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Anpario (ANP) AIM

The share price of natural animal feed additives group Anpario stands close to its two year low despite the solid interim results reported last month. Despite a small reduction in revenues during the six month period to 30 June, an increase in margins meant that pre-tax profits actually increased slightly. These were very creditable results given the negative impact of African Swine Fever on parts of the group's business. This demonstrates the success of the group's strategy of geographic diversification. The group operates in a growing market, with a rising world population driving demand for livestock based food products including meat, milk and eggs. In addition, consumers want safe, environmentally friendly food and Anpario's products help to produce this. The company is looking to expand its product range as well as its sales and distribution network and the launch of Anpario Direct in June is an exciting development. The group has a strong balance sheet with net cash of £13.7m and yet the shares now stand on an undemanding rating.

Activities

Anpario is an international producer and distributor of high performance natural feed additives for animal health, hygiene and nutrition. These are mainly used in animal food for poultry, swine and cattle. The group's expertise is focused on intestinal health and nutrition and utilising this understanding to improve animal performance and producer profitability. The improvement in animal performance can be measured by greater disease resistance and lower mortality with other benefits including higher milk yields and improved fertility. The subsequent increase in customers' profitability is self-explanatory.

The group's products mainly comprise natural powder and liquid feed additives and these are manufactured at Anpario's UK plant at Manton Wood. The cost of the additives as a proportion of feed costs is normally very low at between 1% - 2% of the total. The group's products are mainly sold through distributors or merchants (71% of sales) with the balance (29% of sales) sold directly to the end user. The recent launch of Anpario Direct, its internet sales channel, will initially target smaller customers, but is part of the strategy to increase end user sales and so will be expanded going forward.

The company has a global network of offices and exports/imports to over 70 countries. In the first half of 2019, 23% of group revenue was generated in the Americas, with 35% from Asia and Australasia, 24% from Europe and 18% from the Middle East and Africa.

Results and Consensus Forecasts

Year to 31 December	Revenue (£m)	Pre-Tax Profit (£m)	Earnings per share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2017A	29.2	3.4	16.7	19.8	6.5	2.0
2018A	28.3	4.6	18.7	17.6	7.2	2.2
2019E	29.2	4.8	18.9	17.5	7.7	2.3
2020E	31.8	5.2	20.2	16.3	8.4	2.5

KEY DATA

Share Price:	330p
Prospective p/e ratio:	17.5x
Prospective net yield:	2.3%
Market Capitalisation:	£77m
Next Results Due (Finals):	MAR
Net Cash (30 June):	£13.7m
NAV per share (30 June):	151p

2018/19 High/Low: 502p/316p

BULLET POINTS

- **Solid interim results**
- **Group operates in a growing market**
- **Considerable scope for future expansion**
- **Strong balance sheet with net cash of £13.7m at 30 June**
- **Share price just above 2 year low**

Date of Report: 18 November 2019

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COMPANY DATA

Stockbrokers:

Peel Hunt

Significant Shareholders:

Royal Trust of Canada	11.8%
Unicorn Asset Management	8.8%
Gresham House	6.0%
Downing LLP	4.8%
Investec Wealth & Inv.	4.8%
Allianz Global Investors	4.7%

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Interim Results

In the six month period to 30 June, group revenues fell by 3% to £14.3m (2018: £14.8m), although an improvement in gross margins to 50% (2018: 47%) helped pre-tax profits to increase marginally to £2.25m (2018: £2.24m). Diluted earnings per share rose by 3% to 8.88p (2018: 8.66p) and the interim dividend was increased by 14% to 2.5p per share (2018: 2.2p). Net cash at the end of the period had increased to £13.7m (31 December 2018: £12.9m).

Sales for the period were broadly similar to last year after accounting for the termination of non-core business in the Philippines in early 2018. Strong sales growth in the US and Latin America (+25%) was offset by weaker sales in Asia and Australasia (-23%) with the Middle East and Africa also growing well (+23%), producing the strongest six months on record. Although European sales fell (-8%), this was largely due to the closure of a customer who purchased low margin products. Excluding this customer, sales were flat although there was a small increase in gross profit. The markets in Asia suffered from the impact of African Swine Fever which put farmers under pressure and sales in China declined by 16% as a result. The disease has also affected other countries in the region, notably Vietnam.

The period saw the completion of the group's £1m investment in the automated bottling plant at Manton Wood allowing all production to be brought in-house. The facility will speed up the turnaround time for customers and enable the company to support the Anpario Direct business, which was set up during the period, more efficiently.

Prospects

Looking ahead, the group is well-placed to benefit from growth in the animal feed additive market. The growing world population is resulting in higher demand for livestock based products including meat, milk and eggs, and so improving the performance of the livestock that produce these is clearly beneficial. The company will also benefit from consumer demand for safe, environmentally friendly food.

In the short-term, the market is likely to continue to suffer from the impact of African Swine Fever although this should abate at some point. However, the group's geographic and species diversity is a major strength when facing such external challenges and has provided considerable protection against this.

The group is looking to expand its profitable sales and distribution channels, whilst the launch of Anpario Direct in June takes the group into new areas of the market. The strong balance sheet provides the group with the necessary funds to invest in new products and also to expand both organically and by acquisition if suitable opportunities arise.

Given the excellent growth prospects, the shares stand on an undemanding rating of 17.5x and sport a dividend yield of 2.3%.

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