

1H21 interim result released.

Beston Global Food (BFC) has reported its 1H21 earnings result (\$8.8m loss), that reflects lower production due to plant downtime and operational weaknesses, losses on unprocessed milk sales, lower demand and sales prices due to COVID, and higher repair and maintenance costs associated with the plant down time.

Heading into the 2H21, the plant issues have been rectified and BFC has committed capital from the recent capital raise to put in place risk mitigation measures to minimise similar issues in the future.

Balance sheet capable of funding expansion and Jervois plant upgrades.

In June 2020, BFC raised \$10m to expand lactoferrin production capacity from 3 tonnes per annum (tpa) to 12 tpa. In February 2021 BFC raised an additional \$15.6m via an entitlement offer to fund a further expansion of the lactoferrin production capacity from 12 tpa to 25 tpa by March 2022. Additionally, extra capital has been raised to fund upgrades at the Jervois facility which experienced operational issues in 1H21.

BFC now needs to focus on completing the production expansion in a timely manner and look to put in place sales agreements for the materially increased lactoferrin production capacity.

Continues to be a FY22 story.

We continue to forecast that FY21 will be a transition year and BFC will be NPAT positive in FY22. If we are correct, at the current spot price, BFC is trading on ~7.6 times FY22 earnings per share and a FY22 EV/EBITDA multiple of ~5.0 times. This would have it trading at a material discount to its closest local peers, Bega Cheese (BGA-AU) and Clover Corporation (CLV-AU), that are trading on one year forward EV/EBITDA multiples of 11.3 and 13.5 times respectively.

Investment Management Agreement (IMA) to terminate in August 2021.

Shareholders will vote on a proposal at an EGM on the 28th May 2021 to terminate the IMA with Beston Pacific Asset Management (BPAM) at a cost of \$1.13m and the issuance of 21.125m shares on the 28th August 2021. We have incorporated the additional shares to be issued in our valuation and our earnings forecasts.

Valuation

Our base case 12 month forward discounted cash flow valuation is \$0.31. Our forecasts reflect an increase in milk supply to 180 million litres (ML) by FY23 (up 30%) and growth in lactoferrin production up to 25 tpa by FY23 (up > 700%).

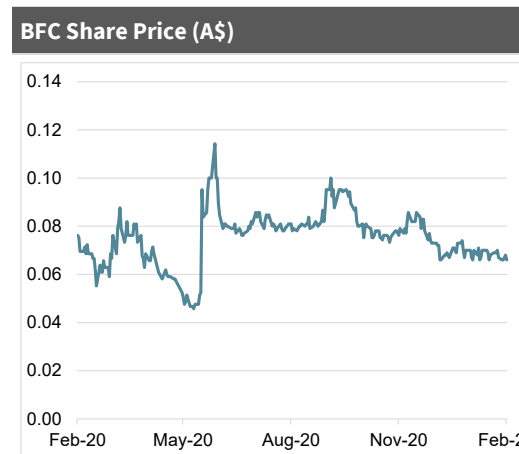


Beston Global Food (BFC) owns and operates a portfolio of food and beverage businesses. Its primary operations are now focussed on dairy and meat. The dairy segment owns production plants and uses milk to produce mozzarella cheese, whey powder, lactoferrin and other dairy products. The meat segment is focused on production of meat and related products for domestic and export markets.

<https://bestonglobalfoods.com.au/>

Stock	BFC.ASX
Price	A\$0.07
Market cap	A\$56m
Valuation	A\$0.31

Near term catalysts	
March 2021	Lactoferrin expansion completion
Ongoing	New milk supply agreements



Source: FactSet

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Beston Global Food Financial Forecasts

