

Tonkens Agrar

Food & beverages

7 December 2018

Back to the black

Improved farmgate milk prices and higher volume sales of processed vegetables enabled Tonkens to achieve its stated goal of reporting a net profit after tax for FY17/18, compared with a loss the previous year. However, persistently low potato prices prevented the group from meeting its expectations of year-on-year revenue growth. Management continued with its strategy of focusing on higher-margin, added-value business, with volumes of peeled and packaged produce rising by 23% year-on-year.

Low arable yields depress FY17/18 revenues

Group revenues reduced by 6% year-on-year during FY17/18 to €14.5m. A modest improvement in revenues from milk production related to improved farmgate milk prices and higher volume sales of processed potatoes and onion was more than offset by low yields of cereal crops and oil-seed rape, resulting from unfavourable weather conditions during the calendar 2017 harvest. The cost of materials as a percentage of revenues increased by 2.3pp to 49.2%. Personnel costs were unchanged. The group moved from a €0.9m loss before tax to a €0.8m profit. This was partly the result of higher potato stocks at the year-end, partly a €0.9m uplift in other income, which benefited from the sale and leaseback of property and reversal of provisions. Net debt reduced from €17.7m at end-June 2017 to €16.6m, cutting gearing from 193% to 171%.

Further profit growth possible in FY18/19

Management notes that while the poor growing conditions during calendar 2018 resulted in a poor harvest, this effect is balanced by price increases for grains, onions and potatoes. In addition, the summer drought has pushed farmgate milk prices up, while Tonkens is protected from feed cost increases by using home-produced maize for feeding its dairy herd. If its potato marketing initiatives are successful, management expects to deliver an increase in both revenues and profits at group level during FY18/19.

Valuation: Trading at a discount to net assets

The shares have risen from €4.64 since the full-year results were announced. They are currently trading on a historical EV/sales multiple that is above the mean for our sample of agricultural producers and a historical EV/EBITDA multiple that is below the mean. We note that at current levels the market capitalisation (€9m) is substantially below both the reported net asset value (€9.7m) and the reported value of land and buildings at the end of June 2018 (€13.7m).

Financial summary

Year end	Revenue (€m)	PBT (€m)	PAT (€)	DPS (€)	P/E (x)	Yield (%)
06/15	13.8	(1.2)	(0.7)	0.0	N/A	N/A
06/16*	14.8	(2.0)	(1.6))	0.0	N/A	N/A
06/17	15.3	(0.9)	(0.8)	0.0	N/A	N/A
06/18	14.5	0.8	0.5	0.0	15.6	N/A

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

Price €5.25

Market cap €9m

Share price graph



Share details

Code	GTK
Listing	Deutsche Börse Scale
Shares in issue	1.66m
Net debt (€m) end-June 2018	16.6

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 3,500 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.
- Demand for agricultural produce supported by rising global population.
- Low free float (30.7%).

Analyst

Anne Margaret Crow +44 (0)20 3077 5700

industrials@edisongroup.com
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

Divisional analysis

Tonkens Agrar's c 3,500 hectares of high-quality farmland in the Saxony-Anhalt region of Germany is the basis for a vertically integrated agricultural production group. It peels and chops the potatoes and onions grown on the farm in-house, adding value to the harvested vegetables. Manure from the dairy herd and residual material from harvesting and processing crops are 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, providing a buffer against rising feed prices.

Warehousing and marketing (36% FY17/18 revenues)

Volumes of peeled and packaged potatoes and onions increased by 23%. Output benefited from successful marketing initiatives which enabled the business to meet its target of peeling 30 tons of vegetables a day over a longer period of time. However, the comparatively low prices realised for finished goods resulted in a €0.2m year-on-year decline in segmental revenues during the year ended-June 2018 to €5.2m. Management remains focused on improving capacity utilisation, and thus profitability, by attracting additional larger customers.

Milk production (24% FY17/18 revenues)

Segmental revenues increased by €0.4m year-on-year to €3.5m. This was primarily the result of a positive movement in farmgate milk prices. These rose from 22c per litre, below the cost of production, in July 2016 (start of H116/17), to peak at 40.21c per litre in November 2017 (mid-H117/18), before dropping to 31.81c per litre by May 2018.

Agriculture (22% FY17/18 revenues)

Segmental revenues declined by €1.8m year-on-year to €3.1m. Although Tonkens outperformed nationwide average crop yields for winter wheat, winter barley, oil-seed rape and potatoes, it reported lower yields year-on-year for all crops apart from potatoes. This volume decrease was caused by unfavourable weather conditions, with the harvest repeatedly interrupted by rain. Cereal prices attracted only a modest premium compared to the prior year until concerns about the harvest in the EU and elsewhere started to push wheat prices up. Oilseed rape prices were lower than the previous year and oversupply of potatoes resulted in extremely low prices for unprocessed potatoes that were below the cost of production

Renewable energy (15% FY17/18 revenues)

The segment generated €2.2m revenues, which was similar to the prior year. Management does not intend to expand this segment because of the uncertainty regarding subsidies for electricity produced from either biogas or solar panels. The activity is retained because the biogas plants represent a mechanism for generating a steady and predictable income from the residual materials from both agricultural production and vegetable processing, as well as manure from the dairy herd. The waste product from the biogas plants, a mash, is used as a fertiliser on the group's farmland, reducing the amount that needs to be purchased.

Valuation

The shares have risen from €4.64 since the full-year results were announced. They are currently trading on a historical EV/sales multiple that is above the mean for our sample of agricultural producers and a historical EV/EBITDA multiple that is below the mean, reflecting Tonkens' higher

EBITDA margin. We note that the current market capitalisation (€9m) is substantially below both net asset value (€9.7m) and the value of land and buildings at the end of June 2018 (€13.7m).

Exhibit 1: Peer group multiples

Company	Market cap (€m)	Reported EV/sales (x)	Reported EV/EBITDA (x)	Reported EBITDA margin (%)
Agrogeneration	15.5	1.08	-	-
Agromino	28.2	9.48	70.79	13.4
Austria Technologie & System	711.0	0.93	3.93	23.5
Firstfarms	38.1	2.27	27.43	8.3
Kre.Ka	0.2	0.98	-	-
Produce Investments	57.3	0.48	7.57	6.4
Mean		1.15	12.98	
Tonkens Agrar	8.3	1.72	6.78	25.4

Source: I/B/E/S data, company data. Prices at 4 December 2018. Grey shading indicates exclusion from mean.

General disclaimer and copyright

This report has been commissioned by Tonkens Agrar and prepared and issued by Edison, in consideration of a fee payable by Tonkens Agrar. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the Edison analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2018 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd who holds an Australian Financial Services Licence (Number: 427484). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

Neither this document and associated email (together, the "Communication") constitutes or form part of any offer for sale or subscription of, or solicitation of any offer to buy or subscribe for, any securities, nor shall it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Any decision to purchase shares in the Company in the proposed placing should be made solely on the basis of the information to be contained in the admission document to be published in connection therewith.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document (nor will such persons be able to purchase shares in the placing).

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a) (11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia