

Alpha small company research

8 November 2024

Clean up with a sustainable investment

'An independent manufacturer of natural sustainable feed additives is on a strong earnings recovery that has a lot further to run.'

Simon Thompson's view:

'Outstanding earnings momentum for **Anpario (Aim:ANP)** has seen it upgrade guidance four times within a year. Rising production volumes on a leaner cost base means that margins are growing, too. Furthermore, the combination of organic growth and the contribution from a smart strategic acquisition in the US should support at least 17 per cent earnings per share growth in 2024. Trading on a 2025 cash-adjusted price/earnings (PE) ratio of 11.3, offering a prospective 2025 dividend yield of 3.7 per cent and rated on a modest 1.8 times book value, the shares offer potential for 33 per cent upside if the rating can mean revert to its five-year average.'



Source: LSEG

Bull points

1. Industry-wide recovery.
2. Diversified sales mitigate customer risk.

3. Recovery in volumes.
4. Gross margin rising.
5. Leaner cost base.
6. New products are driving sales.
7. Recovery in lower value-add price sensitive products.
8. Earnings upgrade cycle.
9. Strong cash position supports bolt-on acquisitions.
10. Material ratings discount to five-year average.

Bear points

1. Loss of business in the US swine market.
2. Subdued meat protein consumption.
3. Liquidity and relatively tight free float.

Anpario (ANP)	
Ticker	ANP
Current mid-price	312.5p
Bid-offer spread	310 - 315p
Target price	420p
52-week high	349p
52-week low	220p
Market cap	£63.4mn
Net cash	£13.5mn (30 June 2024)
Net asset value	£35.5mn (30 June 2024)
2024 Dividend yield	3.5 per cent
2024 PE ratio	14.9
Shares in issue	20.3mn (includes 3.65mn shares in employee trust)
Financial year-end	31 December
Next event	Annual results March 2025
Website	anpario.com

Source: London Stock Exchange and company filings

Anpario (Aim:ANP) is an independent manufacturer of natural sustainable feed additives for animal health, nutrition and biosecurity, supplying customers with quality assured products manufactured in the UK. It has an established global sales and distribution network in over 70 countries.

The company specialises in optimising animal protein production by using sustainable natural resources for the benefit of animals, customers and human health. It is committed to support, influence, and assist farmers and food chain producers to switch to healthier more sustainable feed ingredients, which deliver greater global food security and reduce feed poverty. Anpario partners with government, industry and leading research bodies globally to advance product innovation and create long-term sustainable solutions, helping to maintain animal health and optimise nutrition throughout the supply chain. Combating diseases that can destroy animals, impact welfare and livelihoods, without negatively impacting the environment, is key to the company's approach.

Anpario's products work in harmony with the animals' biology to promote healthy growth and demonstrate value to the animals fed directly throughout all life stages and indirectly to their progeny; and ultimately within the human food chain. This contributes to the more efficient use of feed ingredients, reduces environmental impact and supports responsibly produced food. It can also enhance yields.

A core aim of the company is to reduce antibiotic use in animal production by supporting customers to reduce their reliance on antibiotics, whilst maintaining efficient production using natural sustainable solutions. Anpario's products can improve and safeguard both animal and human health by replacing harmful and outmoded technologies such as formaldehyde and zinc oxide that are used for antimicrobial control in the feed, as well as reducing antibiotic use in animal production.

For instance, the patents attained (in reducing the proportion of bacteria and antimicrobial resistance) for flagship toxin-binder product, Anpro, and 100 per cent natural oregano essential oil product, Orego-Stim, highlight how Anpario is providing environmentally safe and sustainable solutions for the world's population. Orego-Stim was developed 25 years ago to help manage intestinal health and support gut integrity for optimum animal performance and is widely acknowledged as the leading phytogenic solution for livestock and aquaculture producers.

Its extensive number of natural essential oil compounds means it is effective for numerous applications, some of which Anpario has yet to discover. In recent developments, the approach has been to use the Orego-Stim oil as the platform to which other plant extracts are combined to target a specific problem.