Beston Global Food						BFC-AU							
Year end 30 June													
MARKET DATA						12 month relative performance versus S&P/ASX Small Ordinaries							
Price	\$					0.066							
52 week high / low	\$					0.11 - 0.05							
Valuation	\$					0.31							
Market capitalisation	\$m					55.6							
Shares on issue (basic)	m					842.7							
Options / Performance shares	m					0.0							
Issuance for IMA termination	m					21.1							
Potential shares on issue (diluted)	m					863.8							
INVESTMENT FUNDAMENTALS						PROFIT AND LOSS							
Reported NPAT	\$m	(27.0)	(11.6)	(9.4)	7.4	15.8	Sales	\$m	84.8	103.0	122.5	158.3	183.8
Underlying NPAT	\$m	(4.9)	(12.4)	(9.4)	7.4	15.8	COGS	\$m	(81.1)	(93.9)	(109.9)	(120.4)	(132.4)
EPS Reported (undiluted)	¢	(6.1)	(2.5)	(1.4)	0.9	1.8	Gross margin	\$m	3.7	9.2	12.6	37.9	51.4
EPS Underlying (undiluted)	¢	(1.1)	(2.7)	(1.4)	0.9	1.8	Gross margin	%	4.4%	8.9%	10.3%	24.0%	28.0%
Underlying EPS growth	%	n/m	n/m	n/m	n/m	112%	Other income	\$m	1.3	5.3	0.1	0.1	0.2
P/E Reported (undiluted)	x	n/m	n/m	n/m	7.6	3.6	Other operating costs	\$m	(24.0)	(25.4)	(22.1)	(22.9)	(23.7)
P/E Underlying (undiluted)	x	n/m	n/m	n/m	7.6	3.6	EBITDA	\$m	(19.0)	(11.0)	(9.4)	15.2	27.9
Dividend	¢	0.0	0.0	0.0	0.0	0.0	Depreciation & amortisation	\$m	(1.9)	(3.0)	(3.2)	(3.8)	(4.0)
Payout ratio	%	0%	0%	0%	0%	0%	EBIT	\$m	(20.9)	(14.0)	(12.6)	11.4	23.9
Yield (Y/E/ spot)	%	0.0	0.0	0.0	0.0	0.0	Net interest	\$m	(1.3)	(1.6)	(0.7)	(0.9)	(1.3)
Franking	%	n/a	n/a	n/a	n/a	n/a	Impairments / Associates	\$m	(10.4)	(1.7)	0.0	0.0	0.0
Gross Yield (Y/E/ spot)	%	0.0	0.0	0.0	0.0	0.0	Pretax Profit	\$m	(32.5)	(17.3)	(13.4)	10.5	22.6
Operating cash flow per share	¢	(2.1)	(3.0)	(2.4)	1.5	2.9	Tax expense	\$m	5.2	5.1	4.0	(3.2)	(6.8)
Price to operating cash flow	x	n/m	n/m	n/m	4.3	2.3	Minorities	\$m	(0.3)	(0.6)	0.0	0.0	0.0
Free cash flow	\$m	(22.2)	(10.7)	3.8	(0.5)	23.5	NPAT	\$m	(27.0)	(11.6)	(9.4)	7.4	15.8
Free cash flow per share	¢	(5.0)	(2.3)	0.6	(0.1)	2.7	Adjustments & Significant items	\$m	(22.1)	0.8	0.0	0.0	0.0
Price to free cash flow	x	n/m	n/m	11.9	n/m	2.4	Underlying NPAT	\$m	(4.9)	(12.4)	(9.4)	7.4	15.8
Free cash flow yield	%	n/m	n/m	8.4%	n/m	41.2%	BALANCE SHEET						
Book value / share	¢	18	14	10	11	13	Cash	\$m	1.9	10.6	10.3	2.8	16.3
Price to book (NAV)	x	0.7	0.6	0.7	0.6	0.5	Receivables	\$m	15.7	13.3	18.0	19.2	20.3
NTA / share	¢	14	12	9	10	12	Inventory	\$m	14.2	12.6	17.1	18.1	19.2
Price to NTA	x	0.9	0.7	0.7	0.7	0.5	Other	\$m	0.0	38.5	0.0	0.0	0.0
Year end shares	m	443.3	588.8	842.7	863.8	863.8	Current assets	\$m	31.9	75.0	45.4	40.1	55.9
Market cap (Y/E / Spot)	\$m	53.2	50.1	55.6	57.0	57.0	PPE	\$m	68.2	41.8	57.5	67.4	65.0
Net debt /(cash)	\$m	39.4	39.0	19.3	19.8	(3.7)	Intangibles	\$m	19.4	8.6	8.6	8.6	8.6
Enterprise value	\$m	92.4	88.3	74.1	76.0	52.5	Other	\$m	21.1	19.9	19.8	19.8	19.8
EV/Sales	x	1.1	0.9	0.6	0.5	0.3	Non current assets	\$m	108.7	70.3	85.9	95.8	93.4
EV/EBITDA	x	n/m	n/m	n/m	5.0	1.9	Total Assets	\$m	140.6	145.3	131.3	135.9	149.3
EV/EBIT	x	n/m	n/m	n/m	6.7	2.2	Accounts Payable	\$m	15.7	13.8	16.5	17.6	18.6
Net debt / Enterprise Value	x	43%	44%	26%	26%	-7%	Borrowings	\$m	5.5	26.1	0.0	0.0	0.0
Gearing (net debt / EBITDA)	x	(2.1)	(3.5)	(2.0)	1.3	(0.1)	Other	\$m	0.5	0.7	0.7	0.7	0.7
ROE (Average Equity)	%	n/m	n/m	n/m	9%	17%	Current liabilities	\$m	21.7	40.6	17.2	18.2	19.3
ROA (EBIT)	%	n/m	n/m	n/m	8%	15%	Borrowings	\$m	35.8	23.4	29.6	22.6	12.6
Interest cover (EBIT / net interest)	x	(16.2)	(8.9)	(16.9)	12.8	19.0	Deferred tax liabilities	\$m	2.8	1.0	1.3	1.6	2.0
DIVISIONAL						CASH FLOW							
Milk supply (MI)		103	111	138	160	180	EBITDA	\$m	(19.0)	(11.0)	(9.4)	15.2	27.9
Milk sold (MI)		42	14	19	10	10	Change in working capital	\$m	11.1	(1.1)	(6.5)	(1.2)	(1.2)
Mozzarella sales (t)		4,364	8,902	11,693	14,739	16,705	Net interest	\$m	(1.3)	(1.6)	(0.7)	(0.9)	(1.2)
Cheddar & other hard cheese (t)		1,634	1,221	650	650	650	Tax paid / Refund	\$m	0.0	0.0	0.0	0.0	(0.3)
Whey production (t)		2,635	3,962	5,653	7,125	8,075	Other	\$m	0.0	0.0	0.0	0.0	0.0
Lactoferrin production (t) (liquid)		-	-	1.1	6.4	-	Operating cash flow	\$m	(9.1)	(13.7)	(16.6)	13.1	25.2
Lactoferrin production (t) (powder)		0.3	1.4	2.9	12.3	21.4	Stay in business capex	\$m	(1.5)	(1.5)	(1.6)	(1.6)	(1.7)
Lactoferrin liquid & powder sales (t)		0.3	0.5	4.0	18.7	21.4	Growth capex	\$m	(10.9)	(4.2)	(17.0)	(12.0)	0.0
Cream production (kl)		929	1,614	1,904	2,400	2,720	Asset sales (acquisitions)	\$m	(0.7)	8.7	39.0	0.0	0.0
Mozzarella A\$/t		5,179	5,830	5,705	5,705	5,762	Net investment / Other	\$m	0.0	0.0	0.0	0.0	0.0
Cheddar & other hard cheese A\$/t		6,040	7,175	7,175	7,175	7,175	Investing cash flow	\$m	(13.0)	3.0	20.4	(13.6)	(1.7)
Whey A\$/t		1,295	1,458	1,458	1,458	1,458	Change in Equity	\$m	0.0	11.5	16.8	0.0	0.0
Lactoferrin A\$/kg (liquid)		-	-	700	700	700	Increase/(decrease) in borrowings	\$m	19.8	7.8	(20.0)	(7.0)	(10.0)
Lactoferrin A\$/kg (powder)		1,555	1,298	1,500	1,500	1,500	Dividend / other	\$m	0.0	0.1	(1.1)	0.0	0.0
Cream A\$/kl		3,445	3,470	3,470	3,470	3,470	Financing cash flow	\$m	19.8	19.4	(4.2)	(7.0)	(10.0)
Dairy sales	\$m	75.4	90.4	111.2	146.4	171.5	Foreign exchange movements	\$m	(0.2)	(0.1)	0.2	0.0	0.0
Meat sales	\$m	6.5	12.4	11.1	11.7	12.1	Change in Cash / FX	\$m	(2.5)	8.6	(0.2)	(7.5)	13.5

Source: Company data, MST Access

Investment Thesis

Beston Global Food's (BFC) strategy, since listing, has been to become a leading Australian based supplier of safe, clean and healthy dairy and meat-based protein to the world's growing consumer markets, particularly in Asia.

BFC owns and operates a portfolio of food and beverage businesses focussed on dairy and meat.

The dairy segment owns production plants and uses milk to produce mozzarella cheese, lactoferrin (a protein found in bovine milk) that has significant anti-viral and anti-bacterial functions and properties which are essential in both boosting and modulating the human immune system and other dairy products for domestic and export markets.

The meat segment is focused on production of meat and related products for domestic and export markets.

Other operations include businesses developing technological software for tracking the provenance and authenticity of goods, as well as the production of spring water and related products.

See our 10 August 2020 initiation "Dairy to drive earnings into FY22: at: <https://www.mstfinancial.com.au/>

Lactoferrin production capacity to lift from 3 tpa to 25 tpa

In June 2020, BFC raised \$10m to expand the lactoferrin production capacity at its Jervois plant from 3 tpa to 12 tpa.

