

Tonkens Agrar

Food & beverages

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Better farm gate milk prices reduce losses

As management predicted at the interim stage, the sustained increase in farmgate milk prices helped Tonkens Agrar (Tonkens) deliver an improved performance during FY16/17. Self-help initiatives, such as a drive to gain new customers for processed potatoes and onions, also helped. The group remains vulnerable to changes in commodity prices. The current slump in potato prices for example makes it unlikely that there will be a further performance improvement in FY17/18.

Losses halve during FY16/17

Group revenues rose by €0.6m year-on-year during FY16/17 to €15.4m. This was primarily the result of a substantial improvement in farmgate milk prices as well as a successful initiative to attract new customers for processed potatoes and onions. The cost of materials as a percentage of revenues dropped from 57.3% in FY15/16 to 46.9%, reflecting a sharp drop in the price of potatoes used in the vegetable processing operation during the six months ended June 2017, as well as lower costs for crop protection products and cattle feed. This beneficial effect was partially offset by a 4% rise in personnel costs, much of which relates to statutory increases. Losses before tax narrowed by €1.1m to €0.9m. Net debt increased from €16.9m to €17.7m, almost double the net asset value.

FY17/18 performance likely to be similar to FY16/17

Management does not expect revenues to grow during FY17/18. While farmgate milk prices remain favourable, agricultural commodity prices are generally stable, and continued initiatives to attract new customers for processed products should help boost volumes and plant utilisation in the warehousing and marketing segment; potato prices are weak because of Europe-wide oversupply. Management expects to hold costs at around FY16/17 levels, but does not expect a further narrowing of losses.

Valuation: Trading at close to net asset value

The shares have dipped from a peak of €7.40 in September but are still trading on multiples that are above the mean for our sample of agricultural producers. We note the shares are trading at close to net asset value (€9.2m) and that the current market capitalisation (€9.3m) is substantially lower than the value of land and buildings at the end of June 2017 (€14.4m).

Financial summary

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
06/14	15.9	1.2	0.32	0.00	17.5	N/A
06/15	13.8	(1.2)	(0.43)	0.00	N/A	N/A
06/16*	14.8	(2.0)	(0.99)	0.00	N/A	N/A
06/17	15.4	(0.9)	(0.48)	0.00	N/A	N/A

Source: Company data. Note: *Restated for BilRuG.

Price €5.59

Market cap €9m

Share price graph



Share details

Code	GTK
Listing	Deutsche Börse Scale
Shares in issue	1.66m
Last reported net debt at end June 2017	€17.7m

Business description

Tonkens Agrar is engaged in the cultivation of crops including cereals, potatoes, onions and oil seed rape; the storage, processing and marketing of vegetables; milk production and the production of renewable energy from biogas plants that run on waste produced by the group and from photo-voltaic installations. It farms c 3,400 hectares of high quality land in the Saxony-Anhalt region of Germany.

Bull

- Demand for agricultural staples relatively unaffected by economic conditions
- Demand for agricultural produce supported by rising global population
- Vegetable processing improves margins

Bear

- Output affected by weather conditions and pests
- Profitability affected by commodity price fluctuations
- Low free-float

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Divisional analysis

Tonkens Agrar's c 3,400 hectares of high quality farmland in the Saxony-Anhalt region of Germany is the starting point for a vertically integrated agricultural production group. It processes the potatoes and onions grown on the farm in-house, substantially adding value to the harvested vegetables. Manure from the dairy herd and residual material from harvesting and processing crops is used to generate electricity, creating an additional revenue stream that is relatively predictable and non-seasonal. Some of the maize grown on the farm is used as cattle feed.