This approach is what enabled the company's research teams to develop a water-soluble version, Orego-Stim Forte, a proprietary blend of active ingredients including Orego-Stim for use in aquaculture (raising and harvesting fish), which is having significant success for a range of issues in both aquaculture and agriculture applications. It has been shown to benefit producers of both shrimp and fish through improvement of gut health and reduction in pathogens, leading to improved liveability and growth performance. Orego-Stim Forte also supports producers wishing to reduce their reliance on antibiotics in production.

Anpario helps global livestock producers to meet environmental and sustainability challenges and contributes to the research and development (R&D) progress that the agricultural livestock industry is achieving to improve its carbon footprint and greenhouse gas emissions. Anpario is not only a low carbon manufacturer of animal feed additives, with two thirds of sales from products which can be described as from sustainable sources, but these products are its fastest growing product categories.

It's easy to understand why. The products help producers to improve feed efficiency and support gut health, thus optimising nutrient utilisation. For instance, use of Orego-Stim in chicken meat production trials have shown on average a 7 per cent improvement in feed conversion efficiency. Orego-Stim has also been shown to support greener egg production by improving overall egg production, hen liveability and feed efficiency. Meta-analysis from global trials indicates an average improvement of eight extra eggs per hen (2.2 per cent per hen) when fed Orego-Stim.

Orego-Stim is recognised as a leading phytogetic product and Anpario has collaborated with a long-standing customer in India to enable them to blend it locally under licence. The arrangement reduces transportation requirements, speeds up sales growth in the region and offers greater access to new market segments.

Anpario is committed to R&D and continues to deliver new products that are good for both animals and humans, and the environment. For instance, Optomega Algae is a new, micro-algae derived, docosahexaenoic acid (DHA) supplement for use in all species including aquaculture. It is targeted at breeding animals and producers supplying enriched meat, milk and eggs containing higher levels of omega-3 fatty acids. The product is 100 per cent natural and made from a sustainable source.

Preliminary data from an in vitro study at the University of Reading suggests that dairy cows fed Optomega Algae can reduce methane output by 7 per cent in a 24-hour period. Supplementing dairy rations with DHA supports cow fertility, reduces replacement frequency in the dairy herd, supports lifelong milk production and contributes to a lower carbon footprint.

The company's commitment to achieve optimum animal performance through sustainable, natural solutions has not gone unnoticed as it has been recognised with the first ever King's Award for Enterprise, the UK's most prestigious business accolade. The company is one of 148 organisations to be recognised with a King's Award for Enterprise, of which only 15 received the award for excellence in sustainable development.

Recovering strongly after a challenging year

The reason shares in Anpario are of keen interest at this juncture is because investors have yet to factor in the impressive recovery in trading after the company's earnings were hit in 2023.

Such is the strength of the recovery that Anpario has upgraded earnings guidance no fewer than four times since the start of the year with the latest upgraded 2024 earnings per share (EPS)

estimate of 21p around 45 per cent higher than house broker Shore Capital had forecast in January, implying 27 per cent year-on-year EPS growth. Moreover, with the benefits of a recent bolt-on acquisition (see Bio-Vet section below) to be fully seen in 2025, and organic momentum in the business continuing to build, there are sound reasons to expect Anpario to deliver 17 per cent higher EPS of 24.6p next year, as Shore Capital predicts.

