

# New Zealand equities

Private Wealth Research  
4 November 2024

## Portfolio classification

Niche

## Portfolio view

Add

## Key data

Code	ZGL
Current price	\$4.10
PE (FY24)	4.3x
Fwd gross yld (+12m)	16.5%
Market cap (m)	\$751

# Zespri

## ZGS Producer Vote and FY26 Licence Release

### CY2024 update

The New Zealand kiwifruit industry is experiencing a record-breaking season in CY2024, with an estimated harvest of 195 million trays—the largest in its history and a significant jump from 137 million trays in CY2023. This exceptional yield is largely attributed to favourable weather conditions, representing a strong recovery after several challenging years affected by COVID-19 disruptions, labour shortages, and adverse weather events. So far, fruit quality has been consistently high, with reduced fruit loss across all varieties compared to last year, contributing to an outstanding quality season overall.

### SunGold Kiwifruit CY2025 licence release (FY26)

ZGL plans to release 400 hectares of SunGold licences in CY2025, an increase of 50 hectares from previous guidance. To enhance grower planning, ZGL has, for the first time, committed to a two-year licence release strategy, confirming an additional 400 hectares of SunGold for CY2026. Beyond this, Zespri anticipates releasing 350 to 500 hectares per year from CY2027 through CY2029.

While a portion of the CY2025 SunGold release will be restricted to Green cutover, ZGL has indicated this will be the final year with restricted auctions, with future auctions transitioning to an open pool format. The CY2025 SunGold release structure includes:

- Open Pool: 250 hectares
- Restricted Pool: 150 hectares

Previously, ZGL had signalled a 100-hectare release of RubyRed for CY2025; however it has since confirmed that no RubyRed licences will be issued next year.

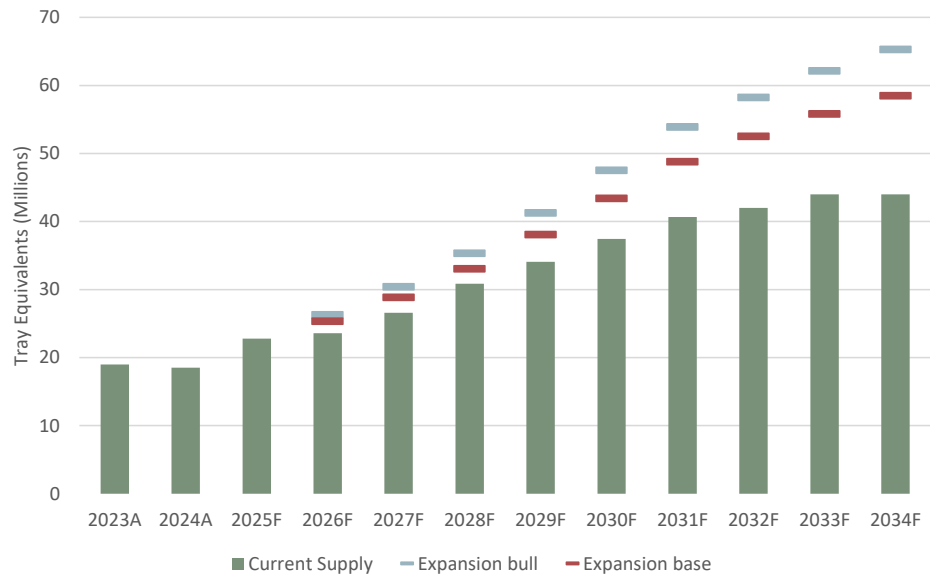
### Producer Vote on Zespri Global Supply (ZGS) Expansion

Zespri has confirmed that it will seek grower approval for an additional 420 hectares of SunGold to be planted offshore per year, spread across six years in Italy, France, Japan, South Korea, and Greece. This expansion is required to meet increasing global demand and ensure the company maintains its competitive advantage, particularly as competitors are increasing their own supply chains and market presence.

For the vote to succeed, it requires a 75% majority in both the number of producers and the weighted production of those who vote. The vote will take place from 11 November to 5 December, with the outcome expected to be announced in mid-December.

