

Cautious Daigous

Bubs confirmed a mixed 4Q20 result, with sales impacted by readjustment of channel inventory following significant pull-forward sales in 3Q20 and a destocking event across Daigou channel driven by travel & logistics restrictions limiting suitcase Daigou demand. Despite the noise around COVID and new product launches, 2H20 showed resilient double-digit HoH growth in underlying sales for the core IF segment. Near-term outlook remains volatile due to travel restrictions impacting Daigou demand. Longer term, we see good growth prospects albeit costs will likely remain higher than market expectation. We retain a MARKET WEIGHT rating.

Key points

4C. FY20 gross revenue (+32%) of \$62M was 6% below our forecasts, with the miss broadly split between Infant formula and Adult Dairy. Cash costs were slightly above expectation, leading to year-end cash at \$26M, \$5M below forecasts. This was driven by higher production costs (a combination of COGS and working capital) and admin costs.

Strategic developments. In addition to having recently launched products into cow infant formula, junior nutrition and is expected to launch a senior nutritional product, Bubs today announced it has entered the Vitamins and Mineral Supplements category through an agreement with Chemist Warehouse for its new Vita Bubs infant and children's range.

Wilsons view. The top-line result for 4Q20 was directionally consistent with expectation, as the supply chain readjusts inventory level. The quantum though was slightly above expectation driven by further destocking from the Daigou channel, likely accentuated by Bubs' channel mix. We assess the broader industry has more or less neutralised inventory position, albeit the Daigou channel will likely remain cautious on replenishment orders going into 1H21 with continued travel limitations. We resume assumption of significant growth from 2H21 as Bubs has shown resilience in the underlying IF result in 2H20 despite the noises around COVID and initial sales orders for new products/markets. Longer term, we remain the view that while a well-managed multi-product strategy increases the likelihood of launching a hero product, associated costs will likely remain elevated.

Forecasts. Mark to market on FY20. Sales changes between -4% and +1% in FY21 & FY22. EBITDA down to \$0.2M from \$1.6M in FY21 due to the assumption of prolonged impact from COVID on Daigous. EBITDA up modestly in FY22.

Valuation. We roll forward our valuation to FY21. 12-mth target at \$0.93 p/sh using a blended valuation based on sum of the parts (\$1.12 p/sh based on a 12-mth fwd EV/Revenue multiple of 7.5x for IF and 5.5x for non-IF) and DCF (\$0.73 p/sh).

Risks and catalysts

Risks. Product quality, supply constraints, market access, intellectual property, key customer / supplier risk. **Catalyst.** Takeover, registration approval.

Earnings forecasts					
Year-end June (AUD)	FY18A	FY19A	FY20F	FY21F	FY22F
NPAT rep (\$m)	-64.5	-35.5	-10.5	-2.4	3.7
NPAT norm (\$m)	-5.2	-6.3	-8.4	-2.4	3.7
Consensus NPAT (\$m)			-5.4	-0.7	7.0
EPS norm (cps)	-1.6	-1.4	-1.6	-0.4	0.6
EPS growth (%)	-16.2	13.5	-12.9	72.8	253.2
P/E norm (x)	-61.4	-71.0	-62.9	-231.4	151.0
EV/EBITDA (x)	-81.7	-88.2	-59.4	3160.3	58.5
FCF yield (%)	-2.3	-4.6	-4.6	-0.5	1.2
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

Source: Company data, Wilsons estimates, S&P Capital IQ

Wilsons Equity Research

Analyst(s) who own shares in the Company: n/a

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Recommendation	MARKET WEIGHT
12-mth target price (AUD)	\$0.93
Share price @ 27-Jul-20 (AUD)	\$0.98
Forecast 12-mth capital return	-5.0%
Forecast 12-mth dividend yield	0.0%
12-mth total shareholder return	-5.0%
Market cap	\$546m
Enterprise value	\$520m
Shares on issue	560m
Sold short	5.9%
ASX 300 weight	0.0%
Median turnover/day	\$3.7m

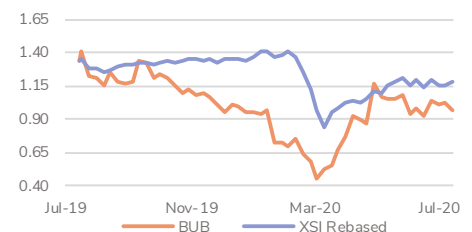
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12-mth price performance (\$)

