Pental Ltd

FY16 Result in line with expectations

The result was expected, without the benefits from initiatives underway across plant upgrades, improved logistics, product development and market expansion. For the period, PTL reported a 3.4% increase in EBITDA on a 2.4% fall in Net Revenue, resulting in a 2.6% decline in Net Profit to $5.8m. Key features were:

- Revenue was impacted by our estimate of $2.0m in missed sales, due to temporary plant performance issues on both old and new plants.
- Reductions in COGS and Expenses of 1.8% and 7.5%, with improved raw material sourcing, focused marketing spend and reductions in overheads.
- Strong Operating Cash Flow of $11.3m, helped by reduced Working Capital, supported by a strong Balance Sheet, with Net Cash of $12.3m (9.1¢ps).
- A 14.3% Dividend increase to 3.0¢ ps Fully Franked, a DPR of 71.4%.

An impressive strategy to drive future growth

PTL has a strategy to drive growth, especially in FY17 onwards, through:

- Further investment and innovation in key brands, including targeted marketing campaigns and product development.
- Continuing to expand capability through replacement, upgrade and expansion of production, supported by improving logistics and distribution.
- A continued focus on growth through new markets and channels, including export opportunities and expansion in the industrial and commercial sectors.
- Improved profitability through productivity growth and cost savings, resulting in increasing Shareholder returns.

Positive outlook in a competitive market

While market conditions will remain competitive, solid Revenue growth is expected over the next 3 years from: expanded capacity, including new packaging formats; continued development of its key products and private label business; and development of new channels and export markets.

Stronger EBITDA growth is expected through leverage from an expanded production base, increased productivity and a continued focus on cost control.

Repurchase of key Shepparton property

PTL will repurchase its Shepparton site at a Total Cost of $7.5m as at 1/7/17, to increase flexibility and eliminate lease costs ($0.7m), to be EPS accretive.

Profit growth to continue

For FY17, Veritas forecasts an 11.7% increase in EBITDA to $11.8m on a 10.6% increase in Net Revenue to $87.6m, with the benefits from the capex program, expanded distribution and the realisation of cost savings

For FY18, we forecast a stronger 14.4% increase in EBITDA to $13.5m on a 12.2% increase in Net Revenue to $98.3m, with the full benefit of the expansion in the product range and entry into new markets both in Australia and offshore.

Reasons to BUY Recommendation

Our BUY Recommendation and 12 month Price Target of $0.90 is based on:

- A leading market position in the household cleaning, soap and firelighting markets, with iconic brands, a strong customer base and efficient logistics.
- Improving production and profitability with completion growth options for increased capacity and production flexibility, brand extensions and new channels, supported by a strong Balance Sheet with Net cash of $12.3m.
- PTL is trading at a 31% discount to our valuation, a substantial discount to its peers, despite an attractive, fully franked yield.

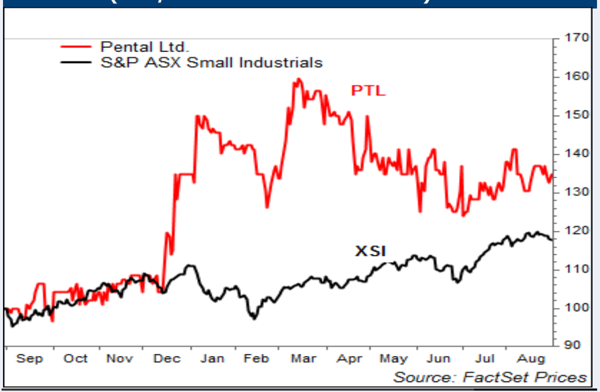
PTL.ASX BUY

5 September 2016

Price	**$0.62**
Price Target	**$0.90**
Valuation Method	EVR/DCF
GICS Sector	Household Products
12 Mth Price Range	$0.42 - 0.75
Avg Monthly Share Turnover	1.3m
Market Capitalisation	$84m
Shares on Issue	136m
Enterprise Value	$66m
Previous Rating	**BUY**