ZGL has projected a 2033/34 value impact of \$0.63 to \$1.32 per tray equivalent (TE) for SunGold and \$0.47 to \$0.96 per TE for Green. These figures reflect the potential impact on grower pool returns if the Producer Vote does not go ahead. We will assess the potential impact of a successful Producer Vote on ZGL's share price.

## ZGS SunGold Supply



Source: Zespri, Craigs Investment Partners.

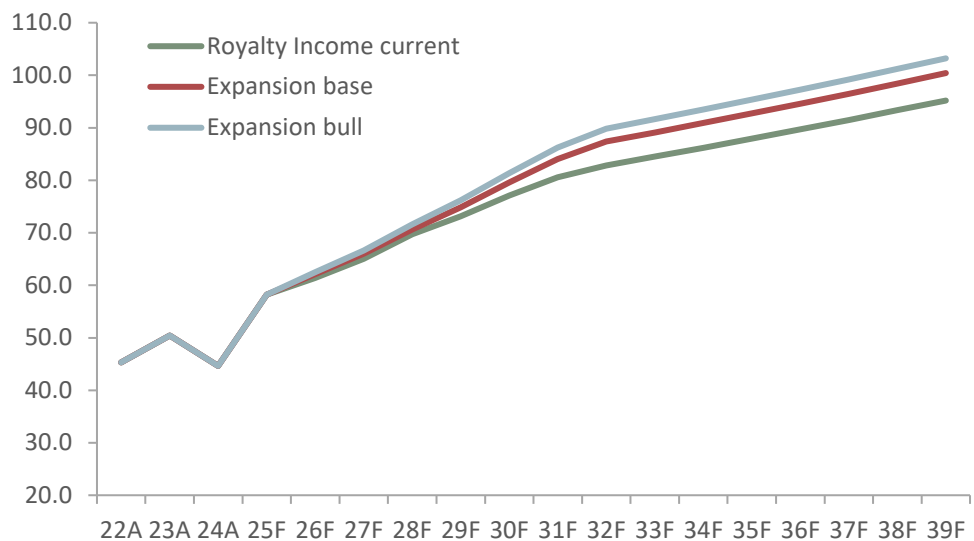
In 2019, a Producer Vote granted ZGL approval to plant 5,000 hectares of Gold3, procure up to 20 million trays of Green kiwifruit, and develop 1,000 hectares for any new variety (excluding China and Chile). ZGL has now fully allocated the approved 5,000 hectares for Gold3, reaching the current planting limit.

The average yield across ZGS regions is approximately 6,520 trays per hectare, with ZGL aiming to increase this to 9,250 trays per hectare over time. Current supply projections, based on this planting cap and anticipated yield growth, forecast SunGold production at around 44 million trays by FY34.

Assuming a successful outcome in the upcoming Producer Vote, we have modelled two expansion scenarios:

- Base Case: ZGS SunGold supply reaching 58 million trays by FY34.
- Bull Case: ZGS SunGold supply expanding to 65 million trays by FY34.

## SunGold Royalty Income (\$m)



Source: Zespri, Craigs Investment Partners.

Zespri applies a 3% royalty on global net SunGold sales, with 1.35% directed to Plant & Food Research and 1.65% retained by Zespri. Zespri also targets a 3-5% EBIT margin on ZGS-grown fruit. A successful vote would add approximately 15–21 million trays of SunGold by FY34, impacting ZGL's revenue by increasing Non-NZ kiwifruit sales and enhancing royalty income from expanded volumes.

In FY24, ZGL's royalty income was \$44.6 million, down 11.5% due to a lower SunGold harvest. ZGL holds PVR rights to SunGold in New Zealand until September 2039. Our model projects that the expanded SunGold supply under the base and bull scenarios could contribute an estimated \$0.64 to \$0.91 per share to ZGL's share price based on current margins if the vote is successful. ZGL estimates this will lead to an EPS increase of \$0.36 to \$0.38 by FY34.

Furthermore, ZGS suppliers are required to supply SunGold to Zespri until the PVR expires in 2039. Beyond this date, while offshore growers would not be obligated to sell to Zespri, the strong relationships established are expected to encourage continued partnerships. This additional SunGold supply would maximise the value of the PVR while positioning Zespri for further marketing revenue beyond 2039.