Anpario financial forecasts

Year end 31 Dec	Revenue	Ebitda	Adj. pre-tax profit	Adj. earnings per share	Net cash	Price/ earnings ratio	Enterpris e value/ Ebitda	Free cash flow yield	Dividend per share	Dividend yield
2021	£33.4mn	£7.0mn	£5.8mn	23.2p	£15.5mn	13.5	6.8	2.7%	10.0p	3.2%
2022	£33.1mn	£5.2mn	£4.1mn	17.2p	£13.5mn	18.2	9.6	-0.6%	10.5p	3.4%
2023	£31.0mn	£4.5mn	£3.5mn	16.5p	£10.6mn	18.9	11.7	12.8%	10.7p	3.4%
2024E	£35.5mn	£5.6mn	£4.6mn	21.0p	£7.0mn	14.9	10.1	4.9%	11.0p	3.5%
2025E	£42.0mn	£6.5mn	£5.4mn	24.6p	£7.2mn	12.7	8.6	4.4%	11.6p	3.7%

Source: Company data, Shore Capital estimates (30 September 2024). Calculations based on share price of 312.5p and market capitalisation of £63.4mn.

On this basis, the shares trade on a forward price/earnings (PE) ratio of 12.7 (to 2025 earnings forecasts), a modest rating for a company that is now benefiting from multiple tailwinds after a challenging 2023 and that is forecast to end this year with net cash of £7mn (34p). On a cash-adjusted basis, the forward PE ratio is only 11.3.

Admittedly, last year was challenging for the global agricultural industry and the 15 per cent decline in Anpario's underlying pre-tax profit reflected this. These challenges arose not only from higher energy, agricultural commodity and specific raw material prices, but also because many in the animal nutrition sector started 2023 with excessive stock levels, leading to de-stocking over the course of last year.

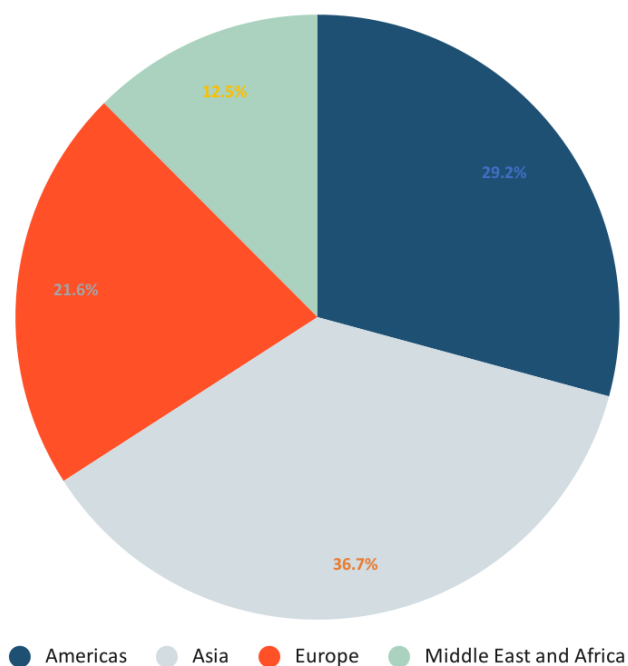
In particular, meat protein producers experienced significant margin pressure, lower consumption and greater competition. These conditions led to a reduction in the use of speciality feed additives as producers looked to reduce input costs. Together with the market's excess opening inventory, built up during 2022's supply chain issues, overall volumes for Anpario's products suffered in 2023. There are still some challenges to navigate, not least those territories still impacted by disease outbreaks, such as avian influenza and African swine fever (ASF).

Financial pressures on producers due to subdued meat protein consumption is an ongoing issue in the US business. For instance, some US customers have reduced purchases of pHorce, an anti-viral feed mitigant that protects farms from outbreaks of porcine reproductive and respiratory syndrome (PRRS). In the long run this is not sustainable given the serious consequences of microbial resistance to the world's population. By supporting the animal's gut microbiome, pHorce is viewed as being a highly effective preventative product compared to other solutions.

Although sales of Orego-Stim have been impacted due to some US customers switching back to cheaper antibiotics to save money, the product is making solid progress in the young cattle market with several new customers trialling the product. Demand is supported by local university trials that are looking at the effect of Orego-Stim on cryptosporidiosis, a disease that causes digestive upsets, and coccidiosis, a disease that chiefly affects the intestines, in pre- and post-weaned calves. The ruminant market in the US is a significant opportunity for Anpario, and management plans to expand sales resources and network to take advantage of it.