Year Ended June 30		13A	14A	15A	16A	17E	18E
Operating Revenue	**$m**	**79**	**81**	**81**	**79**	**88**	**99**
Growth	**%**	*-3.0*	*1.4*	*1.6*	*-1.1*	*7.8*	*13.8*
Gross Op Profit	**$m**	**36.8**	**37.6**	**28.0**	**27.0**	**29.6**	**33.3**
GOP Growth	*%*	na	2.2	-25.6	-3.5	9.7	12.3
Gross Op Margin	*%*	*46.5*	*46.5*	*34.4*	*34.0*	*33.8*	*33.8*
EBITDA	**$m**	**9.6**	**9.7**	**10.2**	**10.6**	**11.8**	**13.5**
EBITDA Growth	*%*	*64.2*	*0.7*	*5.4*	*3.4*	*11.7*	*14.4*
EBITDA Margin	*%*	*12.2*	*12.0*	*12.6*	*13.3*	*13.5*	*13.7*
NPAT	**$m**	**3.2**	**5.1**	**5.8**	**5.6**	**6.0**	**6.8**
NPAT Growth	*%*	*na*	*57.3*	*14.3*	*-2.6*	*7.5*	*13.1*
EPS	**¢ps**	**5.2**	**4.9**	**4.6**	**4.1**	**4.4**	**5.0**
EPS growth	*%*	*na*	*-6.9*	*-4.5*	*-10.9*	*7.5*	*13.1*
DPS	**¢ps**	**0.0**	**1.8**	**2.7**	**3.0**	**3.3**	**3.5**
Franking	%	0.0	100.0	100.0	100.0	100.0	100.0
DPR	%	0.0	37.1	57.2	71.4	73.2	69.7
PER	**x**	**5.8**	**10.2**	**9.5**	**13.9**	**14.0**	**12.4**
Dividend Yield	**%**	**0.0**	**3.6**	**6.0**	**5.1**	**5.2**	**5.6**
NTA/share	¢ ps	21.7	27.3	30.4	31.6	32.8	34.4
EV/EBITDA	x	4.0	6.1	4.8	6.2	6.7	5.9
Gearing (D:E)	%	13.2	0.0	0.0	0.0	0.0	0.0
P/OCF	x	-6.3	7.4	4.6	7.0	7.3	10.2
ROA	%	7.6	8.8	9.0	8.2	8.0	8.4
ROE	%	6.3	7.8	7.9	7.3	7.7	8.5
Interest Cover (EBIT)	x	2.0	8.2	53.3	na	na	na

PTL v XSI (S&P/ASX Small Industrial Index) Indexed to 100



Activities

Bleach and household cleaning products, soaps, toothpaste and firelighters within Australia and New Zealand

www.pental.com.au

Brent Mitchell **03 86054830**
bmitchell@veritassecurities.com.au

Pental Ltd (PTL)

Current Price: $0.62 ps **Target Price:$0.90 ps**

PROFIT & LOSS Year ended 30/06		13A	14A	15A	16A	17E	18E
Sales Revenue (Gross)	**$m**	**107.9**	**109.4**	**111.2**	**110.0**	**118.6**	**135.0**
Rebates, Discounts etc	$m	-28.8	-28.7	-30.0	-30.7	-31.0	-36.5
Sales Revenue (Net)	**$m**	**79.1**	**80.7**	**81.2**	**79.2**	**87.6**	**98.5**
Cost of Goods Sold	$m	-42.3	-43.2	-53.2	-52.3	-58.0	-65.3
Gross Operating Profit	**$m**	**36.8**	**37.6**	**28.0**	**27.0**	**29.6**	**33.3**
Expenses	$m	-27.1	-27.9	-17.7	-16.4	-17.8	-19.8
EBITDA	**$m**	**9.6**	**9.7**	**10.2**	**10.6**	**11.8**	**13.5**
Depreciation & Amort	$m	-1.1	-1.8	-2.1	-2.6	-3.5	-4.1
EBIT	**$m**	**8.5**	**7.9**	**8.1**	**8.0**	**8.3**	**9.4**
Interest (Net)	$m	-4.3	-0.9	-0.1	0.2	0.1	0.1
Pre Tax Profit	**$m**	**4.3**	**6.9**	**8.0**	**8.2**	**8.4**	**9.5**
Tax	$m	-1.1	-1.9	-2.2	-2.6	-2.4	-2.7
Minorities	$m	0.0	0.0	0.0	0.0	0.0	0.0
Normalised Profit	**$m**	**3.2**	**5.1**	**5.8**	**5.6**	**6.0**	**6.8**
Significant Items & Co	$m	-1.2	0.3	-0.7	0.0	0.0	0.0
Reported Profit	**$m**	**2.0**	**5.3**	**5.1**	**5.6**	**6.0**	**6.8**

Growth		13A	14A	15A	16A	17E	18E
Revenue (Gross)	%	-3.0	1.4	1.6	-1.1	7.8	13.8
Revenue (Net)	%	-2.9	2.1	0.5	-2.4	10.6	12.4
COGS	%	-60.1	2.0	23.3	-1.8	11.0	12.5
Gross Operating Profit	%	na	2.2	-25.6	-3.5	9.7	12.3
Expenses		-189.0	2.7	-36.4	-7.5	8.4	11.0
EBITDA	%	64.2	0.7	5.4	3.4	11.7	14.4
Normalised Profit	%	na	57.3	14.3	-2.6	7.5	13.1
EPS	%	na	-6.9	-4.5	-10.9	7.5	13.1

P&L Ratios		13A	14A	15A	16A	17E	18E
Gross Operating Profit /	%	46.5	46.5	34.4	34.0	33.8	33.8
EBITDA / Sales	%	12.2	12.0	12.6	13.3	13.5	13.7
EBIT / Sales	%	10.8	9.8	10.0	10.1	9.5	9.5
Net Profit Before Tax /	%	4.0	6.3	7.2	7.5	7.1	7.0
Effective Tax Rate	%	25.3	27.1	28.0	31.5	28.0	28.0
Interest Cover	x	2.0	8.2	53.3	na	na	na

