

New Zealand equities

Private Wealth Research
10 June 2024

Zespri

FY24 (March) results and FY25 licence release

Key data

Code	ZGL
Current price	\$4.50
PE (FY24)	4.76x
Fwd gross yld (+12m)	18.9%
Market cap (m)	\$825

Record value off reduced volumes

ZGL's 2023/24 (March) financial results highlight a strong performance despite a challenging growing season. The company achieved a global operating revenue of NZ\$4.21 billion, including licence revenue, and global fruit sales revenue of NZ\$3.99 billion. Although global sales volumes dropped 10.5% to 164.2 million trays from 183.5 million in FY23, the company still saw a 2% increase in global kiwifruit sales revenue, reflecting improved fruit quality and strong pricing. Payments for New Zealand-grown fruit and services, including loyalty premiums, totaled NZ\$2.32 billion. ZGL made a loss of \$10.2 million on \$3.3 billion revenue for NZ Kiwifruit. ZGL's net profit after tax was NZ\$173.3 million, a decline from NZ\$238.7 million the previous year, mainly due to reduced licence revenue. The expected total net dividend is NZ\$0.85 per share.

CEO Dan Mathieson attributed the positive financial results to the industry's efforts to enhance fruit quality and meet strong consumer demand. Record average per tray returns were achieved for all categories except Organic SunGold Kiwifruit, with notable increases in Green Kiwifruit returns from NZ\$5.78 to NZ\$9.55 per tray. Key markets such as Europe, Japan, and China performed well, with China showing particularly strong demand for SunGold Kiwifruit. RubyRed Kiwifruit also continued to perform strongly in Asia Pacific markets. However, the organic categories faced challenges with a significant drop in yields per hectare.

While also experiencing difficult growing conditions, ZGL's non-New Zealand supply season sales rose to NZ\$654.2 million from NZ\$519.3 million, supported by increased volumes, improved pricing, and reduced quality costs. This growth underscores the importance of Zespri's global supply strategy in maintaining retail and supply partnerships.

SunGold Kiwifruit CY2024 licence release

Revenue from the CY2024 ascending price-open auctions for SunGold licences, which will contribute to FY25 results, is estimated to be \$105 million (excluding GST), down 50% from the CY2023 auction. This decline was driven by a reduction in the SunGold licence area to 250 hectares (from 350 hectares previously) and the absence of a RubyRed Kiwifruit licence release (126 hectares previously).

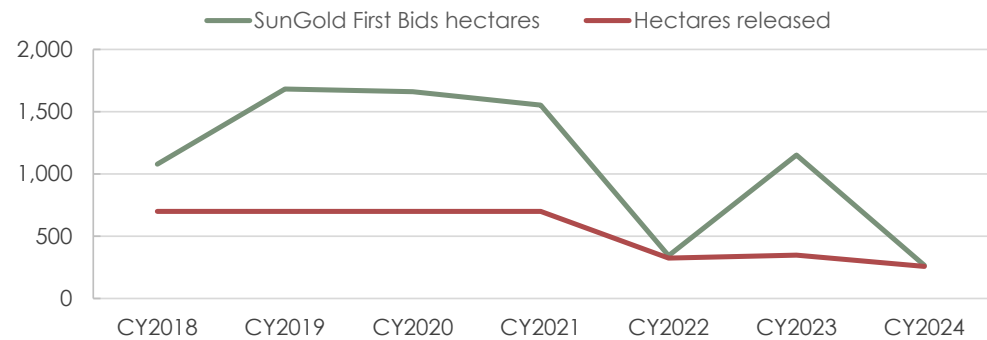
The SunGold licence release was divided into two pools: 153.47 hectares was sold in the restricted pool at \$393,000 per hectare (excluding GST), and 104.72 hectares was sold in the unrestricted pool at \$424,000 per hectare, excluding GST. The unrestricted price is notably lower than last year's \$608,695 per hectare, excluding GST.

Compared to prior years, demand for SunGold licence was low. Over the past six years, the average hectares bid for has exceeded 1200 hectares, including CY2022, which was undersubscribed after rules that year restricted bidders for SunGold to a maximum bid area of 10 hectares or 50% of the total "plantable area." Overall, with 250 hectares available in 2024, hectares bid for totaled only 267 hectares. The

restricted pool cleared at the opening price (i.e., all bidders received an allocation), and the unrestricted pool underwent five rounds of bidding, with the price ending 4.4% higher than the opening bid.

The CY2024 opening (reserve) price for both SunGold auctions was based on the final closing price in 2023 with a 33.3% discount applied to each of the SunGold pools. The weaker demand led to the lowest revenue from SunGold licences in several years.

SunGold Total hectares bid for (first round of bids)



Source: Zespri, Craigs Investment Partners.

