

# Zespri

## 2023 licence release (FY24)

Zespri (ZGL) is the world's largest marketer of kiwifruit, selling kiwifruit in more than 50 countries. ZGL works with around 2,800 New Zealand and 1,500 international growers and post-harvest companies to source Zespri Kiwifruit which it supplies via its distribution partners to wholesale and retail customers.

### Private Wealth Research

#### Key data

Code	ZGL
Current price	NZ\$6.10
FY22 PE ratio	3.1x
Gross div yield	29.2%
Market cap (m)	NZ\$1,118m

NZ\$(m)	FY22a	FY23f	FY24f		FY22a	FY23f	FY24f
Balance date	31-Mar-22						
Revenue	4,394	4,241	3,621	Net debt/EBITDA	-0.8x	-1.3x	-1.6x
EBIT	501	309	252	Earnings per share (NZ\$)	2.0	1.2	1.0
Net profit after tax	362	221	180	Dividend per share (NZ\$)	1.8	1.1	0.9
EBIT growth (%)	16.3	-38.3	-18.5	Price to earnings ratio (x)	3.1	5.1	6.2
EBIT margin (%)	11.4	7.3	7.0	EV/EBITDA (x)	1.0	1.6	2.0
Net profit margin (%)	8.2	5.2	5.0	Gross dividend yield (%)	29.2	17.8	14.5
Net debt (Cash)	-414	-414	-414	Dividend payout ratio (%)	90	90	90

#### SunGold Kiwifruit and Zespri RubyRed Kiwifruit 2023 licence release

Revenue from the 2023 licence tender process, which will contribute to FY24 results, is estimated to be \$212m (GST exclusive), down 31% from the 2022 tender. This was driven by a reduction in the number of RubyRed hectares released from 350 to 150. A total of 125.8 hectares of RubyRed was allocated (280 hectares prior year) at a median price of \$33,043 per hectare (\$147k per hectare prior year).

New in 2023 was the ringfencing of 200 hectares of SunGold licence for Green cutover. The 200-hectare cutover pool auction was run first, with 199.5 hectares released at a price of \$589,565 per hectare. The unrestricted pool auction closed with 148.8 hectares of the 150 hectares available released at a price of \$608,696. Overall, 348.3 hectares of SunGold was released at a median price of \$597,738 per hectare, compared to last year's median price of \$801K.

A new ascending price auction mechanism was used in 2023, with the revised auction format aiming to address key grower concerns around price equity (all bidders pay the same price), and transparency (knowing what 'the market' is doing during the process).

While we expected the cutover pool to be priced lower than the unrestricted pool, the price achieved by the two pools is broadly similar. We believe this year's auction is a strong outcome given the current economic environment, and the results are in-line with our \$590k per hectare estimate for SunGold.

#### Zespri 2023 licence release results

Licence Pool	RubyRed Kiwifruit	SunGold restricted pool (Green Cutover)	SunGold unrestricted pool	SunGold total
Hectares Available	150	200	150	350
Hectares Released	125.8	199.5	148.8	348.3
Opening Price (GST excl.)	\$33,043 per ha	\$224,344 per ha	\$224,344 per ha	\$224,344 per ha
Final Price (GST excl.)	\$33,043 per ha	\$589,565 per ha	\$608,696 per ha	\$597,738 per ha
Total Number of Auction Rounds	1.0	20.0	10.0	-
Total Hectares Bid For (first round of bids)	125.8	627.5	524.1	-
Total Revenue (\$m)	\$4.2	\$117.6	\$90.6	\$208.2

## RubyRed

RubyRed is proving to be a different fruit to produce than other varieties, requiring a warmer site and very good shelter. The 2023 harvest had a higher proportion of small and undersized fruit, likely due to a cold spring, wet summer and low sunshine hours at key growing times. This led to lower volumes of Class 1 (export) fruit. Knowledge about producing RubyRed improves each season, and as the vines strengthen over time yields are increasing, albeit are still lower than other varieties. While there is good demand for the variety overseas, it is uncertain if long term average yields will reach 10K trays per hectare. Because of the risks associated with RubyRed and the learning curve for successfully growing and harvesting the crop, we believe this has led to the drop in RubyRed hectares bid for in 2023 and the lower price per hectare.

## Weather impacts on 2023 crop

The 2023 crop has had a number of adverse weather effects which has resulted in a lower volume crop (138m trays). The Ōpōtiki and Bay of Plenty catchments, which account for 95% of kiwifruit volume, suffered a heavy spring frost on 6 October 2022. This significantly affected some orchards and lowered 2023 crop volumes. ZGL estimates that around 70% of producing area in the Hawke's Bay and 25% in Gisborne have suffered moderate-to-significant damage as a result of Cyclone Gabrielle. Any fruit that had direct contact with flood water is not fit for human consumption and cannot be harvested. This is also on the back of Cyclone Hale – which had an impact on many growing regions. In addition, last year was a very warm and mild winter, so some vines didn't have the required amount of winter chill which led to inconsistent budbreak and a drop in flower numbers, particularly for Green kiwifruit. El Nino conditions may arrive as early as winter, which may help to provide sufficient winter chill for next year's crop.

Overall, we expect that volumes will be very significantly higher in 2024 (182m trays), due to strong canopy growth and an increase in productive hectares.

## Hi-cane

Due to Cyclone Gabrielle, the public hearings on the Environmental Protection Authority (EPA) proposal to ban Hi-Cane have been delayed, with the EPA now proposing a delay until January 2024. The EPA continues to recommend a ban on Hi-Cane, but now proposes this ban in ten years' time instead of its original recommendation of five years. While a 10-year period does give more time to find alternative Green varieties and/or alternative budbreakers, a ban will have a significant impact on growers and the industry. ZGL and NZKGI both oppose the ban and continue to build a case for maintaining the use of Hi-Cane

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