Per Share		13A	14A	15A	16A	17E	18E
Issued Shares	m	100.3	119.6	136.3	136.3	136.3	136.3
Issued Shares (Wt Avg	m	61.6	104.1	124.6	136.3	136.3	136.3
EPS	¢ps	5.2	4.9	4.6	4.1	4.4	5.0
Operating Cash Flow ps	¢ps	-4.8	6.7	9.5	8.3	4.4	5.0
Free Cash Flow	¢ps	40.0	2.5	6.2	3.8	6.6	6.8
DPS	¢ps	0.0	1.8	2.7	3.0	3.3	3.5
Franking	%	0.0	100.0	100.0	100.0	100.0	100.0
Dividend Payout Ratio	%	0.0	37.1	57.2	71.4	73.2	69.7

Parameters		13A	14A	15A	16A	17E	18E
PE Ratio	x	5.8	10.2	9.5	13.9	14.0	12.4
Enterprise Value / EBITD	x	4.0	6.1	4.8	6.2	6.4	6.1
Enterprise Value / Revenue		0.5	0.7	0.6	0.8	0.9	0.8
Cash Flow ratio	x	-6.3	7.4	4.6	7.0	9.4	9.1
Dividend Yield	%	0.0	3.6	6.0	5.1	5.2	5.6

CASH FLOW Year ended 30/06		13A	14A	15A	16A	17E	18E
Operating EBITDA	**$m**	**9.6**	**9.7**	**10.2**	**10.6**	**11.8**	**13.5**
Net Interest Paid	$m	-5.4	-1.6	-0.1	0.2	0.1	0.1
Tax Paid	$m	0.1	-1.1	0.0	-0.2	0.0	-2.4
Chg WorkCap	$m	13.0	0.6	2.4	0.7	-0.4	-3.0
Other	$m	-20.3	-0.7	-0.7	-0.7	-2.5	1.0
Operating Cash Flow	**$m**	**-2.9**	**7.0**	**11.8**	**10.6**	**9.0**	**9.3**
Capex	$m	27.8	-4.0	-3.8	-5.9	-7.5	-11.0
Development Cost	$m	-0.2	-0.4	-0.3	-0.3	-0.3	-0.3
Free Cash Flow	**$m**	**24.7**	**2.6**	**7.7**	**5.1**	**1.2**	**-2.1**
Acquisitions/Asset Sales	$m	0.0	0.0	0.0	0.0	0.0	0.0
Dividends Paid	$m	0.0	0.0	-3.3	-3.8	-4.4	-4.5
Equity Raised	$m	18.0	5.7	6.7	0.0	0.0	0.0
Debt (change)	$m	-42.0	-12.6	0.0	0.0	0.0	0.0
Other	$m	0.0	0.0	0.0	0.0	0.0	0.0
Change in Net Cash	**$m**	**0.6**	**-4.3**	**11.0**	**1.3**	**-3.2**	**-6.6**

BALANCE SHEET at 30/6		13A	14A	15A	16A	17E	18E
Cash	$m	5.5	0.5	11.0	12.3	9.1	2.6
Receivables	$m	22.4	24.7	24.1	23.6	28.5	32.4
Inventory	$m	10.3	8.9	7.4	8.9	10.1	11.5
Other Current Assets	$m	0.4	0.4	0.7	0.3	0.2	0.3
Current Assets	**$m**	**38.6**	**34.6**	**43.3**	**45.0**	**47.9**	**46.8**
Investments	$m	0.0	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equ	$m	10.7	13.7	15.3	18.9	20.2	27.6
Intangibles	$m	40.3	40.3	40.3	40.2	39.0	38.0
Other NC Assets	$m	3.4	1.6	0.0	0.0	0.0	0.0
Non Current Assets	**$m**	**54.5**	**55.6**	**55.5**	**59.1**	**59.2**	**65.6**
Total Assets	**$m**	**93.0**	**90.3**	**98.8**	**104.2**	**107.1**	**112.4**
Payables	$m	13.5	15.1	15.4	17.0	17.0	19.4
Current Debt	$m	1.6	0.5	0.0	0.0	0.0	0.0
Other Current Liabiliti	$m	3.6	1.5	1.3	3.7	5.0	5.5
Current Liabilities	**$m**	**18.8**	**17.1**	**16.7**	**20.7**	**22.0**	**24.9**
Non Current Debt	$m	12.1	0.0	0.0	0.0	0.0	0.0
Other NC Liabilities	$m	0.1	0.1	0.4	0.3	0.3	0.3
Non Current Liabities	**$m**	**12.2**	**0.1**	**0.4**	**0.3**	**0.3**	**0.3**
Total Liabilities	**$m**	**30.9**	**17.3**	**17.1**	**21.0**	**22.3**	**25.2**
Shareholder Funds	**$m**	**62.1**	**73.0**	**81.7**	**83.2**	**84.9**	**87.2**