The resilience of Anpario to navigate these headwinds and return to robust sales and profit growth this year is borne from both its species and geographic diversity, which reduces concentration to any single region or country. Furthermore, no customer accounts for more than 10 per cent of revenue.

Anpario geographic spread of 2023 revenue



Source: Anpario 2023 annual report and accounts

In addition, Orego-Stim and the recently launched Optomega Algae omega-3 product are delivering bumper sales growth in several territories including Brazil, Latin America and the Middle East. In fact, the company's three higher value differentiated product brands delivered combined sales growth of 15 per cent in 2023 and accounted for over half of total sales. However, outside of these three product lines, the rest of the portfolio suffered last year from softer volumes as producers looked to reduce costs in response to input price pressures and declining meat protein consumption.

So, management took some tough decisions last year to reduce costs and improve margins. These included sensitive sales price increases and a cost reduction programme in staffing and administrative expenses which, combined with the investment into automation in the company's production facility, have improved efficiency at lower volume levels. It meant that as demand stabilised and raw material cost pressures eased, as has been the case this year, Anpario is generating significant operational efficiencies as production volumes scale up through its automated production facilities.

First-half results show strong momentum and operational leverage

The operational gearing effect was clear to see in the first half results for 2024 when pre-tax profit surged 53 per cent to £2.1mn on 11 per cent higher revenue of £17mn. The dramatic improvement in profit benefitted from a 20 per cent volume increase on the back of recovery in demand for lower value-added price sensitive products (pellet binders and acid-based eubiotics which are still differentiated compared to rival products). It contributed to the marked increase in gross margin from 43.9 to 47.5 per cent.

True, the change in product mix meant average selling price per tonne declined by 7 per cent, but average gross profit per tonne remained at the same level, illustrating the extent to which the company has been able to retain selling price increases implemented during the past two years to recover raw material price inflation.

The improved financial performance also highlighted the versatility of the Orego-Stim range to drive growth across several species, including in milk replacer products for calves. Water-soluble version, Orego-Stim Forte, achieved first commercial sales in aquaculture following proven trials for a range of applications which subsequently led to productivity and performance gains for the farmer.

Similarly, natural pellet binder, Mastercube, which accounts for 6 per cent of the company's sales and delivered 49 per cent first half sales growth, is increasingly used for several applications ranging from aquaculture through to pet food. It is now being trialled in several new markets and could present significant growth opportunities. Salgard eubiotics, which protects finished feed from recontamination during delivery and storage on farm, providing both feed producers and farmers confidence in feed and water hygiene, was another notable performer, doubling sales in the first half of 2024.

It's worth noting that Anpario's cost of sales only increased 4 per cent to £8.9mn during the first six months of 2024 (see income statement below), so 80 per cent of the £1.7mn incremental revenue generated in the period was converted into gross profit, hence the 20 per cent rise in gross profit to £8mn. Furthermore, with Anpario benefiting from a lower cost base, the £1.3mn increase in gross profit was more than double the £0.6mn rise in administration costs and explains the eye-catching £0.7mn increase in first half pre-tax profit to £2.1mn.

Anpario income statement

	Half year to	Half year to	Year to
	30 Jun 2024	30 Jun 2023	31 Dec 2023
	£000	£000	£000
Revenue	16,993	15,273	30,998
Cost of sales	-8,922	-8,574	-17,040
Gross profit	8,071	6,699	13,958
Administrative expenses	-6,127	-5,504	-11,435
Operating profit	1,944	1,195	2,523
Depreciation and amortisation	573	590	1,237
Adjusting items	165	120	703
Adjusted EBITDA	2,682	1,905	4,463
Net finance income	140	169	230
Profit before tax	2,084	1,364	2,753
Income tax	-372	-144	-225
Profit for the period	1,712	1,220	2,528
Adjusted earnings per share	10.46p	5.68p	15.37p
Diluted adjusted earnings per share	10.39p	5.66p	15.31p