In February 2021 BFC raised an additional \$15m via an entitlement offer to fund a further expansion of the lactoferrin production capacity to 25 tpa by March 2022 based on sourcing 180 ML p.a. of milk supply. Additionally, extra capital has been raised to fund upgrades at the Jervois facility which has been experiencing operational issues in 1H21.









At full capacity the potential incremental gross margin from the increase in capacity from 3 tpa to 25 tpa is ~\$23m, based on \$1,500/kg for lactoferrin powder at a gross margin of 70%.

Timeline of production expansion

BFC's current production of lactoferrin is 3 tpa.

Stage 1 - By March 2021 lactoferrin production was to lift from 3 tpa to 12 tpa powder (funded by the \$10m June 2020 equity raising.

Figure 1 – Proposed use of funds from February 2021 capital raise

	Cost	Capital item	Comments	Timing ¹
Stage 2 lactoferrin expansion 	\$1.5m	2 nd lactoferrin extraction column	Deliver additional FY22 lactoferrin production capacity of ~8 Tpa based on 160 ML of milk supply	Mar-21
Stage 2 lactoferrin expansion 	\$7.0m	Lactoferrin spray drier and packing	Ability to broaden offering of dried lactoferrin product at a premium price	Mar-22
Stage 2 lactoferrin expansion 	\$1.0m	Other	Includes critical spares and testing equipment	Mar-21
Govt funding 	(\$2.0m)	SA Govt Regional Growth Grant	Conditional upon Beston funding the residual stage 2 costs	Feb-21
Jervois upgrades 	\$2.25m \$0.75m	2 nd Boiler 2 nd Multivac	Boiler increases reliability for 24/7 operations, Multivac increases handling rate for higher mozzarella production	Dec-21 Sept-21
Jervois upgrades 	\$2.1m	Milk silo expansion	Increase milk storage capacity by 1 ML	Jul-21
Jervois upgrades 	\$2.0m	Mozzarella automated packing	Automate end-of-line packing and palletising of mozzarella	Dec-21
Total uses 	\$14.6m			

1. Expected completion timing with best endeavours undertaken to meet dates

Source: Company data

Stage 2 – Part 1

The \$15m capital raise just completed is to expand lactoferrin capacity from 12 tpa to 25 tpa and to provide upgrades to the Jervois facility.

We note that the new column will be fully funded by a \$2m South Australian Regional Growth Grant which effectively lifts lactoferrin production to 20 tpa based on current milk supply (138 ML contracted) by March 2021.

The additional 8 tpa produced over and above the 12 tpa funded by the 2020 capital raise is liquid as no new dryers will have been installed. The additional 8 tpa represent annualised sales growth of \$5.6m p.a. (assuming \$700/kg for lactoferrin liquid). As milk supply grows lactoferrin production grows but incremental production is liquid as there is no new drying capacity.

Stage 2 - Part 2

By March 2022 BFC will have installed a new freeze dryer and packing equipment so powder lactoferrin production will total 20 tpa production. The additional 8 tpa of dry powder production represents annualised sales growth of \$12m p.a. (assuming \$1,500/kg for lactoferrin powder).

Lactoferrin production will then continue to grow to capacity of ~25 tpa as contracted milk grows to ~180 ML.

From FY20 BFC will, at completion in March 2022, have added 22 tpa of lactoferrin production capacity equating to \$33m in additional sales (based on A\$1,500/kg) and \$23m of gross margin (assuming a 70% gross margin).

BFC has grown its milk supply from nil at its initial public offering (IPO) to 138 ML of contracted supply in FY21. BFC are targeting 180 ML of contracted milk by FY23.

Near-term catalysts

- Completion of initial lactoferrin production capacity increase to ~ 20 tpa in the first quarter of CY2021 and 25 tpa by FY23, assuming BFC can source and contract 180 ML of milk supply.
- Source sales contracts for expanded lactoferrin production
- Increase milk supply from the current 138 ML contracted in FY21 to 180 ML by FY23 to further utilise capacity at Jervois mozzarella facility.
- Completion of the internalisation of Beston Pacific Asset Management (BPAM) investment management agreement (IMA) scheduled to be completed by August 2021
- Continue to grow order book for the Provincial Food Group (meat sales) from the \$12m achieved in FY20

Management Agreement termination

BFC is currently managed through an Investment Management Agreement (IMA) with Beston Pacific Asset Management (BPAM). The management fee is based on a fixed fee of 1.2% pa of the gross portfolio value (GPV) of BFC. In FY20 BFC reported a management expense of \$2.3m implying a GPV of ~\$192m.

The fee was intended to meet the costs of the BFC senior management team and allow BFC to establish itself over the initial five-year period of the business plan.

Under the terms of the IMA, BPAM is also entitled to a performance fee based on the market capitalisation of BFC and the performance of the BFC share price relative to the ASX All Ordinaries Accumulation Index (XAOAI), noting under performance has to be recovered before a fee is paid. The performance fee is calculated - Market capitalisation BFC * Outperformance * 17.5%, where “out performance” is BFC total stock return less XAOAI return.

BFC has announced an internalisation of the investment management agreement (IMA) removing Beston Pacific Asset Management as manager (forecast to complete in August 2021 assuming shareholders approve the proposal to be voted on at an EGM on the 28th May 2021). The termination fee of \$5.6m will be payable in two tranches, a cash payment of \$1.13m and 21.125m BFC shares. At pre-announcement share price (\$0.087), the implied value of the termination fee was \$3.0m.

Beston Global Food Valuation

Our base case 12 month forward discounted cash flow valuation has lifted from \$0.21 to \$0.31 reflecting the increased lactoferrin production capacity and adjusting for the additional shares on issue post the recent entitlement offer and the forecast shares to be issued upon termination of the IMA.

BFC currently has a FactSet two-year equity beta of 0.02.

We have chosen a two-year equity beta of 0.70 being the average of what we believe are the most comparable companies on the ASX being Clover corporation (0.72) and Bega Cheese (0.65).

Figure 2 – Beston Global Food Discounted Cash Flow Valuation

Sum of discounted forecast cash flows	92.1	Target Debt / Enterprise Value Ratio	20.0%
Nominal long run growth rate	2.5%	Statutory Tax Rate	30.0%
Discounted terminal value	181.1		
Enterprise Value	273.2	Equity Beta	0.70
Less: Net debt	(19.3)	Expected Market Return	10.0%
Assumed option exercise at valuation price	0.0	Cost of Equity	8.2%
Total Equity value	254.0		
FY21 diluted shares on issue	842.7	Risk Free Rate	4.0%
Issuance for IMA termination	21.1	Debt Premium	2.0%
Share issue count for valuation	863.8	Cost of Debt	6.0%
FY21 Value per share	0.29	WACC	7.4%

Source: MST Access

Rolling forward 12 months we get a 12-month forward valuation of \$0.31 in March 2022.