BALANCE SHEET Ratios		13A	14A	15A	16A	17E	18E
Receivables turn	x	3.6	4.4	4.6	4.6	4.6	4.4
Inventory turn	x	2.9	4.8	6.5	6.4	6.1	6.0
Net Debt	$m	8.2	0.0	0.0	0.0	0.0	0.0
Gearing (D:D+E)	%	11.7	0.0	0.0	0.0	0.0	0.0
Current Ratio (CA / CL)	x	2.1	2.0	2.6	2.2	2.2	1.9
Working Cap Ratio (Rev	x	5.6	5.9	6.9	7.1	5.5	5.5
Net Assets	¢ps	61.9	61.0	60.0	61.1	62.3	64.0
Net Tangible Assets	¢ps	21.7	27.3	30.4	31.6	33.7	36.1
Cash	¢ps	0.0	0.0	8.1	9.1	6.7	1.9
Price to Book Value	x	0.5	0.8	0.7	0.9	1.0	1.0
Return On Assets	%	7.6	8.8	9.0	8.2	8.2	9.0
Return on Equity	%	6.3	7.8	7.9	7.3	7.7	8.5

VALUATION

Valuation Method	$	Discount (-), Premium (+) to	
Mid Point EVR/DCF	0.90	Current Price	-31.3
Current Price	0.62		
Market Capitalisation	$78.3m	Enterprise Value	$66.0m

MAJOR SHAREHOLDERS

Alan Johnstone	m	29.8	21.9%	Private Shareholder
Allan Gray	m	18.4	13.5%	Aust Institution
John Homewood	m	17.8	13.0%	MD, Ace Waste M'ment, Qld
Elevation Capital M'ment	m	11.1	8.2%	NZ Institution
Top 20 (20/08/15)	m	107.4	78.8%	

REGIONS - Revenue		13A	14A	15A	16A	17E	18E
Australia	$m	66.3	66.4	67.3	65.5	72.0	81.0
NZ	$m	12.7	14.3	13.9	13.9	14.4	15.0
Asia	$m	0.0	0.0	0.0	0.7	1.2	2.5
Revenue Growth							
Australia	%	-5.1	0.2	1.2	-2.6	9.9	12.5
NZ	%	10.8	12.1	-2.7	-6.3	10.6	4.2

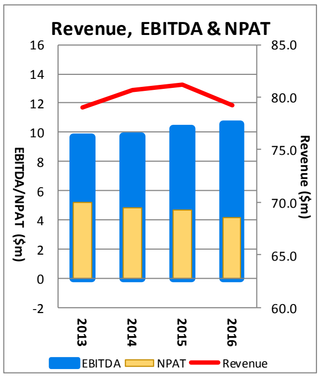
DIRECTORS

Peter Robinson	N-E Ch
John Rishworth	N-E Dir
John Etherington	N-E Dir
Mel Sutton	N-E Dir
Kimberley Wells	N-E Dir

MANAGEMENT

Charlie McLeish	CEO
Albert Zago	CFO

Source: PTL (Act), Veritas (Est)



Source :PTL

FY16 Result

The result was in line with our expectations, with the benefit from major Property, Plant and Equipment upgrades, cost saving initiatives, product development and new product releases, yet to be realised.

Profit & Loss			
Year ended 30/06 ($m)	**2015**	**2016**	**% Ch**
Net Revenue	**81.2**	**79.2**	**-2.4**
Cost of Goods Sold	-53.2	-52.3	-1.8
Operating Profit	**28.0**	**27.0**	**-3.5**
Expenses	-17.7	-16.4	-7.5
EBITDA	**10.2**	**10.6**	**3.4**
Depreciation	-1.7	-2.2	
Amortisation	-0.4	-0.4	
EBIT	**8.1**	**8.0**	**-350.6**
Interest (Net)	-0.1	0.2	
Pre-Tax profit	**8.0**	**8.2**	**2.5**
Tax	-2.2	-2.6	
Net Profit	**5.8**	**5.6**	**-2.6**
Significant Items (Net)	-0.7	0.0	
Reported Profit	**5.1**	**5.6**	**10.6**
Gross Operating Margin (%)	34.4	34.0	
EBITDA Margin (%)	12.6	13.3	
EBIT Margin (%)	10.0	10.1	
Effective Tax Rate (%)	28.0	31.5	
EPS (¢ ps)	4.6	4.1	-10.9
Cash Flow (¢ ps)	9.5	8.3	-12.8
DPS (¢ ps)	2.7	3.0	11.3
Franking (%)	100.0	100.0	
Dividend Payout Ratio (%)	57.2	71.4	
PER (x)	9.5	13.9	
Dividend Yield (%)	6.0	5.1	
Franking (%)	100.0	100.0	
Cash Flow ratio (x)	4.6	7.0	

Cash Flow			
Year ended 30/06 ($m)	**2015**	**2016**	**% Ch**
Operating Cash Flow	**11.8**	**11.3**	**-4.7**
Capex	-3.8	-5.9	55.0
Capitalised Development Costs	-0.3	-0.3	
Investment/Acquisitions	0.0	0.0	
Equity	6.7	0.0	
Debt	0.0	0.0	
Dividends	-3.3	-3.8	
Net Cash Flow	**11.0**	**1.3**	**-88.2**
Balance Sheet	**2015**	**2016**	**% Ch**
Current Assets	43.3	45.0	
Non Current Assets	55.5	59.1	
Total Assets	**98.8**	**104.2**	**5.4**
Current Liabilities	16.7	20.7	
Non Current Liabilities	0.4	0.3	
Total Liabilities	**17.1**	**21.0**	**1.8**
Shareholder Funds	**81.7**	**83.2**	-8.5
Return on Equity (%)	7.9	7.3	
Return on Assets (%)	9.0	8.2	
Net Debt ($m)	0.0	0.0	
Cash (¢ ps)	8.1	9.1	
Enterprise Value / EBITDA (x)	4.8	6.2	
Enterprise Value / Revenue (x)	0.6	0.8	
Revenue/Working Capital (x)	6.9	7.1	
NTAV (¢ ps)	30.4	31.6	3.8
NAV (¢ ps)	60.0	61.1	1.8
Inventory Turn (x)	6.5	6.4	
Receivables Turn (x)	4.6	4.6	