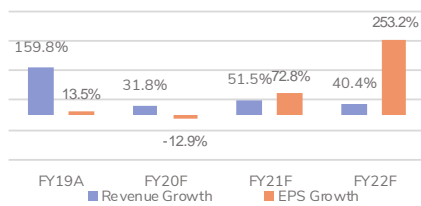


	1-mth	6-mth	12-mth
Abs return (%)	2.6	0.0	-27.5
Rel return (%)	1.8	16.3	-15.3

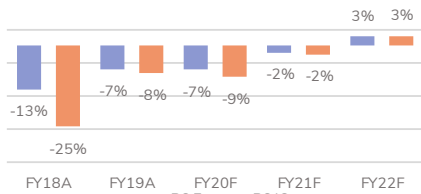
Key changes

		16-Apr	After	Var %
NPAT:	FY20F	-5.4	-8.4	N/A
norm	FY21F	-1.3	-2.4	N/A
(\$m)	FY22F	3.3	3.7	11.8%
EPS:	FY20F	-1.0	-1.6	N/A
norm	FY21F	-0.2	-0.4	N/A
(cps)	FY22F	0.6	0.6	11.8%
DPS:	FY20F	0.0	0.0	0.0%
(cps)	FY21F	0.0	0.0	0.0%
	FY22F	0.0	0.0	0.0%
Price target:		0.84	0.93	10.0%
Rating:		M/W	M/W	

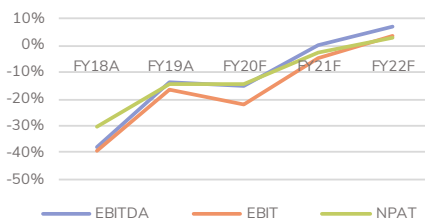
Growth rates



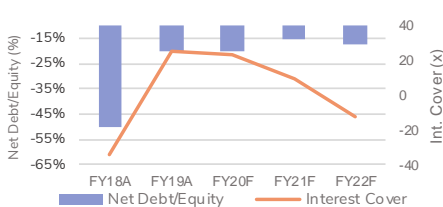
Returns



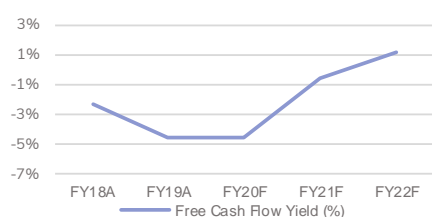
Margin trends



Solvency



Free cash flow yield



Interims (\$m)

	1H19A	2H19A	1H20A	2H20E
Sales revenue	19.5	24.4	27.1	30.8
EBITDA	-3.5	-2.4	-3.7	-5.0
EBIT	-3.7	-3.3	-5.6	-7.0
Net profit	-3.5	-2.7	-5.5	-2.9
Norm EPS	-0.8	-0.6	-1.1	-0.5
EBIT/sales (%)	-19.1	-13.7	-20.7	-22.7
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0
Payout ratio (%)	0.0	0.0	0.0	0.0
Adj payout (%)	0.0	0.0	0.0	0.0

Key assumptions

	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F
Revenue Growth (%)		329.9	159.8	31.8	51.5	40.4
EBIT Growth (%)		139.0	6.0	78.0	-70.1	-229.3
EPS Growth (%)		16.2	-13.5	12.9	-72.8	-253.2
ROA (%)	-31.0	-7.5	-4.6	-6.8	-2.0	2.4
ROE (%)	-36.9	-7.1	-5.9	-6.5	-1.8	2.8
Infant formula sales (\$m)		5.0	18.9	31.7	61.9	95.9
Baby Organic Food sales		1.7	2.7	3.5	4.0	4.6
Caprilac Powder sales (\$m)		6.7	15.6	15.8	16.6	17.4
Fresh Dairy Products sales		3.4	5.9	3.4	3.5	3.5
Raw materials sales (\$m)		0.1	0.3	0.0	0.0	0.0
Canning services income		0.0	0.4	3.5	1.7	1.7
Gross margin (%)		12.6	20.8	24.2	29.0	31.4

Financial ratios

	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F
PE (x)	-71.3	-61.4	-71.0	-62.9	-231.4	151.0
EV/EBITDA (x)	-194.3	-81.7	-88.2	-59.4	3,160.3	58.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	-0.4	-2.3	-4.6	-4.6	-0.5	1.2
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
Adj payout (%)	0.0	0.0	0.0	0.0	0.0	0.0

Profit and loss (\$m)

	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F
Sales revenue	3.9	16.9	43.9	57.9	87.7	123.1
EBITDA	-2.7	-6.4	-5.9	-8.8	0.2	8.9
Deprn & amort	0.1	0.3	1.2	3.8	3.9	4.0
EBIT	-2.8	-6.7	-7.1	-12.6	-3.8	4.9
Net interest expense	0.0	0.2	-0.3	-0.5	-0.4	-0.4
Tax	0.0	-1.7	-0.5	-3.6	-1.0	1.6
Minorities/pref divs	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0
Net profit (pre-sig items)	-2.8	-5.2	-6.3	-8.4	-2.4	3.7
Abns/exts/signif	-2.3	-59.3	-29.3	-2.0	0.0	0.0
Reported net profit	-5.1	-64.5	-35.5	-10.5	-2.4	3.7