### **CY2025 season outlook**

This year, kiwifruit regions across New Zealand experienced excellent winter chill, particularly in Gisborne, Hawke's Bay, and Northland, with some areas recording nearly double the chill hours of the previous year. This enhanced winter chill has led to a strong bud break and overall healthy growth as the plants enter flowering. Pollination is happening currently, delayed slightly by a recent cold snap.

As we approach the summer of 2024-2025, current climate indicators, influenced by a developing La Niña pattern, suggest that New Zealand is likely to experience warmer and drier conditions than usual. In key kiwifruit-growing regions, above-average temperatures are expected, along with below-normal rainfall. These warmer, drier conditions can enhance fruit quality by promoting higher sugar levels and aiding ripening.

Looking ahead, we expect a modest lift to volumes for 2025.

## Historical financial information (\$zkd)

	FY20a	FY21a	FY22a	FY23a	FY24a	FY25f	FY20-25 CAGR
	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25	
NZ Kiwifruit	2,755	3,185	3,356	3,239	3,256	4,089	8.2%
Non-NZ Kiwifruit	369	474	539	519	654	679	12.9%
Sale of PVR licences	215	307	437	308	217	105	-13.4%
PVR Royalty income	33	39	45	47	50	57	11.7%
Other Revenue	15	14	17	18	9	15	-0.2%
<b>Revenue</b>	<b>3,386</b>	<b>4,019</b>	<b>4,394</b>	<b>4,131</b>	<b>4,187</b>	<b>4,943</b>	<b>7.86%</b>
Growth %	7.8%	18.7%	9.3%	-6.0%	1.3%	18.1%	n/a
Cost of Goods sold	-2,769	-3,180	-3,562	-3,468	-3,605	-4,396	9.7%
<b>Gross Profit</b>	<b>618</b>	<b>840</b>	<b>832</b>	<b>663</b>	<b>582</b>	<b>547</b>	<b>-2.39%</b>
Growth %	14.5%	36.0%	-0.9%	-20.2%	-12.5%	-5.7%	n/a
Selling General & Admin Exp.	-308	-324	-351	-380	-377	-395	5.1%
Other Expenses	-70	-85	20	31	14	26	-182.2%
<b>EBIT</b>	<b>239</b>	<b>430</b>	<b>501</b>	<b>315</b>	<b>218</b>	<b>178</b>	<b>-5.71%</b>
Net Interest Income	5	1	3	12	23	19	31.7%
Other Non-Operating Exp.	14	-45	2	4	12	-2	n/m
<b>Net Profit before Tax</b>	<b>257</b>	<b>387</b>	<b>505</b>	<b>331</b>	<b>253</b>	<b>195</b>	<b>-5.39%</b>
Income Tax	71	110	144	93	80	55	-5.0%
<b>Net Profit</b>	<b>187</b>	<b>277</b>	<b>362</b>	<b>239</b>	<b>173</b>	<b>140</b>	<b>-5.54%</b>
Growth %	3.9%	48.4%	30.5%	-34.0%	-27.4%	-19.4%	n/a
Earnings per share	1.02	1.51	1.97	1.30	0.95	0.76	-5.7%
Free cash flow	318	359	410	106	109	313	-0.4%
Dividend per share	0.94	1.33	1.78	1.17	0.85	0.69	-6.1%
Net debt (cash)	-293	-385	-414	-398	-416	-416	7.3%
<b>Key metrics</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>FY20-25 Change</b>
Gross Margin	18.2%	20.9%	18.9%	16.1%	13.9%	11.1%	-710 bps
EBIT Margin	7.1%	10.7%	11.4%	7.6%	5.2%	3.6%	-350 bps
Free cash flow margin	9.4%	8.9%	9.3%	2.6%	2.6%	6.3%	-310 bps
EPS growth	3.4%	48.4%	30.5%	-34.0%	-27.4%	-19.4%	n/a
Dividend payout ratio	92%	88%	90%	90%	90%	90%	n/a
Return on Equity	83.8%	114.4%	125.8%	74.0%	51.5%	54.6%	-2920 bps
Net Debt/EBITDA	-1.2x	-0.9x	-0.8x	-1.2x	-1.9x	-2.2x	-

Source: Zespri, Craigs Investment Partners

**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) ("Wilsons") 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](https://craigsip.com/terms-and-conditions).