

# PureCircle

**Consumer**
**13 March 2017**

## Finding the sweet spot?

Despite significant headwinds coming from the US Customs and Border Protection (CBP) blocking its products throughout the half year, PureCircle has weathered the storm well. H117 sales outside the US were up 10%, with total sales down 13.4% despite the company being denied access to a market that previously represented one-third of its revenues, and gross margins holding up remarkably well considering there were adverse mix effects. The innovation pipeline is strong and the scope for stevia use in the food and beverage industry continues to increase.

## Weathering the storm

PureCircle continues to successfully lead industry innovation and unlock the market and this has been particularly apparent in H117 while the US market was closed to the company. Over time, management has diversified the revenue streams away from basic ingredients and further towards value-added ingredient solutions. In addition, the business is well-balanced by geography, although the US will continue to be the largest market by the nature of the size of its food and beverage industry.

## Expanding the business

The \$42m refinery capacity expansion in Kuala Lumpur was completed on schedule and within budget. This should allow the company to meet future increased demand, and the new technology at the plant will allow increased efficiency and lower manufacturing costs. Stevia remains an attractive sugar substitute due to being a highly efficient source of sweetness and zero calories. PureCircle's stevia product is also 100% natural. While the business is still at a relatively young stage, we expect inventories to remain at high levels to ensure the security of supply for existing applications and to allow customers to reformulate and launch new products without having to worry about supply constraints or bottlenecks.

## Valuation: Potential growth not priced in

Trading at consensus FY18e P/E of 36x, PureCircle continues to be valued at a premium to the global ingredients peer group given its strong growth prospects. It is on a strong growth trajectory as stevia gains traction as a sugar substitute and its use in the food and beverage industry becomes more widespread. Volatility is likely to remain a feature while the business grows and its products become more established. Over the next 12 months, we also expect the company to benefit from a recovery in the US now that the US CBP issue has been resolved.

### Consensus estimates

Year end	Revenue (\$m)	PBT (\$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/16	138.6	16.1	8.7	0.0	44.1	N/A
06/17e	141.0	12.9	6.4	0.0	60.0	N/A
06/18e	171.7	22.0	10.8	N/A	35.6	N/A
06/19e	200.3	31.5	15.7	N/A	24.5	N/A

Source: Bloomberg

**Price** **315p**  
**Market cap** **£547m**

### Share price graph



### Share details

Code **PURE**  
 Listing **LSE**  
 Shares in issue **173.7m**

### Business description

PureCircle is the world's largest producer and marketer of high-purity stevia, the plant-based sugar substitute. It is a vertically integrated manufacturer and its business spans plant breeding and harvesting through extraction and application of stevia leaf extract.

### Bull

- Stevia remains an attractive sugar substitute.
- Pipeline is strong.
- New refinery will drive efficiency/lower costs and help to meet anticipated future volume demand.

### Bear

- Recovery from CBP problems will take some time.
- Competition likely to increase with fermentation-based stevia alternatives scheduled for launch in 2018.
- Net debt of \$80.1m at H117 vs adjusted EBITDA of \$37.7m for FY16 is comfortable.

### Analysts

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