Cash flow (\$m)

	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F
EBITDA	-2.7	-6.4	-5.9	-8.8	0.2	8.9
Interest & tax	0.0	0.0	0.2	0.4	0.4	0.4
Working cap/other	0.6	-6.4	-19.4	-13.7	-2.7	-1.7
Operating cash flow	-2.1	-12.8	-25.1	-22.1	-2.1	7.6
Maintenance capex	0.0	0.0	-0.1	-3.1	-0.7	-1.1
Free cash flow	-2.1	-12.8	-25.2	-25.2	-2.8	6.5
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Growth capex	0.0	0.0	0.0	0.0	0.0	0.0
Invest/disposals	5.5	-25.0	-14.9	-5.0	-3.9	-3.4
Oth investing/finance flows	0.0	0.0	0.8	0.0	0.0	0.0
Cash flow pre-financing	3.4	-37.8	-39.3	-30.2	-6.7	3.1
Funded by equity	-0.1	71.7	32.7	35.0	0.0	0.0
Funded by debt	0.0	-0.6	-8.8	0.0	0.0	0.0
Funded by cash	-3.2	-33.3	15.4	-4.8	6.7	-3.1

Balance sheet summary (\$m)

	FY17A	FY18A	FY19A	FY20F	FY21F	FY22F
Cash	5.3	38.6	23.3	28.1	21.4	24.5
Current receivables	0.9	4.0	15.6	20.3	21.9	30.8
Current inventories	1.0	6.0	14.6	29.2	37.7	39.4
Net PPE	0.1	0.0	4.2	4.6	2.5	0.6
Intangibles/capitalised	1.3	33.0	91.8	90.7	89.6	88.5
Total assets	9.0	89.0	154.6	184.1	188.1	202.3
Current payables	1.1	5.3	8.9	14.5	21.9	30.8
Total debt	0.0	2.0	2.0	2.0	2.0	2.0
Total liabilities	1.5	16.5	48.9	53.9	60.3	70.7
Shareholder equity	7.5	72.5	105.7	130.2	127.8	131.5
Total funds employed	7.5	74.5	107.7	132.2	129.8	133.5



Revised forecasts

Segment sales summary

Year-end June (AUD)		FY18	FY19	1H20	2H20e	FY20e	1H21e	2H21e	FY21e	FY22e
Infant formula	\$M	5.0	18.9	12.0	19.7	31.7	24.7	37.2	61.9	95.9
- growth	%	n/a	278.0%	77.6%	61.9%	67.5%	105.0%	88.9%	95.0%	55.0%
Baby Organic Food	\$M	1.7	2.7	1.7	1.8	3.5	1.9	2.1	4.0	4.6
- growth	%	n/a	59.5%	20.6%	35.9%	28.0%	15.0%	15.0%	15.0%	15.0%
Caprilac Powder	\$M	6.7	15.6	10.6	5.2	15.8	8.0	8.6	16.6	17.4
- growth	%	n/a	133.5%	30.3%	(30.9%)	1.0%	(25.0%)	66.5%	5.0%	5.0%
Fresh Dairy Products	\$M	3.4	5.9	1.8	1.7	3.4	1.8	1.8	3.5	3.5
- growth	%	n/a	74.9%	(45.2%)	(38.2%)	(42.0%)	0.0%	6.2%	3.0%	0.0%
Raw materials	\$M	0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- growth	%	n/a	187.8%	n/a	n/a	n/a	5.0%	n/a	n/a	n/a
Canning services	\$M	0.0	0.4	1.0	2.5	3.5	0.9	0.9	1.7	1.7
- growth	%	n/a	n/a	430.9%	1189.1%	810.0%	(15.0%)	(64.4%)	(50.0%)	0.0%
Group sales revenue	\$M	16.9	43.9	27.1	30.8	57.9	37.2	50.5	87.7	123.1
- growth	%	329.9%	159.8%	36.2%	28.2%	31.8%	37.2%	64.1%	51.5%	40.4%

Source: BUB & Wilsons.

Earnings summary

Year-end June (AUD)		FY18	FY19	1H20	2H20e	FY20e	1H21e	2H21e	FY21e	FY22e
Group sales	\$M	16.9	43.9	27.1	30.8	57.9	37.2	50.5	87.7	123.1
- growth	%	330%	160%	39%	26%	32%	37%	64%	51%	40%
Gross profit	\$M	2.1	9.1	6.5	7.6	14.0	10.4	15.0	25.4	38.7
- growth	%	145%	329%	91%	32%	54%	61%	99%	81%	52%
- margin	%	12.6%	20.8%	23.8%	24.6%	24.2%	27.9%	29.8%	29.0%	31.4%
Distribution & selling	\$M	0.9	1.5	0.8	0.9	1.7	1.0	1.0	2.0	2.5
- growth	%	216%	71%	16%	20%	18%	29%	5%	16%	22%
- % of sales	%	5.1%	3.3%	2.9%	3.1%	3.0%	2.8%	2.0%	2.3%	2.0%
Employee	\$M	2.5	4.8	2.8	2.9	5.8	3.0	3.1	6.1	6.8
- growth	%	98%	92%	33%	12%	22%	7%	5%	6%	10%
- % of sales	%	14.7%	10.8%	10.5%	9.5%	10.0%	8.2%	6.1%	7.0%	5.5%
Marketing & promotion	\$M	0.9	4.1	4.8	6.5	11.3	6.1	7.0	13.2	16.0
- growth	%	5%	374%	269%	135%	178%	27%	8%	17%	22%
- % of sales	%	5.1%	9.2%	17.8%	21.0%	19.5%	16.5%	13.9%	15.0%	13.0%
Occupancy	\$M	0.4	0.4	-	-	-	-	-	-	-
- growth	%	175%	3%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- % of sales	%	2.2%	0.9%	-%	-%	-%	-%	-%	-%	-%
Other	\$M	3.9	4.3	1.7	2.1	3.8	1.9	2.1	3.9	4.6
- growth	%	266%	11%	(29%)	12%	(11%)	6%	(1%)	3%	15%
- % of sales	%	23.2%	9.9%	6.4%	6.8%	6.7%	5.0%	4.1%	4.5%	3.7%
Total expenses	\$M	8.5	15.0	10.2	12.5	22.7	12.1	13.2	25.3	29.8
- growth	%	140%	77%	48%	54%	51%	18%	6%	11%	18%
- margin	%	50.2%	34.2%	37.6%	40.5%	39.2%	32.5%	26.1%	28.8%	24.2%
EBITDA	\$M	(6.4)	(5.9)	(3.7)	(4.9)	(8.6)	(1.7)	1.9	0.2	8.9
- growth	%	138%	(7%)	6%	106%	46%	(55%)	(138%)	n/a	5302%
- margin	%	n/a	n/a	(13.8%)	(15.9%)	(14.9%)	(4.5%)	3.7%	0.2%	7.2%
Depreciation / amortisation	\$M	0.3	1.2	1.9	2.0	3.8	1.9	2.0	3.9	4.0
EBIT	\$M	(6.7)	(7.1)	(5.6)	(6.8)	(12.5)	(3.6)	(0.1)	(3.8)	4.9
- growth	%	139%	6%	50%	105%	76%	(36%)	(98%)	n/a	(229%)
- margin	%	n/a	n/a	(20.7%)	(22.2%)	(21.5%)	(9.7%)	(0.3%)	(4.3%)	4.0%

Source: BUB & Wilsons.



Bubs Australia (BUB)

Business description

Bubs Australia is a premium goat milk products and organic baby food brand. It outsources majority of the manufacturing. Following the acquisition of Deloraine in 2019, BUB now internalises canning and blending.

Investment thesis

Bubs confirmed a solid 3Q20 result, with strong Infant Formula sales partly offset by a delay in new Adult Dairy product launches. The accelerated growth in Infant Formula sales (+33% QoQ) was largely in line with our expectation, driven by strong pull-forward sales from COVID-19 and contribution from new products and markets. We remain cautious on the potential for lower replenishment orders in 1H21, while noting early encouraging signs that suggest growth has settled at a higher base compared to that of prior to the outbreak. With the share price outperforming the XSI by 95% over the past month, valuation looks fair.

Revenue drivers

Birth rate
Brand awareness
Channel penetration
Registration

Margin drivers

- Sales mix
- Raw material prices
- Marketing spend
- Efficiency of scale

Key issues/catalysts

Channels / market access
ROI from increased market spend
Takeover
Registration approval

Risk to view

Product quality
Supply constraints
Market access
Intellectual property
Key customer / supplier risk

Balance sheet

- 1H20 Net cash of \$37M

Board

- Dennis Lin – Chairman
- Kristy Carr – Founder CEO, Executive director
- Matthew Reynolds – Non-executive director
- Steve Lin - Non-executive director
- Jay Stephenson – Company secretary

Management

Kristy Carr – CEO
Iris Ren – CFO
Anthony Gualdi – Co-founder and Director of special projects
David Orton – GM Commercial
Vivian Zurlo – GM Marketing
Richard Paine – GM Dairy operations

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Recommendation structure and other definitions

Definitions at wilsonsadvisory.com.au/Disclosures.

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