Source: PTL

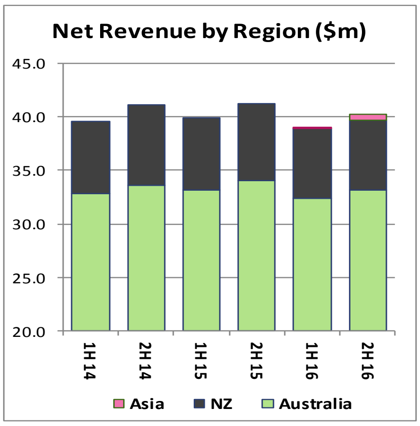
Key points

Revenue fell due to disruptions in production

Gross Revenue – Fell by 1.1% to $110m with Australian production and sales mainly held back in the 2H by: bleach plant disruptions associated with equipment delays for 2 major upgrades underway; poor performance from equipment to be replaced; teething issues with new equipment, including temporary shortages in supply of key raw materials such as bottles; and a late start to the firelighting season. This impacted plant efficiency and materially affected customer supply and sales. In the absence of production disruption, we would expect Gross sales to have increased by 1% to 1.5%.

New Zealand increased Gross sales by 0.7% (2.1% in NZ$), especially Sunlight liquid (+9%), helped by a higher level of promotional spend and rebates to meet competition.

Rebates – Increased by 2.5% to $30.7m, comprising 28% of Gross Revenue. This reflects a competitive grocery retail market, especially New Zealand, with additional store promotions to offset increased competitor advertising and promotion.



Source;PTL

Net Revenue – While Net revenue fell by 2.4% to $79.2 with the increase in Rebates, it was flat after adjusting for our estimate of $2.0m in missed sales.

Australia - A 2.2% fall in Australia to $65.5m. Branded sales in Australia increased, despite comparison with a strong pcp boosted by an extensive White King advertising campaign in FY15, and improvements in other areas, especially firelighters. However, Private Label sales were lower, with Pental maintaining margins and not discounting its tender prices.

New Zealand - A 6.3% fall to $13.0m in New Zealand, with PTL increasing market share in key categories, despite aggressive marketing by competitors, offset by increased rebates to meet competition for shelf space.

Asia - An initial $0.7m contribution from the sale of soap products, predominantly into China.

Other Income – An increase of $0.4m to $0.6m.

EBITDA increase with COGS and cost reductions

COGS/Expenses – Fell by a greater amount, with improved raw materials sourcing, lower transport and utility costs, elimination of some third party storage and more efficient promotional activity. This was despite the launch of multiple new products, the expansion in China and other new initiatives, such as the launch of a new range of liquid soaps and expansion into the commercial/industrial sectors.

EBITDA – Increased by 3.4% to $10.6m, with EBITDA margins increasing from 9.2% to 9.6%. The improvement in margins was held back by production problems, especially in seasonally stronger 2H, resulting in lower EBITDA growth (7.8% 1H v 0.6% 2H) and margin growth.

Depreciation – Increased by $0.5m with the heavy ongoing capex program, which saw a $5.2m increase in PPE over the last 24 months to $18.9m.

The Capex program covered the installation of its SWING Soap plant, replacement of Bleach Line A filler, Automation of Bleach Line B, optimisation of warehousing, installation of soap cutting and packaging equipment and a firelighter palletiser.

Interest – Improved to Net interest received of $0.2m with the debt elimination, the only expense relating to a line fee for an unused Line of Credit.

Pre-Tax Profit - Increased by 2.5% to $8.2m.
Note: FY15 excludes one-off adjustments $1.0m related to restructuring and impairment of assets

Tax – Increased by $0.4m to $2.6m, a Tax Rate of 31.5%, due to an adjustment relating to an under provision in the prior year. A normal rate is expected in the FY17.

Normalised Net Profit – Fell by 2.6% to $5.6m with increased tax charges.

Net Profit falls by 2.6%

EPS – Fell by 10.9% to 4.1¢ ps, with the full dilution from Options converted in FY15.

Dividend – Increased by 11.3% (0.4¢) to 3.0¢ ps Fully Franked with an effective DPR of 71.4%.

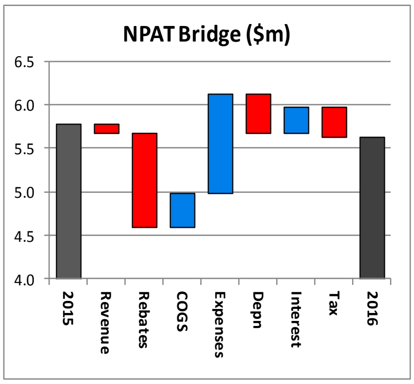
Strong operating Cash Flow of $11.3m

Cash Flow – Operating Cash Flow fell slightly to $11.3m, mainly due to changes in Working Capital. Net Cash Flow was lower in the absence of the Option exercise ($6.7m) during FY15, with a $2.1m increase in Capex to $5.9m associated with the plant upgrade and increased dividends.

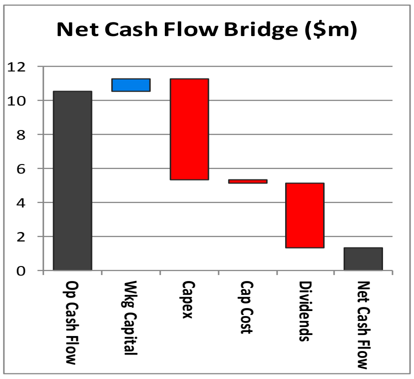
Balance Sheet has, no Debt, Cash of $12.3m and NTA of 61¢

Balance Sheet – Remains strong with

- No Debt and Cash of $12.3m (9.1¢ ps).
- A fall in Working capital of $3.2m over the last 24 months to $15.4m.
- Increases in NAV and NTAV to 61.1¢ and 31.6¢ ps.



Source: PTL



Source: PTL

Repurchase of Shepparton Property

To repurchase Shepparton property for $7.5m

PTL has indicated its intention to exercise an option as at 1/7/17 to repurchase the Shepparton site at a Total Cost of around $7.5m (subject to Shareholder approval), utilising current cash reserves. This will increase flexibility and increase EBITDA and EPS through the elimination of $0.7m in lease costs, although partly offset by an increase in depreciation and interest adjustments..

Outlook

3 year strategy plan to drive growth

While limited growth and strong competition is expected in the Soap and Cleaning sector over the next 3 years, escalating revenue growth is anticipated. This will be a result of the continuation of the initial 3 year strategy plan and further initiatives around maximizing production and flexibility while controlling costs, including:

First stage of Capex program completed

Recent Capital Investment – With the completion of the $5.3m Capex Program in FY16, across:

- Bleach Line A – Upgrade and replacement of the filler to minimise waste and downtime, completed in December 2015. Since installation throughput has increased by 15%
- Bleach Line B – Automation, resulting in increased capacity and speed to improve efficiency and productivity, and to reduce labour and wastage. The installation of the automatic case packers was completed in August 2015, with the automated filler and cappers was completed in May 2016. Since March, throughput has increased by 26.4%.
- Soap Plant Modernisation - Installing a new **S**oap **W**ith **IN**side **G**lycerine (SWING) saponification plant as Stage 1, which will allow PTL to enact Stage 2 of consolidating 5 soap lines into one or two, with back end automation. The SWING plant is more efficient and will reduce operating costs, in terms of manning, steam consumption and cleaning, without any by-products. This was completed in December 2015. The SWING plant is also more flexible, allowing a switch between different raw materials, such as tallow, palm and other vegetable oils, such as canola.
- Firelighter Carton Palletiser – Completed in March 2016, reducing labour costs.
- Warehouse Consolidation – PTL has leased additional warehouse space adjacent to its existing warehouses, reconfigured to PTL requirements for capex of $0.4m. This was completed in April 2016, eliminating all Australian third party storage and handling, with our estimate of cost savings of over $0.3m pa.

Further Capital Investment Program underway

Further Capital Investment Program - Additional capex is underway to further streamline operations, increase capacity and reduce costs, covering:

- Bulk Filling Line – To be completed in September 2016 at a cost of around $1.4m. This will reduce costs (previously outsourced) and will enable PTL to access new Commercial and Industrial channels.
- Soap Packaging - New equipment to facilitate wire cutting and wrapping of soap bars, to be completed in August 2016 at a cost of $0.6m. This will allow PTL to handle initial growth in the Asian market. However, strong acceptance and growth will require further capex.
- Soap Plant Modernisation Stage 2 – Planning is underway for Stage 2, involving the consolidation of soap lines, which will increase operational flexibility and reduce operating costs.
- Liquids upgrade – A business case is underway for the upgrade of the liquids plant, which will increase operational flexibility and throughput rates.

Operational Improvement Initiatives – PTL has initiated a number of programs, including:

- Procurement and Supply Chain **–** A realisation of $1.1m from non-commodity cost savings and profit initiatives.
- Firelighters and Liquids – Improvements to manufacturing efficiency.
- Bleach – Improvements to manufacturing efficiency, currently below targets due to equipment installation problems and teething problems during commissioning of new equipment.

A step up in marketing

Marketing initiatives – To further increase brand awareness, customer retention and sales, with:

Further advertising campaigns - Based on the success of the White King campaign in 1H FY15, which boosted sales of toilet cleaners by 15%, bathroom cleaners by 22% and household cleaners by 8%.

Upgrade of Digital and eCommerce presence – across: The upgrade of the Pental and White King websites with the future introduction of a live chat forum; the progressive introduction of Velvet, Softly, Little Lucifer and Country Life websites.

This has been helped by the recent appointment of Kimberlee Wells as an Independent Director, adding considerable experience in marketing, advertising and the use of digital media.

Source: PTL

Recent initiatives included

- In January 2016, White King undertook integrated sponsorship of the Australian Tennis Open, with advertising supported by an extensive tactical support program.
- PTL's specialty soap and White King brands were featured in the 'Australian Icon' edition of Retail World.
- A Country Life Escape as part on an online consumer Giveaway promotion.
- A relaunch of Softly as a power brand, with an updated logo, new specialist and innovative products and a national advertising program.

New Product development program continuing

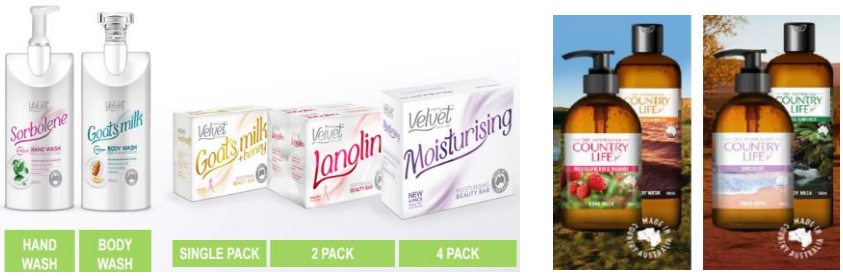
New Product development – continuation of the program which resulted in new releases, with:

***Cleaning* –** Continuing to promote White King and Janola as the leaders in bleach and cleaning products across household, laundry and toilet/bathroom and bleach, building on the strength of the brand and further line extensions, such as Stain Remover and Bleach tablets. This has seen White King growing by 1%, contrasting to a 1.5% decline in category growth. PTL is expected to release further newly developed products in FY17 including chemical free products.

Janola Toilet Gel Eucalyptus WHITE KING BLEACH TABLETS Lemon WHITE KING MOULD AND SOAP SCUM REMOVER WHITE KING FABRIC STAIN REMOVER Fresh

Firelighters – Update and refining of packaging, brand extension with individually wrapped firelighters and development of new products.

Soaps – Development of new designs for the key Velvet and Country Life products and introduced new package sizes.



Laundry – The progressive transitioning of the 4 laundry brands into the "Softly" power brand in 2017, building equity across the various laundry categories.

Private Label - PTL will continue to grow private label, mainly across cleaning products and firelighters, but only on the basis of value rather than price.

Looking to expand export opportunities

Export – PTL is looking at export opportunities into Asia in FY17 with Velvet and Country Life "Australiana", especially China through channels, such as supermarkets (Bailian, Intime), pharmacy, airports and online retailers (FTZMALL.com.cn, JD.com). These products have been developed with the Asian market in mind, in terms of packaging and formulation, in terms of a higher fragrance element and characteristics.

PTL has appointed an Asian Business Development Manager with strong operational experience in establishing FMCG and has established an warehouse in the Shanghai Free Trade Zone

New distributorships – PTL is considering new distributorships, especially where they complement rather than compete with its product portfolio.

To access new channels

New Channels in Commercial, Industrial and Institutional – As IBISWORLD has estimated that Industrial/commercial/institution combined is a $936m market, there is a substantial opportunity for PTL to expand in the sector. This will be helped by the ability to supply in new and larger formats for White King, Sunlight, Softly and Huggie, with the installation of a bulk filling line to be commissioned by September 2016.

Key potential areas include manufacturing, contract cleaning, institutions, such as Nursing Homes, Government Departments, such as defence, food outlets, hotels, stadiums etc.

Control of the cost base

Further Reductions in the Cost base – Opportunities to further reduce costs through:

Further reduction in wastage and recycling - Through specific capex, changes in formulations and processes.

Improved Logistics - With the move from all off-site warehousing and order picking to its Shepparton site, reducing handling costs. We estimate this will reduce costs by over $0.2m pa.

Transport cost savings – With renegotiation of transport.

Reduced manning levels – With increased automation.

Forecasts

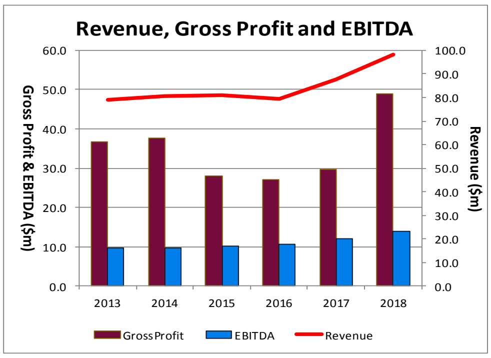
Apart from assuming the purchase of the Shepparton property and adjustments to the lease costs, there are no significant changes to our Forecasts for FY17 and FY18 and our Price Target of $0.90 ps.

EBITDA growth of 14.6% in FY17

FY17 - We are forecasting an EBITDA increase of 14.6% to $11.8m on a Net Revenue increase of 7.8% to $87.6m, with a further improvement in margins from 13.3% to 13.5%. This reflects the benefit from the recent capex program, the escalation of export sales and new industrial and commercial channels.

Further EBITDA growth of 15.7% in FY18

FY18 – Further growth is expected, with an EBITDA increase of 15.7% to $13.5m on Net Revenue growth of 12.2% to $98.5m and a further improvement in margins to 13.7%. This includes the full saving of $0.7m in lease costs following repurchase of the Shepparton property as at 1/7/17.



Valuation

12 month Price target of $0.90 ps

We have a valuation of $0.90, which is the mid-point of our EBITDA/Enterprise Value (EVR) and our Discounted Cash Flow (DCF) valuations, based on:

EVR – A valuation of $0.88,, based on a multiple of 8.5x FY18 Forecast EBITDA and estimated Cash at 30/6/18 (the end of the current Capex program). We believe this multiple is valid, as:

- It's a 33% discount to the weighted average of similar companies in both Australia and internationally of EVR of 13.4x. Using the weighted average EVR multiple would increase our valuation to $1.24.
- Recently, Henkel paid €220m (A$320m) for Colgate Palmolive's Australian brands, equating to a FY15 Revenue multiple of 2.0x. On this basis, the PTL valuation would be $160m ($1.17 ps).
- The EV/EBITDA multiple of 6.1x is below Asaleo Care (9.5x), PTL's closest comparable in Australia, with operations across personal hygiene in Australia, New Zealand and Fiji.
- PTL is trading on an attractive yield of 4.5% for FY18 Fully Franked.

DCF – A DCF valuation of $0.92 ps, based on a discount rate of 8.0% and a terminal growth rate of 3%.

Name	Price	Mkt Cap	Ent Val	EV / Revenue (x)			EV/EBITDA (x)			PER (x)			Yield (%)		
	A$	A$m	A$m	2016A	2017E	2018E	2016A	2017E	2018E	2016A	2017E	2018E	2016A	2017E	2018E
Pental Ltd.	**0.62**	84	75	0.8	0.9	0.8	6.2	6.4	6.1	13.9	14.0	12.4	5.1	5.2	5.6
Australian															
Vitaco Holdings Ltd.	**2.08**	289	334	1.6	1.5	1.3	13.8	12.6	10.9	22.1	20.4	17.1	2.5	2.6	2.6
Asaleo Care Ltd.	**1.45**	809	1,036	1.7	1.7	1.7	10.4	10.0	9.5	13.0	12.4	12.1	6.5	6.8	6.8
Blackmores Limited	**119.78**	2,063	2,083	2.9	2.8	2.5	13.7	13.5	11.8	20.6	20.5	17.6	3.4	3.6	3.6
Duluxgroup Limited	**6.23**	2,425	2,804	1.6	1.6	1.5	11.8	11.4	11.0	18.7	18.1	18.0	3.8	3.9	3.9
International	**Local Currency**														
Aceto Corporation	**US$20.00**	593	644	1.2	1.1	1.0	8.8	7.7	6.7	17.1	15.0	12.1	0.0	0.0	0.0
Bunzl plc	**£23.97**	8,043	9,230	1.3	1.2	1.2	16.9	15.9	15.7	23.8	22.3	21.7	1.8	1.9	1.9
Church & Dwight Co.	**US$50**	12,872	13,744	2.4	3.8	3.7	11.1	15.6	14.8	19.9	26.0	24.5	6.2	1.5	1.5
Clorox Company	**US$132**	17,086	19,005	3.3	1.2	3.1	15.4	14.6	13.9	26.4	6.2	22.6	2.3	1.2	2.5
Colgate-Palmolive Cc	**US$75**	66,764	72,353	4.7	4.5	3.5	16.1	15.0	17.9	26.4	24.4	25.9	2.1	2.2	2.3
Henkel AG & Co. KGa	**€ 101**	47,500	44,704	2.4	2.2	2.2	12.9	11.8	11.1	21.8	19.9	18.5	1.6	1.7	1.7
PZ Cussons Plc	**£3.41**	1,461	1,695	2.1	2.0	2.0	13.5	12.5	11.5	21.8	18.9	17.2	2.4	2.6	2.6
Reckitt Benckiser Grc	**£75.10**	52,766	54,224	5.5	5.1	4.9	19.1	17.1	15.9	27.3	23.0	21.2	2.0	2.2	2.2
Unilever PLC	**£36.63**	47,013	115,152	2.6	2.5	2.4	15.0	14.0	13.2	10.9	10.0	9.2	2.7	2.9	2.9
				3.5	**3.2**	**3.0**	**15.5**	**14.5**	**14.5**	**22.3**	**19.3**	**19.9**	**2.3**	**2.2**	**2.3**

Source: Veritas & Factset

Sales

Robert Scappatura	+61 2 8252 3240
Andrew McCauley	+61 2 8252 3260
Patrick Ford	+61 2 8252 3211
Clay Melbourn	+61 2 8252 3220
Bryce Reynolds	+61 2 8252 3215

Research

Industrials

Brent Mitchell +61 3 8605 4830
Levi Hawker +61 3 8676 0689

Resources

Piers Reynolds +61 3 8601 1196

RATING

BUY – anticipated stock return is greater than 10%

SELL – anticipated stock return is less than -10%

HOLD – anticipated stock return is between -10% and +10%

SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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