Warehousing and marketing (35% FY16/17 revenues)

Segmental revenues grew slightly, from €5.3m to €5.4m, reflecting success in expanding sales of peeled and packaged potatoes and onions, which was tempered by falling potato prices during the six months to June 2017. Management remains focused on improving capacity utilisation (up to 10,000 tons of raw material annually) to raise profitability to acceptable levels. Attracting additional larger customers is key. In addition, the group invested in special storage containers and cooling systems so that potatoes could be stored for longer, thus extending the period during which Tonkens could offer processed product from the 2016 harvest through to July 2017. There should also be some benefit from the shift to cultivating specific varieties of potatoes which are suitable for processing on the group's own farms. Looking forward, potato prices remain depressed and there is a potential issue regarding storage of the crop from the calendar 2017 harvest. Ideally, potatoes should be dry when harvested. This was not possible because of weather conditions and may have implications for how long the crop can be stored before it is affected by mould.

Agriculture (32% FY16/17 revenues)

Segmental revenues rose slightly, from €4.7m to €4.9m, benefitting from higher sales of both cereals and potatoes. The group achieved yields that were ahead of the average. Partly this was attributable to the high quality of the soil in the group's fields. For example, although the spring of calendar 2017 was drier than usual, the ability of the soil to retain moisture helped plants develop during this critical time. Hail damage at the Stemmer site in mid-June 2016 affected approximately 6% of the potato crop and 10% of the onion crop, but this did not impact the consolidated results because Tonkens is covered by hail insurance. Overall, prices received by farmers in Germany for grain were higher than the previous year: for example, at the end of August 2017 bread wheat was 2.5% higher and feed barley was c 8% higher. Although the calendar 2016 potato harvest in Germany was poor, and prices were high in the six months ended December 2016, the availability of imported new potatoes pushed prices down during the six months ended June 2017. This meant that at the end of the season in mid-August 2017 prices were just under €20/tonne, well below the previous year's value of € 27/tonne. Looking forward, while Tonkens continued to deliver crop yields that were higher than the national average, yields from the calendar 2017 harvest for most crops other than potatoes were lower than the previous year.

Milk production (20% FY16/17 revenues)

Segmental revenues grew from €2.5m to €3.0m. This was primarily the result of an increase in farmgate milk prices, which rose from 22c/litre in July 2016, which is below the cost of production, to 33c/litre in June 2017. Cattle numbers in Germany declined during the period, causing an imbalance between supply and demand. Tonkens responded to this by increasing milk production. The German dairy industry association expects farmgate milk prices to continue to be high during H18, predicting an average price for calendar 2017 of at least a third higher than calendar 2016. Tonkens received 38.5c/litre in September. Management expects farmgate milk prices to be sustained at prices where milk production is profitable, but is currently unable to invest in expanding

the herd size significantly. This is because banks are reluctant to fund expansion in an industry where prices and profits are so volatile.

Renewable energy (14% FY16/17 revenues)

Segmental revenues declined very slightly, from €2.2m in FY16 to €2.1m. Tonkens Group reported a fire on a filter at the biogas plant in Stemmern in May 2017, which led to several weeks of power generation outage. The damage was remedied by the end of June, so the plant has been operating normally since then. So far the insurer has paid Tonkens €35k to cover the outage. This was received after the end of FY17. The level of the final settlement has not yet been determined. Management does not intend to expand this segment because of the uncertainty regarding subsidies for electricity produced from either biogas or solar panels.

Valuation

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Exhibit 1: Peer group comparison

Company	Market cap €m	Historic EV/Sales (x)	Historic EV/EBITDA (x)
AGROGENERATION	40	1.4	4.4
AGROLIGA GROUP PLC	6	0.4	1.8
AGROMINO A/S	31	1.0	7.8
AUSTRIA TECHNOLOGIE & SYSTEM	952	1.7	10.6
BONIFICA FERRARESI SPA	198	24.5	53.2
FIRSTFARMS A/S	37	4.0	21.2
KRE.KA S.A.	1	1.0	-
PRODUCE INVESTMENTS PLC	52	0.4	5.3
Mean		1.4	8.5
TONKENS AGRAR AG	10	1.8	13.6

Source: Bloomberg. Note: Prices at 20 December 2017. Grey shading indicates exclusion from mean.

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