577	1115423	163846	reviews increased	
		2128	daily average	66.28%

So what does this number could possibly mean? Let's go back and have a look at another table below, which roughly demonstrate FY19 to FY18 comparison of 220 days or so for the same JD store, and the growth was "ONLY" 55% for the period, increased from 961 to 1492 reviews per day.

Start date	End Date			
9-Nov-17	17-Jun-18	220	days elapsed	
137716	349204	211488	reviews increased	
		961	daily average	
5-Nov-18	11-Jun-19	218	days elapsed	
541897	867132	325235	reviews increased	
		1492	daily average	55.20%

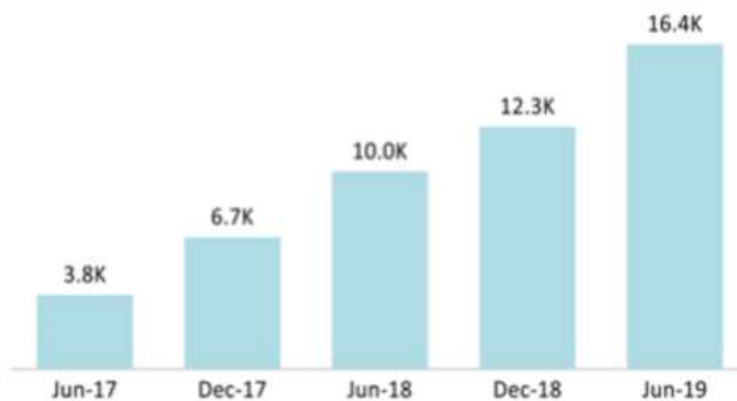
This means, this sales growth is very like to be even HIGHER than last FY for this particular online store on JD. This is truly amazing considering overall moderated sales growth moving forward. Btw my estimated turnover for this online store is roughly A\$130k-150k per day circa A\$ 47M to 55M for this FY so it's a big one.

2. MBS sales - China label IF

I think this part of estimation can be derived from the growth of the number of MBS stores. The observation is since FY17 the China Label sales growth is proportional to the growth of MBS stores. For 4M20 estimation, I'm expecting we have around 17.5k MBS stores at the end of Oct vs. estimated 11.5k for Oct 2018, which is 52% increase, so I'd forecast China label IF sales will be 90% up for 4M20 period (even though this might not be disclosed separately)

	FY16	FY17	FY18	FY19	YoY%	FY17	FY18	FY19
ANZ	167.6	297.8	482.5	652.9		77.68%	62.02%	35.32%
CBEC	41.8	71.5	158.0	243.1		71.05%	120.98%	53.86%
China Label	4.9	24.8	83.9	167.8		406.12%	238.31%	100.00%
TOTAL	214.3	394.1	724.4	1063.8		83.90%	83.81%	46.85%
OTHERS		155.4	198.3	240.7				21.38%

a2MC distribution (number of stores)



3. ANZ IF growth

This part is a bit difficult to estimate, but the observation is we have way, way better supply chain management this year than last year. We don't have serious shortage issues in Aussie Supermarkets, while stocks are still flowing fast, so I am pretty sure we are capable of maintaining certain level of natural growth and further growth of Aussie market share. See below table, are we going to see decent numbers compared to PCP for September and October cells? I think it's highly possible.

By Gross Weight in KG, Lyttelton Port, HS 1901100900, Export to AUS, CHN, HK					
TO AUS	FY16	FY17	FY18	FY19	FY20
July	717,032	1,691,465	2,255,868	2,769,856	1,086,980
August	377,216	1,215,085	2,070,453	533,104	2,513,655
September	335,382	1,091,256	1,063,115	663,462	
October	694,374	1,141,291	1,267,333	1,351,941	

A friend of mine has been running a decent size daigou shop over last few years, who had recently received HUGE purchase orders from a major CBEC distributor in China. As a result he and his employees had to work overtime for entire fortnight to fulfil the orders, and [hidden] pallets of A2IF every day for the entire two weeks had been shipped to China, that was [hidden] cans in total. This was biggest ever A2 purchase order he fulfilled since he started his business. (I don't want to disclose specific numbers but those were big numbers considering the size of the business he was running)

4. Lyttelton export data

This export data might arguably become less indicative than it was, as it's believed some of English labels are exported out of Auckland port. However, I believe it will still be worth watching for obvious reasons. I'm almost confident September data will be at least 50%+ growth given last September's poor data. BUT, it's still very important that by **23rd Oct** when September data is published, the general market will gain much more confidence about 4M20 results and SP started to turn around by then if not earlier, then leading into an inevitable leg up in November.

FY19 to FY18 compare			
Monthly combined	FY19	FY20	%PCP Change
July	4,092,525	2,853,945	-30.26%
August	2,323,535	4,453,079	91.65%
September	2,478,036	?	
October	3,580,768	?	
November			
December			
January			
February			
March			
April			
May			
June			
Subtotal	6,416,060	7,307,024	13.89%

5. Hrdlicka Sales

This part is PURE SPECULATIVE THOUGHTS without any evidence.

I believe Jayne (probably with other insiders as well) is still planning to sell her shares to meet whatever tax obligations. Insiders sales just happen EVERY YEAR regularly for A2M like sun rises from the east every morning. However, why we still haven't seen the change of director interest ANN? I'm guessing that as the insider Jayne would know that currently the SP seriously undervalued, while she can easily sell her shares above \$15 after 4M20 results released. It's just less than 6 weeks away and sharp recovery of SP is highly definitive, so why the sales at 20% discount now?

Again I hate speculation and I might be COMPLETELY WRONG and I will be pissed off if I see the sales notice before 4M20 results, but until shx happens I'm standing with this speculation.

6. Marketing expenditure

With the evidence of China online sales booming I believe marketing expense is paying off and it's rewarding from long term perspective, especially in China market, even though we have to bear with lower EBITDA margin for the time being. I'm not specialist in this domain though but my intuition tells me A2's management is doing the right things with their working capital. For US market with all these investments I hope revenue could hit NZ\$100M and starts to break even by the end of FY21 but it's still too early to say at this stage.

7. 4M20 forecast

Current Brokerconsensus for FY20 is (in NZD)

- Revenue growth 32% - 1722M
- EBITDA growth 18% - 486M
- NPAT growth 18% - 340M

TITLE	FY18 ACTUAL	FY19 ACTUAL	FY20 FORECAST	FY21 FORECAST
EPS (cps)	27.0	39.3	46.2	58.2
DPS (cps)	0.0	0.0	0.0	5.0
EPS Growth	100.0%	45.4%	17.7%	26.1%
DPS Growth	N/A	N/A	N/A	N/A
Div Pay Ratio(%)	0.0%	0.0%	0.0%	8.6%

My forecast for 4M19 results is based on the assumption that A2M could possibly be able to maintain the same level of sales growth we saw last FY

- Revenue Growth 40% - 515M
- EBITDA growth 25% - 155M
- NPAT growth 26% - 108M

My SP target by the end of 2019: A\$15.80.

Last edited by jzhuang: Yesterday, 18:08

A2M Price at posting: \$12.13 Sentiment: Buy Disclosure: Held