Source: Anpario interim results 11.09.2024

The performance prompted Shore Capital to push through an 11 per cent upgrade to their operating profit estimate to £4.2mn at the time, predicting 15 per cent half-on-half increase in operating profit to £2.25mn in the second half of 2024. In addition, the broker noted Anpario's rising cash position as net cash had increased almost £3mn to £13.5mn (66.5p) year-on-year, a sum that accounts for a fifth of the market capitalisation. The cash generation of the business is highlighted by a current year free cash flow yield (FCF) of almost 5 per cent which supports a progressive dividend policy that underpins prospective dividend yields of 3.5 per cent (2024) and 3.7 per cent (2025). The bumper cash pile is also supportive of mergers & acquisition activity.

The ink was barely dry on Shore Capital's third upgrade of the year when Anpario announced a complementary earnings enhancing acquisition at the end of September. It looks like an absolute cracker.

Bio-Vet acquisition

The company has acquired Bio-Vet (www.bio-vet.com), a leading producer of animal health and nutrition products that predominantly supplies the US dairy market. Founded in 1996, Bio-Vet's solutions focus on improving health by supporting animals' natural systems as well as increasing profitability for farmers, which aligns with the vision and value proposition Anpario has.

Bio-Vet developed Capsule-In-A-Capsule for direct fed microbials (also known as probiotics), and nutritional combination products. This pioneering delivery system has accelerated Bio-Vet's position in the US animal health industry and its product range has expanded to include capsules, boluses, pastes, soluble powders, electrolytes and daily feed additives. Bio-Vet's direct fed microbials account for half of its sales and is highly complementary with Anpario's existing product range.

Indeed, there are synergistic effects when using Orego-Stim in combination with direct fed microbials and Bio-Vet's expertise in this area should deliver a strong competitive advantage in the market. Moreover, the global probiotics in animal feed market was valued at \$4.2bn in 2022 and is projected to grow at a compound annual growth rate (CAGR) of 9.1 per cent to \$7.1bn by 2028. It is more than four times the size of the global phyto-genic feed additives market.

In the US, Bio-Vet sells directly to farmers, veterinarians and through resellers to reach the smaller farmer. The US market for on-farm products sold to the smaller commercial farmer is highly fragmented, so Anpario can play a role in consolidating the segment and in turn create further synergies and cross-selling benefits. In addition, only a small proportion of Bio-Vet's sales are currently outside of the US, which is where Anpario's global sales and distribution network can expand Bio-Vet's market opportunity for its products such as its successful calcium bolus supplement brand QuadriCal, electrolytes, pastes and soluble powders.

Finally, Bio-Vet operates from a relatively new 25,000 square feet manufacturing facility and offices located on a 3.45-acre site that is suitable for future expansion and potentially local production of Anpario products. Strategically, it offers Anpario a platform to expand in North America.

Funded from Anpario's free cash, the company paid initial cash consideration of \$6.3mn (£4.8mn) on completion, including Bio-Vet's excess cash of \$2.3mn. There is an additional earnout consideration of up to \$1mn (£0.77mn) payable in cash subject to Ebitda – earnings before interest, taxation, depreciation and amortisation – for the 12-month period following completion being not less than \$0.78mn (£0.6mn). For the 12 months to 31 December 2023, Bio-Vet reported revenue of \$8.2mn, pre-tax profit of \$0.7mn and net assets of \$5.4mn, subject to completion accounts.

Adjusting for Bio-Vet's cash, the total consideration equates to an enterprise valuation to Ebitda (EV/Ebitda) multiple of 6.5 times. That's an attractive multiple for a US company with a substantial freehold property and less than half the typical EV/Ebitda multiple for US companies in this

sector. Importantly, Bio-Vet will enable Anpario to diversify and expand its innovative product portfolio into a wider range of species that are less susceptible to macro events, reducing its risk profile. The acquisition also prompted the fourth earnings upgrade this year.

Earnings forecasts on the rise – again

Reflecting three months contribution from Bio-Vet in 2024, Shore Capital upgraded their full-year revenue estimate by £1.5mn to £35.5mn and both their operating profit and pre-tax profit estimates by £0.2mn to £4.4mn and £4.6mn, respectively, implying 37 per cent and 31 per cent year-on-year growth. On this basis, expect EPS of 21p, or 27 per cent higher than in 2023, and a 3 per cent hike in the pay-out to 11p per share.

The £1.8mn annual cost of the dividend is comfortably covered by projected FCF of £3.1mn, so shareholders can expect a continuation of the progressive dividend policy. Shore Capital pencil in closing net cash of £7mn (34p), a sum that equates to 11 per cent of Anpario's £63.4mn market capitalisation.

The full benefit of the acquisition will be seen in 2025. Shore Capital upgraded next year's revenue estimate from £36mn to £42mn and increased both operating profit and pre-tax profit estimates by £0.5mn to £5.3mn and £5.4mn, respectively. The forecasts are based on a maintained operating margin of 12.5 per cent. On this basis, earnings per share are expected to rise 17 per cent to 24.6p which would support a 5 per cent hike in the annual dividend to 11.6p per share, implying the shares are rated on a forward PE ratio of 12.7 and offer a 3.7 per cent prospective dividend yield. Strip out the cash pile and the cash-adjusted PE ratio is only 11.3.

Anpario key financial metrics

Year end 31 Dec	Price/earnings ratio	Enterprise valuation/Ebitda ratio	Free cash flow yield	Dividend yield
2021	13.5	6.8	2.7%	3.2%
2022	18.2	9.6	-0.6%	3.4%
2023	18.9	11.7	12.8%	3.4%
2024E	14.9	10.1	4.9%	3.5%
2025E	12.7	8.6	4.4%	3.7%

Source: Company data, Shore Capital estimates (30.09.2024). Calculations based on share price of 312.5p and market cap of £63.4mn.

It's worth flagging that Anpario is currently valued on EV/Ebitda ratios of 10.1 (2024) and 8.6 (2025), a material discount to the five-year average multiple of 14. That level of discount seems harsh considering the volume recovery in end markets and the operational leverage of the business which should drive continued outperformance of the house broker estimates in a positive sales cycle.

The modest rating also fails to factor in the structural tailwind from the ongoing transition of global food producers to natural feed solutions as they move away from banned and toxic chemicals, and antibiotics. For example, antibiotic growth promoters are banned in China and the EU with other countries likely to follow given human antibiotic resistance. Formaldehyde and zinc oxide are banned in the EU and other countries, too. It presents Anpario with long-term structural and regulatory growth drivers in the feed additive market. The move to safer and sustainable food production is likely to gather momentum given the improvement that natural feed solutions offer for animal health, performance, feed conversion, and reducing livestock carbon emissions.

Directors

Matthew Robinson was appointed to the board in January 2021 and became chair in June 2023. He has spent much of his career working with and advising growth companies and was formerly chairman of property group Inland Homes and Goldplat, a gold recovery services company. Robinson started his career as a Chartered Accountant and was previously a corporate finance director at finnCap and Panmure Gordon.

Chief executive **Richard Edwards** joined the board in November 2006 following Anpario's acquisition of Agil. He was appointed executive vice-chairman in April 2011 with specific responsibility for implementing acquisition strategy. In January 2016, Edwards was appointed to the position of chief executive. He has extensive general management and corporate strategy experience gained in the sales and distribution sector both in the UK and internationally. Previously he was director of WF Electrical, a £140mn turnover division of Hagemeyer (UK), a distributor of industrial products, and gained experience in corporate development at Saint Gobain UK building materials business.

Finance director **Marc Wilson** is a member of the Chartered Institute of Management Accountants and part of the executive management team. Wilson joined Anpario in 2010 and his responsibilities have included the development and rollout of Anpario's global ERP system along with the accounting and integration of acquisitions during this time. He has been in his current role since July 2021.