Figure 3 – Beston Global Food Discounted Cash Flow Valuation rolling forward

\$	Jun-21	Mar-22	Jun-22	Mar-23	Jun-23	Mar-24
Value per share	0.29	0.31	0.32	0.34	0.34	0.36

Source: MST Access

Comparable company multiples

We believe Clover Corporation and Bega Cheese are the most comparable listed companies listed in Australia.

As can be noted below if BFC reports in line with our forecasts it is trading at ~7.6 times FY22 earnings per share and a FY22 EV/EBITDA multiple of ~5.0 times. This would have it trading at a material discount to its closest local peers being Bega Cheese (BGA-AU) and Clover Corporation (CLV-AU) (see Figure 4).

Figure 4 – Beston Global Food Comparative company multiples

Company	Ticker	Price (LC)	Mkt Cap (A\$M)	PE FY1	EV/EBITDA (FY0)	EV/EBITDA (FY1)
a2 Milk Company Ltd.	A2M	8.99	6,758	30.3x	12.3x	18.6x
Bega Cheese Limited	BGA	6.13	1,700	38.2x	21.1x	11.3x
Clover Corporation Limited	CLV	1.26	210	18.8x	11.3x	13.5x
Average				29.1x	14.9x	14.5x
Bega / Clover				28.5x	16.2x	12.4x
Beston Global Food	BFC			n/m	n/m	5.0x
Minimum				18.8x	11.3x	11.3x

Source: FactSet (28 February 2021), MST Access

Beston Global financials

1H21 interim result

Beston Global Food (BFC) has reported a 1H21 loss of \$8.8m (see Figure 9), that reflects lower production due to plant downtime and operational weaknesses, losses on unprocessed milk sales, lower demand and sales prices due to COVID, and higher repair and maintenance costs associated with the plant down time.

Heading into the 2H21, the plant issues have been rectified and BFC has committed capital from the recent capital raise to put in place risk mitigation measures to minimise similar issues occurring in the future.

BFC estimate that operational and market related impacts reduced 1H21 earnings by ~\$10m (Figure 5).

Figure 5 – Operational and market impacts on 1H21 earnings

\$m	1H21
Plant operations	
Lower production	(2.1)
Milk sale losses	(0.8)
Lower yields	(3.1)
Downgraded product sales	(0.9)
Additional maintenance costs	(0.3)
Existing Lactoferrin plant performance	(1.1)
Demand (Impact of COVID)	
Lower sales price	(1.6)
Lower demand	(0.4)
Total pre tax impacts	(10.3)

Source: Company data

FY21 Guidance

BFC restated its FY21 guidance for a number of key operational and financial metrics:

- Milk supply up from 111 ML in FY20 to 131-145 ML, MST at 138 ML in line with contracted milk supply
- Mozzarella production up from 9.1kt in FY20 to 12.6-14.7 kt, MST at 12.3 kt with 11.7 kt of sales
- Dairy sales revenue up from \$90m to \$115-\$125m, MST at ~\$111m
- Product sales revenue up from \$103m to \$130-\$145m, MST at \$123m
- Lactoferrin production up from 1.4t to 4.0-6.0t, MST at 4.0t
- Capex up from \$6.0m in FY20 to \$23m-\$28m, MST at \$19m in FY21 and \$13m in FY22 inclusive of ~\$1.6m p.a. of “stay in business” capex

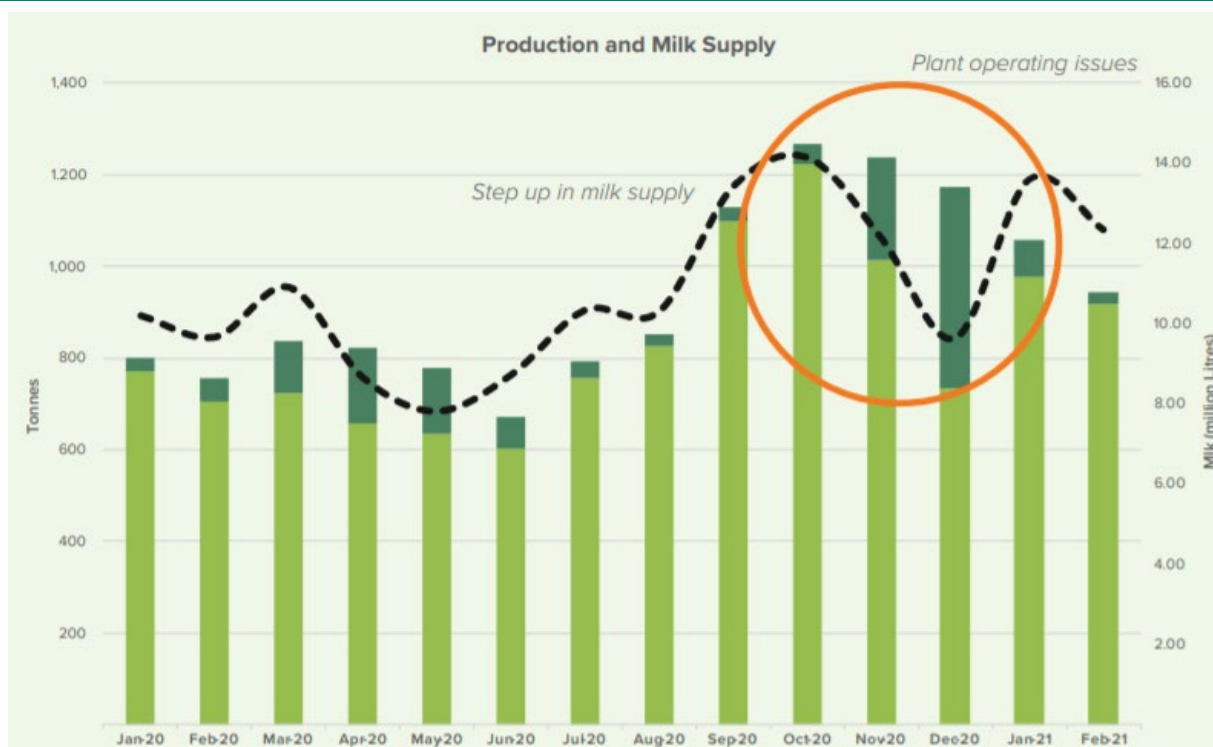
Milk Supply

Key to any dairy operation is certainty of milk supply. BFC has built relationships with local farmers and has increased its milk supply from nil at its initial public offering (IPO) to a forecast 138 ML of contracted supply in FY21. Milk supply is integral to BFC’s operations and we estimate it to be ~75% of the cost of goods sold for the dairy operations. As BFC has ramped up production of mozzarella in FY20 and 1H21 more milk has been used in its own production (87%) and less sold as raw milk (Figure 7). We note here the impact of plant downtime on BFC profitability. In November and December 2020, a material volume of milk supplied was unable to be processed.

This has two impacts being:

- a reduction in the production of higher margin products, and
- the requirement to sell the unprocessed milk back into the market at a loss.

Figure 6 – BFC milk used in dairy production and sold (ML) per month



Source: MST, Company data

In FY20 milk supplied to the operations was 111 ML. BFC has currently contracted supply of 138 ML in FY21 with an opening milk price paid to farmers of \$7.20/kg milk solids. In FY20 BFC paid an opening price of \$6.80/kg and exited the year paying \$7.05/kg. Competitor pricing over Australia was reported to range from \$6.00 to \$6.90 with organic milk pricing up to \$8.60. These prices are generally lower than last year's opening prices. Historically, opening prices generally increase as the season progresses.

We believe BFC can and will be prepared to pay a premium to average farmgate whole milk prices given its ability to produce higher margin products and will look to contract more supply as the years progress.

The medium-term target is to increase milk supply to around 180 ML p.a. by FY23. We have assumed this occurs.

Figure 7 – BFC milk used in dairy production and sold (ML)

Milk supplied (ML)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Milk supplied (ML)	90.5	102.8	110.8	138.0	160.0	180.0
<i>Growth (ML)</i>		12.3	8.0	27.2	22.0	20.0
<i>Growth</i>		14%	8%	25%	16%	13%
Milk sent to factories for processing		60.6	96.4	119.0	150.0	170.0
Milk sold		42.2	14.4	19.0	10.0	10.0

Source: MST, Company data

We note that the recent farm sale locked in the existing ~17 ML p.a. of supply from the farms for 10 years.

The Company has stated that most of its milk supply is secured under multi-year contracts with three to five-year terms. This approach reduces annual recontracting risk. The FY21 forecast milk receipts of 138ML is underpinned by contracts with an annual run rate of ~145 ML, the difference being the timing of new suppliers coming across to BFC in 1Q21.

BFC Dairy forecasts

Lactoferrin production is not materially impacted in FY21 from the new capacity commissioning in March 2021.

FY22 will see a full year of benefit from the new capacity on-line but will only benefit from three months of the new drying capacity.

FY23 will see a full year of benefit from the new production and drying capacity.

Now that the dairy farms have been sold, BFC is in a position to focus on growing production and sales at its dairy operations through increasing milk supply to ~138 MI in FY21, while continuing to transition to a higher margin product mix. Further out BFC will look to grow milk supply to 180 MI and ultimately it could grow to 200 MI given the plant production capacity at Jervois.

We have tabled below our key pricing, production and sales assumptions for the Dairy segment.

Figure 8 – Beston Global Food Dairy Forecasts

	FY19	FY20	FY21E	FY22E	FY23E
Milk acquired (MI)	103	111	138	160	180
Milk on sold (MI)	42	14	19	10	10
Milk used in production (MI)	61	96	119	150	170
Milk Sales (A\$m)	23	8	11	6	6
Mozzarella produced (t)	4,387	9,128	12,257	15,450	17,510
Mozzarella sold (t)	4,364	8,902	11,693	14,739	16,705
Mozzarella A\$/t	5,179	5,830	5,705	5,705	5,762
Mozzarella sales (\$m)	23	52	67	84	96
Cheddar produced (t)	1,634	1,221	650	650	650
Cheddar sold (t)	2,616	1,554	650	650	650
Cheddar A\$/t	6,040	7,175	7,175	7,175	7,175
Cheddar sales \$m	16	11	5	5	5
Nameplate lactoferrin production (t)			7.3	22.0	24.8
Lactoferrin powder produced (t)	0.3	1.4	2.9	12.3	21.4
Lactoferrin liquid produced (t)	-	-	1.1	6.4	-
Lactoferrin sold (t)	0.3	1.4	4.0	18.7	21.4
Lactoferrin Powder A\$/t	1,555	1,298	1,500	1,500	1,500
Lactoferrin Liquid A\$/t	-	-	700	700	700
Lactoferrin sales (\$m)	0	1	5	23	32
Whey produced (t)	2,635	3,962	5,653	7,125	8,075
Whey sold (t)	3,012	4,203	5,653	7,125	8,075
Whey A\$/t	1,295	1,458	1,458	1,458	1,458
Whey sales (\$m)	4	6	8	10	12
Cream Produced (kl)	929	1,614	1,904	2,400	2,720
Cream (\$/kl)	3,445	3,470	3,470	3,470	3,470
Cream Sales (\$m)	3	6	7	8	9
Other Dairy Sales	7	7	9	10	11
Total Dairy Sales (\$m)	75	90	111	146	172
Gross margin	7%	10%	11%	25%	29%
Gross margin (\$m)	5	9	12	37	50

Source: MST Access, Company data

The two key pricing assumptions are:

- Lactoferrin sale price of A\$1,500/kg which is in line with BFC's guidance of A\$1,500/kg.
- Mozzarella sale price of A\$5,705/t which is in line with FY20 pricing.

We note that given most of BFC's sales are into the domestic market (~75%) and are done on the basis of one on one negotiation global pricing and the AUD/USD exchange rate has little impact at this stage.

We are in line with BFC's guidance that for every incremental 20 ML of milk supplied to the facility, 2,060 t of mozzarella, 2.6 t of lactoferrin, 950 t of whey and 320,000 l of cream is produced.

BFC profit and loss

Incorporating the dairy segment with the other smaller segments we table below or forecast profit and loss for BFC.

Figure 9 – Beston Global Food Forecast Profit and Loss

A\$m	FY18	FY19	FY20	1H21	2H21E	FY21E	FY22E	FY23E
Dairy	41.6	75.4	90.4	48.5	62.8	111.2	146.4	171.5
Meat	0.0	6.5	12.4	4.3	6.9	11.1	11.7	12.1
Other revenue	6.3	2.9	0.2	0.1	0.1	0.2	0.2	0.2
Sales revenue	47.9	84.8	103.0	52.8	69.7	122.5	158.3	183.8
Other income	3.2	1.3	5.3	0.1	0.0	0.1	0.1	0.2
Total Income	51.1	86.1	108.3	52.9	69.7	122.7	158.4	184.0
COGS	(42.5)	(81.1)	(93.9)	(52.2)	(57.7)	(109.9)	(120.4)	(132.4)
Dairy gross margin	7.4	5.2	9.5	0.5	11.5	12.0	36.7	49.9
Meat gross margin	0.0	0.4	(0.1)	0.1	0.5	0.6	1.2	1.5
Other gross margin	(2.0)	(1.9)	(0.2)	0.0	0.0	0.1	0.0	0.0
Gross Margin	5.3	3.7	9.2	0.6	12.0	12.6	37.9	51.4
Dairy gross margin (%)	17.7%	6.9%	10.5%	1.0%	18.3%	10.8%	25.1%	29.1%
Meat gross margin (%)	n/m	6.2%	(1.2%)	2.2%	6.7%	5.0%	10.0%	12.5%
Other gross margin (%)	n/m	n/m	n/m	38.1%	38.1%	38.1%	25.0%	25.0%
Gross Margin (%)	11.1%	4.4%	8.9%	1.2%	17.2%	10.3%	24.0%	28.0%
Other operating expenditure	(23.9)	(24.0)	(25.4)	(11.1)	(11.0)	(22.0)	(22.8)	(23.6)
EBITDA	(15.4)	(19.0)	(11.0)	(10.4)	1.0	(9.4)	15.2	27.9
D&A	(2.1)	(1.9)	(3.0)	(1.5)	(1.7)	(3.2)	(3.8)	(4.0)
EBIT	(17.5)	(20.9)	(14.0)	(11.9)	(0.7)	(12.6)	11.4	23.9
Net interest	1.0	(1.3)	(1.6)	(0.6)	(0.2)	(0.7)	(0.8)	(1.2)
Impairments	0.0	(9.6)	(1.7)	0.0	0.0	0.0	0.0	0.0
Associates	(0.0)	(0.8)	0.0	0.0	0.0	0.0	0.0	0.0
PBT	(16.5)	(32.5)	(17.3)	(12.5)	(0.8)	(13.4)	10.6	22.7
Accounting tax	3.4	5.2	5.1	3.7	0.3	4.0	(3.2)	(6.8)
NPAT	(13.1)	(27.3)	(12.2)	(8.8)	(0.5)	(9.4)	7.5	15.9
Minority interests	(0.5)	(0.3)	(0.6)	(0.0)	0.0	0.0	0.0	0.0
Profit to owners of BFC	(12.6)	(27.0)	(11.6)	(8.8)	(0.5)	(9.4)	7.5	15.9
EPS (¢)	(2.8)	(6.1)	(2.5)	(1.5)	0.1	(1.4)	0.9	1.8
DPS (¢)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: MST Access, Company data

Earnings changes

We have updated our forecasts (Figure 10) following the interim result and reflecting the lactoferrin capacity expansion and the additional shares on issue post the capital raise and the shares to be issued upon termination of the IMA in FY22.

Key changes to our forecasts reflect higher corporate overheads going forward than previously forecast and lower production profiles for mozzarella and lactoferrin (See Figure 8). We are below or at the bottom of BFC's guidance on both, as noted in the FY21 Guidance section on Pg 7.

Figure 10 – BFC earnings changes

A\$m	FY20	FY21			FY22			FY23		
	Reported	New	Old	Delta	New	Old	Delta	New	Old	Delta
Income	103.0	122.5	129.6	(5%)	158.3	164.7	(4%)	183.8	191.1	(4%)
EBITDA	(11.0)	(9.4)	(6.6)	(43%)	15.2	17.5	(14%)	27.9	29.4	(5%)
EBIT	(14.0)	(12.6)	(9.9)	(27%)	11.4	13.8	(17%)	23.9	25.4	(6%)
NPAT	(11.6)	(9.4)	(7.7)	(22%)	7.5	9.3	(20%)	15.9	17.3	(8%)
EPS ©	(2.7)	(1.4)	(1.1)	(22%)	0.9	1.1	(20%)	1.8	2.0	(8%)
P/E (x)	n/m	n/m	n/m		7.6	6.4		3.6	3.4	
EV/EBITDA (x)	n/m	n/m	n/m		5.0	3.8		1.9	1.5	

Source: MST, Company data

Cash flow forecasts

We have assumed capital expenditure is at the top of the company's guidance of \$24m-\$29m, spread over the next two years as well as stay in business capex of ~\$1.6m p.a. going forward.

Based on our forecasts we see BFC being in a net cash position in FY23.

Figure 11 – Beston Global Food Forecast Cash Flow Statement

A\$m	FY18	FY19	FY20	1H21	2H21E	FY21E	FY22E	FY23E
EBITDA	(15)	(19)	(11)	(10)	1	(9)	15	28
Change in working capital / Other	(15)	11	(1)	(7)	1	(6)	(1)	(1)
OCF - pre interest & tax	(30)	(8)	(12)	(17)	2	(16)	14	27
Cash interest earned	0	0	0	0	0	0	0	0
Cash interest paid	(0)	(2)	(2)	(0.5)	(0.3)	(0.8)	(1)	(1)
Tax Paid	0	0	0	0	0	0	0	(0)
Operating cash flow (OCF)	(30)	(9)	(14)	(18)	1	(17)	13	25
Maintenance capex	(1)	(1)	(2)	(1)	(1)	(2)	(2)	(2)
Capital expenditure	(12)	(11)	(4)	(7)	(10)	(17)	(12)	0
Acquisitions / Investments	(1)	(1)	(1)	(0)	(0)	(0)	0	0
Divestments	2	1	9	39	0	39	0	0
Other investing cash flow	(4)	0	0	0	0	0	0	0
Net investing	(17)	(13)	3	31	(10)	20	(14)	(2)
Net movement in equity	0	0	12	1	16	17	0	0
Cash dividends paid	0	0	0	0	0	0	0	0
Debt draw down	21	20	12	1	0	1	0	0
Debt repayments	0	0	(5)	(21)	0	(21)	(7)	(10)
Other financing cash flow	1	0	0	0	(1)	(1)	0	0
Net financing	22	20	19	(19)	15	(4)	(7)	(10)
Change in cash	(25)	(2)	9	(6)	6	(0)	(7)	14
Cash beginning	29	4	2	11	5	11	10	3
Foreign exchange movements	0	(0)	(0)	0	0	0	0	0
Cash end	4	2	11	5	10	10	3	16
Net Debt / (Cash)	17	39	39	25	19	19	20	(4)

Source: MST Access, Company data

Lactoferrin – The Earnings Growth driver

BFC made a decision in 2016 to acquire a dairy nutraceutical plant which had been built by an Australian public company (Australian Probiotics Ltd) adjacent to BFC’s dairy factory at Jervois, South Australia.

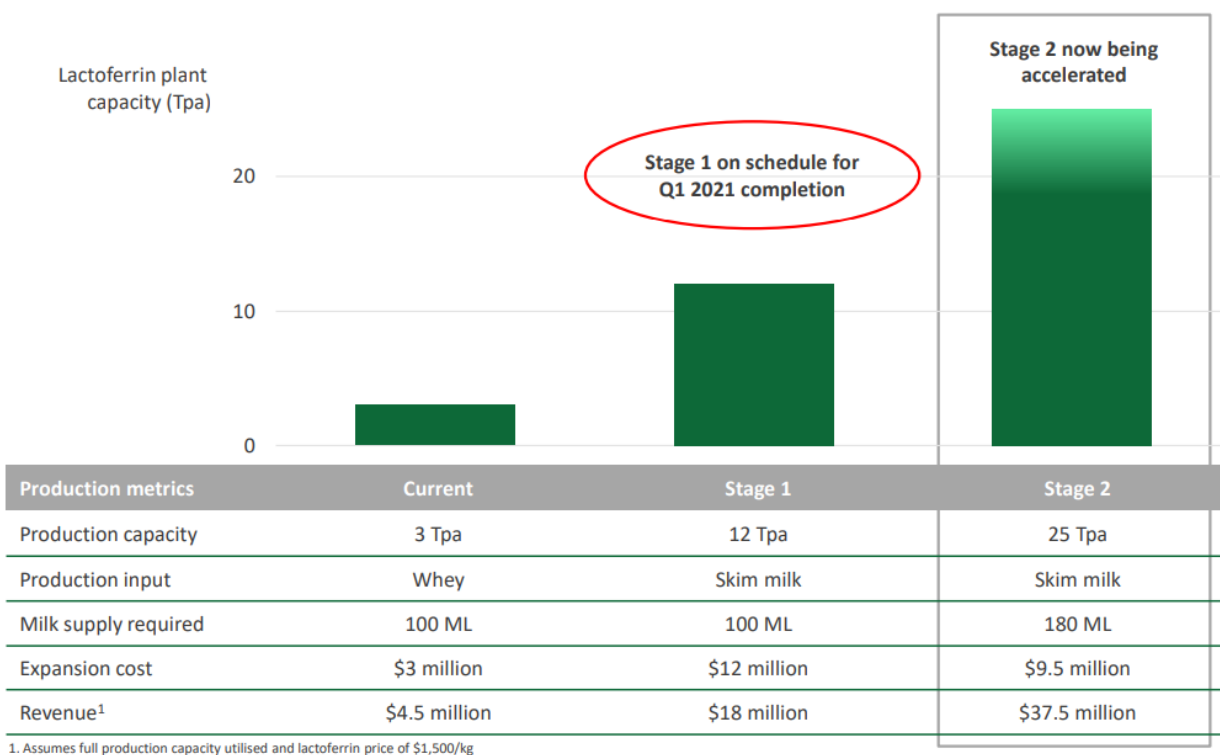
BFC acquired the plant at a fraction of its original cost. It was then effectively “moth balled” after acquisition until such time as the new mozzarella plant was installed and sufficient whey liquid feedstock was being produced (as a by-product of cheese production) to operate the plant efficiently.

BFC re-started the dairy nutraceutical plant in 2019 following the commissioning of the mozzarella plant and commenced the production of high value Lactoferrin. In order to rectify some operational issues apparent when operating the plant in the early months of 2020, BFC upgraded the plant and installed new resin so as to take the production of Lactoferrin to circa 3 tpa, with consistently higher levels of purity and quality.

Following the two capital raises BFC will now take lactoferrin production capacity to 25 tpa.

Figure 12 – BFC lactoferrin production now to reach 25 tpa given capital raise

Expansion of lactoferrin production to potentially capture ~5% of the growing global market from FY22



Source: Company data

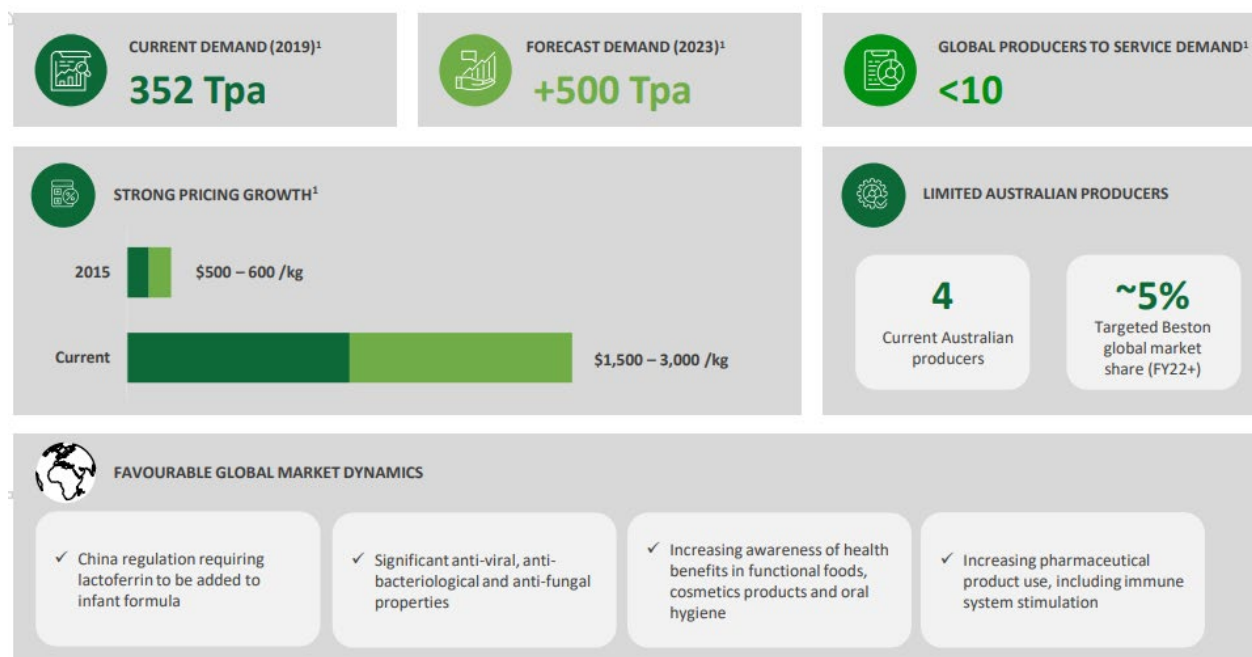
Lactoferrin has significant immune boosting and immune modulating properties, including anti-bacterial, anti-viral, anti-parasitic, and anti-allergic functions. The clinical significance of Lactoferrin has been established in numerous medical and scientific studies over the past 40 years (since it was first extracted from milk in 1961).

Since commissioning, BFC has added a freeze drying and milling facility (which was not part of the original plant acquired), thereby enabling Lactoferrin to be delivered to customers in final product, powder form.

Lactoferrin has a high global demand and commands high prices with high margins. It is one of some 20 proteins known to exist in milk along with many vitamins and minerals including calcium, potassium, phosphorus, iodine, and Vitamin B2 and Vitamin B12.

The global demand for (consumption of) Lactoferrin was 351.5 MT in 2019, around 50% of which was from Japan. The global price of Lactoferrin has increased by around ten-fold since 2015.

Figure 13 – Lactoferrin demand forecast to grow supporting strong pricing



1. Source: Strategic Insights into the Global Lactoferrin and Lactoferoxidase Market, UBIC Consulting 2020

Source: Company data

A recent study (2020) undertaken by UBIC Consulting concluded that “the market for Lactoferrin is just starting”. This is because:

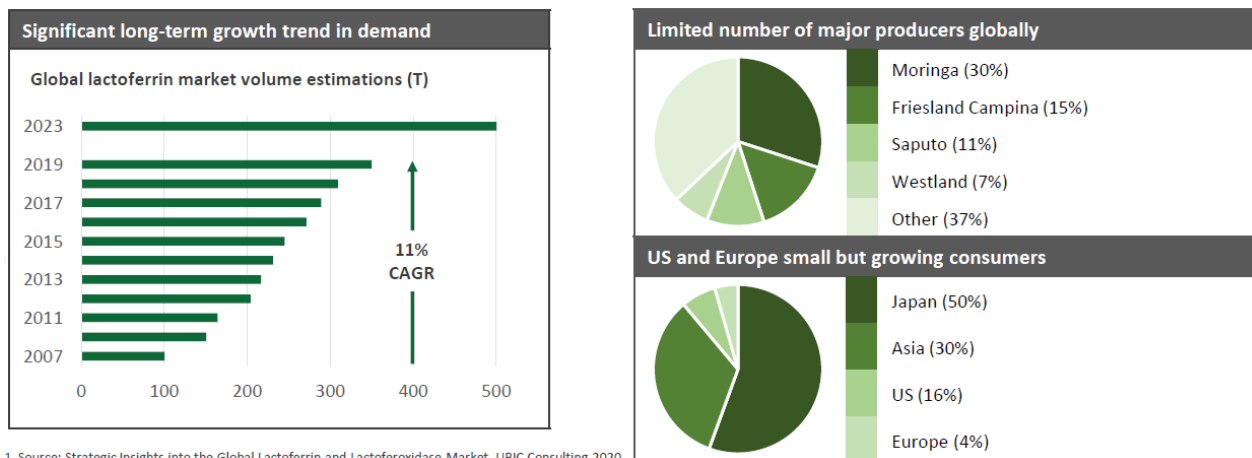
- China changed its quarantine rules in 2017 to allow Lactoferrin to be added to infant formula. As a result, Infant Milk Formula (IMF) which has Lactoferrin added is seen as being a superior product and commands a premium price. The study found that Lactoferrin from Australia and NZ is preferred by Chinese buyers, followed by Europe and then the US.
- While Lactoferrin has been authorized as a novel food ingredient in Europe for some time, it was only authorized as such in the USA in 2012.
- There is increasing awareness of the benefits of Lactoferrin in cosmetic and oral hygiene products, as well as in functional foods on the back of demographic and health care trends.
- Lactoferrin is increasingly being used in pharmaceutical products, especially in drugs used for immune system stimulation, health intestinal flora and as a carrying agent for some new cancer drugs (i.e. immuno-oncology drugs which enlist a patient’s immune system in the fight against cancer cells).

The UBIC study concludes that the demand for Lactoferrin post COVID-19 could jump by greater than 50% or 200 tpa by 2023.

The increasing interest of China in Lactoferrin in recent years may well explain much of the activity by Chinese companies in this space in Australia and NZ. For example, the largest Chinese Dairy company, Yili Group acquired the loss-making Westland Cooperative Dairy Co Ltd in August last year. Westland produces 10 t of Lactoferrin p.a.

BFC has determined that demand for lactoferrin is growing at a CAGR of 11% p.a. and that demand may reach 500 t by 2023.

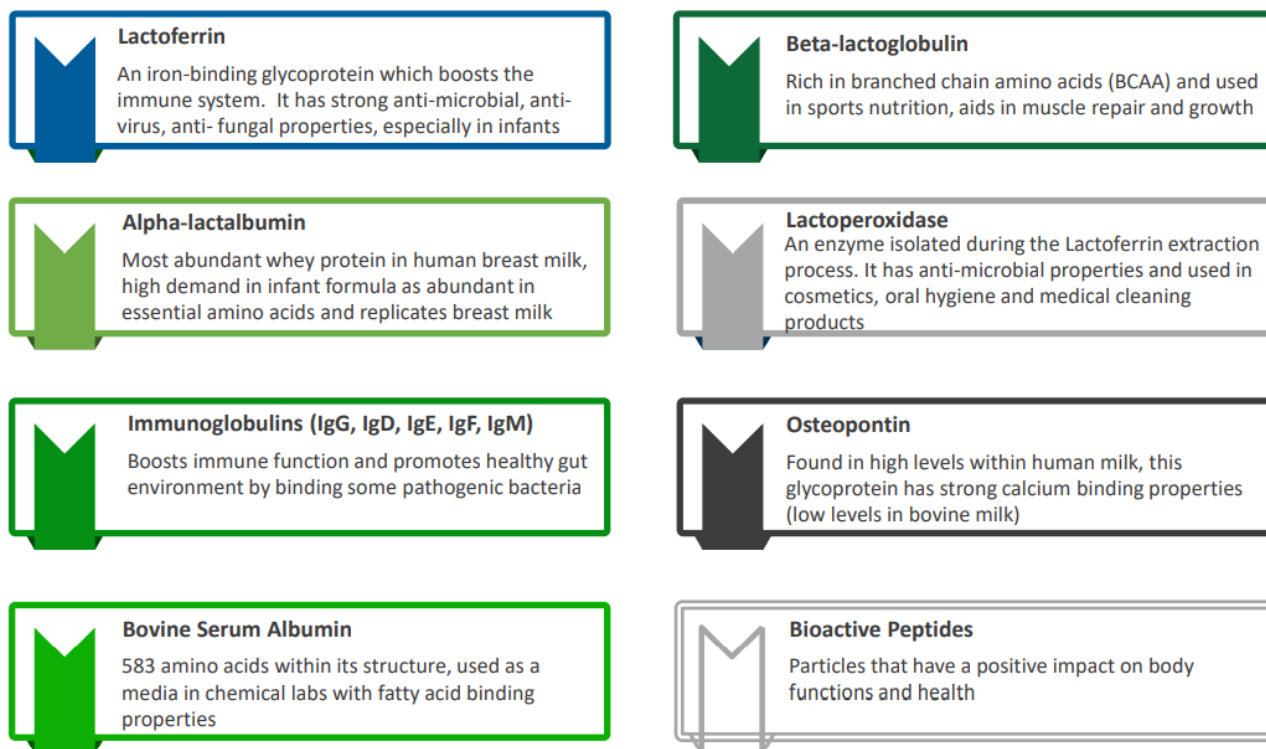
Figure 14 – Lactoferrin demand forecast to hit 500 tpa by 2023



Source: Company data

The dairy protein market is one of the most valuable markets in the dairy industry with naturally based dairy proteins (e.g. Lactoferrin, immunoglobulins, galacto-oligosaccharides etc) used in a range of applications in the health, nutrition and pharmaceutical industries including infant formula, adult formula (e.g. Sustagen), dietary supplements and a wide range of medicines.

Figure 15 – BFC will look to extract other whey proteins going forward



Source: Company data

BFC management believes the contribution from the lactoferrin expansion to gross margins is significant (around 70% to 80%). Increasing the production of Lactoferrin will therefore add significantly to the overall profitability of the dairy factory and the bottom-line results of BFC.

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