Several factors likely contributed to the lower demand this year. Firstly, ZGL holds the Plant Variety Rights (PVR) in New Zealand for SunGold until November 2038. Kiwifruit vines typically reach full production within five years, depending on the variety and establishment method. Given the long lead time for orchard development, purchasers of SunGold licences should consider the expiration of the PVR when valuing the licences. As we approach the PVR expiration, we anticipate this will result in lower SunGold prices. Secondly, the lower demand for licences may also reflect tougher credit market conditions and general uncertainty around rising costs.

Hi-cane

The Environmental Protection Authority (EPA) announced that Hi-Cane can continue to be used in New Zealand, reversing its previous proposal to ban the product within 10 years. This decision is welcomed by the industry, as a ban would have had a significant impact on growers and the industry.

CEO update

Zespri has appointed Jason Te Brake as its new Chief Executive Officer, succeeding Daniel Mathieson, who will join Driscoll's on July 1. Te Brake, previously ZGL's Chief Operating Officer since April 2023, managed the company's supply chain and led the response to recent quality challenges and the planning for the largest ever crop in 2024. He joined ZGL in 2020, holding various roles including Chief Global Supply Officer and Head of New Zealand Supply Chain. Te Brake has extensive experience in supply chain and commercial agribusiness, with prior roles at KPMG, AFFCO, ANZCO, and Miraka. Te Brake will take over the role on 1 July.

CY2024 season outlook

The start of the season has been delivering well. With the harvest now nearing completion and sales strong, the industry is poised for positive results this year. With higher fruit volumes than CY2023, fruit quality is holding up well. Onshore fruit quality is comparable to CY2023 and better than CY2022 for both SunGold and Green varieties. Similarly, offshore fruit quality is comparable to CY2023 and surpasses that of CY2022.

Disclaimer: This report is a private communication to clients of Craigs Investment Partners Limited ("Craigs") resident in New Zealand and clients of Wilsons Advisory and Stockbroking Limited (a strategic partner of Craigs) ("Wilson's") and is not intended for public circulation or publication or for the use of any third party, without the express prior approval of Craigs. This report is not intended for distribution to any person outside New Zealand except in accordance with all the legal requirements of the relevant jurisdiction. While this report is based on information from sources which Craigs / Wilsons considers reliable, its accuracy and completeness cannot be guaranteed. Craigs, its partners and employees, do not accept liability for the results of any actions taken or not taken upon the basis of information in this report, or for any negligent misstatements, errors or omissions.

Those acting upon information and recommendations do so entirely at their own risk. Craigs and/or its partners and employees may, from time to time, have a financial interest in respect of some or all of the matters discussed. The Private Wealth Research Team responsible for preparing this report confirm that: (1) the views expressed in the report accurately reflect the Private Wealth Research Team opinion about the subject, securities and issuers and/or other subject matter as appropriate; and (2) no part of any team member's compensation was, is or will be, directly or indirectly related to the specific recommendations or views contained in this report. Craigs / Wilsons did not take into account the investment objectives, financial situation or particular needs of any particular person.

This document is current as at the date of the issue and may be superseded by future publications. Craigs / Wilsons assumes no obligation to update the information or advise on further developments relating to the company or companies covered in this document ("Companies") or relevant financial products. Craigs / Wilsons has not independently verified all of the information given in this document which is provided at a point in time and may not contain all necessary information about the Companies. Craigs research content should be viewed as an additional investment resource, not as your sole source of information. To the fullest extent permitted by law Craigs, its related bodies corporate and their respective officers, directors, employees or agents, disclaim any and all liabilities for any loss or damage howsoever arising in connection with the use of this document or its contents. Past performance does not necessarily indicate a financial product's likely future performance.

This document may contain "forward-looking statements". Forward-looking statements, opinions and estimates provided in this document are based on assumptions and contingencies which are outside the control of Craigs / Wilsons and are subject to change without notice (including but not limited to economic conditions, market volatility and company-specific fundamentals), and therefore may not be realized in the future. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

Craigs may have a conflict of interest which investors should consider before making an investment decision. Craigs and its related bodies corporate trades or may trade as principal in the securities that are subject of the research report. Craigs further advises that at the date of this report, neither Craigs or associated bodies corporate have any material interests in the company. Craigs restricts research analysts when trading in securities for which they write research. Other Craigs employees may hold interests in the company, but none of those interests are material.

This report contains advice of a general nature only. We recommend seeking advice from a Craigs financial adviser about your financial situation and goals before acquiring a financial product. Craigs Investment Partners Limited does not provide advice or services on tax. We recommend seeking independent tax advice in relation to any investment decision. More information about Craigs' financial advice service can be found in Craigs' Financial Advice Provider disclosure, Financial Services Guide & Understanding our Recommendations statements available on craigsip.com/terms-and-conditions.