Corporate responsibility director and company secretary **Karen Prior** joined the board in October 2009 as finance director and relinquished the role in July 2021 when she was appointed to her current position. Previously, Prior was finance director of Town Centre Securities, a listed property group, and European car park operator Q-Park, where she was instrumental in its establishment and growth in the UK. Prior spent a decade with Ernst and Young specialising in providing audit and business services to entrepreneurial businesses.

Non-executive director **Tim Pollock** was appointed to the board in August 2023. Pollock has an extensive track record at executive director level for several multinational groups covering agriculture, animal nutrition, soft commodities, and the food ingredient sector. These roles include director of strategic development and M&A for Lallemand Animal Nutrition, a leading global producer of specialty feed additives, and Food & Agriculture Investment

Director for British International Investment, the development finance institution of the UK Government. In 2018 he founded AgCap, a company which provides consultancy advice to the food and agribusiness sectors. Pollock brings public markets experience from his time as a non-executive director of Aim-traded Zambeef Products, the largest vertically integrated food retailing brand in Zambia.

In the 2023 financial year, the five members of the board were paid a total of £555,000. Their remuneration was less than a third of the dividend paid to shareholders and is reasonable in light of the fall in profit last year.

Edwards and Prior own 1 per cent and 0.8 per cent of the 20.3mn shares in issue and in aggregate the board own 0.4mn shares, or 2 per cent of the shares in issue. In addition, Edwards, Wilson and Prior have options over 3.1mn shares, or 15 per cent of the shares in issue, so are heavily incentivised to deliver the operational performance required to benefit from these share option schemes. It also aligns their interests with those of outside shareholders.

Shareholders

Shareholder	Shareholding (000s)	Percentage held (%)
JTC (Anpario Employee Trust)	3,650	18.0
Unicorn Asset Management	1,865	9.2
Interactive Investor	1,552	7.6
Gresham House Asset Management	1,399	6.9
Hargreaves Lansdown Asset Management	1,298	6.4
BGF	811	4.0
Lord Lee	784	3.9
James Sharp	720	3.5
Foresight Group	616	3.0
Total	12,695	62.5

Source: Anpario 2023 annual accounts, London Stock Exchange RNS.

The company has a concentrated shareholder base with the top nine shareholders holding 62 per cent of the 20.3mn shares in issue. Small-cap fund managers Gresham House Asset Management and Unicorn Asset Management are notable institutional investors. The largest shareholder is the Anpario Employee Trust, which holds 18 per cent of the shares in issue. Well respected small-cap investor Lord Lee has accumulated a 3.86 per cent stake, too. Around 13.5 per cent of the shares are deemed not in public hands under Aim rules.

The shares can readily be traded on a bid-offer spread of 5p with individual bargains as large as 8,000 shares traded on-market in the past fortnight, albeit it could pay to deal in several lots to build up a sizeable position.

Target price

There is a strong likelihood that shares in Anpario could mean-revert to their five-year average EV/Ebitda multiple of 14 if the company continues to perform well. Based on forecast Ebitda of £6.5mn for the 2025 financial year and net cash of £7mn, this would imply a target enterprise valuation of £91mn and market capitalisation of £98mn.

Based on 20.3mn shares in issue, this implies a target price of 483p and a target forward PE ratio of 19.6. The shares traded on a PE ratio above 30 when the company reported Ebitda of £7mn in 2021, albeit that was before profits and investor sentiment were impacted by the issues I have already highlighted. Please note that 20.3mn shares is the worst case scenario. That's because shareholder JTC holds 18 per cent of the shares. It is the employee benefit trust under a joint share ownership scheme. Certain employees are participants and get a proportion of the shares depending at what level the share price is. At a share price of 500p, the number of shares would be 18.1mn excluding the balance held by JTC.

