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Profit leap shows a2 Milk on track with infant formula



Geoffrey Babidge, managing director of the a2 Milk Company.

DAMON KITNEY THE AUSTRALIAN 12:00AM November 23, 2016

The a2 Milk Company says strong revenue growth underpinned by booming infant formula sales into China has continued this month after the company surprised investors yesterday with revelations that pre-tax profits increased more than 500 per cent in the September quarter.

Chairman David Hearn also said yesterday the board would formulate a dividend policy at the end of the year provided there was no need for substantial additional capital expenditure and that the growth trends continued between now and June 30.

A2 shares closed nearly 7 per cent higher at \$2.10 after it said EBITDA for the September quarter rose 473 per cent to \$NZ35.5 million (\$34m), while profit before tax was up 536 per cent to \$NZ35m, underpinned by a significant seasonal build for the 11/11 Singles Day in China.

Sales volumes of the group's flagship a2 Platinum infant formula for the most recent "11/11" singles day were more than double those in the prior year.

A2 Platinum Stage 3 was placed in the top 10 of total 11/11 products across all categories on the Chinese e-commerce platform JD.com.

The strong result was in contrast to some other Australian infant formula producers in the Chinese market. Blackmores and Bega said last month that sales of their new infant formula product were below expectations.

Mr Hearn said the company released the quarterly numbers "primarily to reaffirm that our past performance has been strong against a market that has been worried whether the China business was going off the boil".

He stressed it was “not necessarily a precursor to the full year”.

More than 61 per cent of a2’s profits now come from infant formula. And more than 60 per cent of the company’s infant formula sales go to China, either through direct channels or so-called “daigou” or “grey” cross-border e-commerce sales — that is, items bought by Chinese entrepreneurs in Australia to ship back to China.

Chief executive Geoff Babidge said while the daigou had moved to Australian pharmacies in the first half of the year, away from the grocery sector, the trend was now changing.

“We are seeing that swinging back into the major grocery chains in Australia. And we have the flexibility to supply through both channels,” he said.

The company is also strengthening its Shanghai-based sales and marketing team, while it has also seen strong growth of a2 Platinum through Mother and Baby stores in China.

From January 2018, a2’s infant formula products will need to be registered with China Food and Drug Administration. But 10 days ago the CFDA extended the grace period for existing brands sold through e-commerce to December 2017, which will benefit a2.

Mr Babidge said the China CFDA infant formula registration process was developing satisfactorily and a2 and its supplier Synlait Milk were “well progressed with documentation”.

He said the group’s Australian and New Zealand, US and British business units were performing at or above plan for 2017.

“Our business is extremely solid,” Mr Babidge said.