A price-to-book value of 1.8 times is around 28 per cent below the five-year average. Anpario is forecast to generate post-tax returns on equity of 11.8 per cent (2024) and 14 per cent (2025), so the ongoing improvement in profitability and return on capital employed certainly warrants a price-to-book value multiple closer to the long-term average.

It's worth noting that although the share price has been recovering since the summer of 2023, it has only recouped a quarter of the previous 75 per cent painful price fall shareholders endured between August 2021 and June 2023. The ongoing improvement in earnings coupled with new product launches and normalisation of trading in end markets suggests that the recovery has further to run.

From a technical perspective, a close above the 2024 July and September daily closing highs (337.5p) would be a bullish signal. The odds favour a chart break-out and the fundamentals fully support that. Offering 33 per cent upside to my conservative 420p initial target price, and potentially an even higher valuation above 500p, shares in Anpario rate as a buy.

Risks

Product development. Specific risks include:

- Failure to deliver new products due to lack of innovation.
- Pipeline delays or products not meeting commercial expectations.
- Aborted trials during development or customer acceptance stages.

- Failure to meet regulatory requirements.

The potential impact is a weaker market position and competitiveness, resulting in reduced revenues, profits and lost opportunities.

To mitigate these risks, new development projects are evaluated from a commercial, financial and technical perspective. Multiple studies are conducted to assess the effects of a product on target species, and patent filings are made to retain competitive and tax advantages.

Political and economic risk. Wars in Ukraine and the Middle East, interest rate and inflationary pressures, customer pressures to reduce costs, geopolitical risks including political and economic instability and internal sanctions all have potential to adversely impact the company.

For instance, volatility in markets can disrupt supply chains, cause delays, and create additional costs to carry out business. To limit the impact, Anpario proactively manages pricing, has close communication with customers on key pricing and supply issues and has a wide geographic diversity to reduce dependency in a single country or region.

Production, quality and logistics risk. Failure to source supply and quality of raw materials, inadequate quality systems that allow faulty products to reach customers, failure to secure timely shipping of goods to customers, and plant closures due to major accidents or sabotage are key risks. Poor product quality increases the risk of contamination and could damage customer relationships, undermine the company's reputation, and lead to a financial loss. Loss of production for a significant period could potentially lead to loss of sales.

To mitigate these risks, Anpario has plans in place to maintain product security, food defence and product authenticity. Supplier Ethical Data Exchange membership increases transparency of supplier standards and ethics, the company has supplier accreditation, Universal Feed Assurance Scheme and Feed Materials Assurance Scheme certification, and adopts Hazard Analysis and Critical Control Points (HACCP), a systematic method for identifying, evaluating, and controlling food safety hazards to prevent biological, chemical, and physical hazards that could make a finished product unsafe.

All products can be produced at approved toll manufacturers in the UK in the event of production issues and business interruption and property insurance policies are in place. The company rigorously plans production runs and shipping container requirements.

Credit risk. This is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers and deposits with financial institutions. Anpario's exposure to credit risk is influenced mainly by the individual characteristics of each customer. It has an established credit policy under which each new customer is analysed for creditworthiness before payment and delivery terms and conditions are offered. In the 2023 financial year, the company increased the expected credit loss by £0.1mn on its £6mn receivable balance. Only £0.3mn of receivables were 60 days or more beyond their due date.

Also, where possible, risk is minimised through settlement via letters of credit and purchase of credit insurance. The investment policy restricts the investment of surplus cash to interest bearing deposits with banks and building societies which have high credit ratings.

Exchange rate risk. The company's principal functional currency is pounds sterling. However, the company is exposed to foreign currency exchange rate risk mainly as a result of trade receivables and intercompany balances that will be settled in US dollars. Anpario seeks to minimise the effects of exchange rate risk using various methods, including entering foreign currency forward and option contracts. Where applicable these are designated as cash flow hedges against highly probable forecast foreign currency sales. The policy is to maintain natural hedges, where possible, by matching revenue and receipts with expenditure and put in place hedging instruments as considered appropriate.

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