

Metcash Limited

Sector | Consumer Staples

CMP
\$3.19

Target
\$3.74

Risk Level
Moderate

Recommendation
BUY

Long-term Outlook Remains Strong

March 24, 2025

Key Positives

- Rise in Current Ratio (1.13x in FY24 vs. 1.07x in FY23)
- Rise in Gross Profit Margin (12.10% in FY24 vs. 11.50% in FY23)
- Rise in Quick Ratio (0.71x in FY24 vs. 0.66x in FY23)
- Slightly Rise in Dividend Payout Ratio (~71.0% in FY24 vs ~70.0% in FY23)

Key Negatives

- Declined in Asset Turnover Ratio (2.75x in FY24 vs 2.94x in FY23)
- Decreased Return On Equity (19.80% in FY24 vs 23.90% in FY23)
- Decreased EBIT Margin (2.90% in FY24 vs 3.00% in FY23)

Key Investment Risks

Supply chain disruptions | Adverse impact on product pricing | Customer exposure to rising costs| Increased regulation| Intense competition, etc.

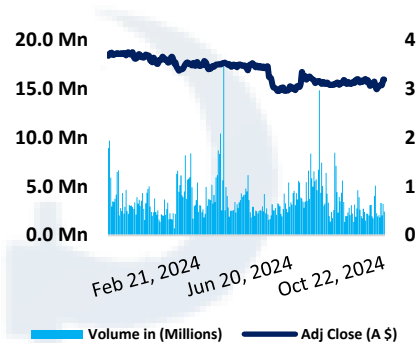
Investment Summary

- **Decent Performance in 1HFY25:** Sales revenue, including charge-through sales, reached AUD 9,571.6 million in 1HFY25, reflecting a 6.3% YoY increase compared to 1HFY24. This growth was driven by robust sales performance in Food (+10%), Liquor (+2.1%), and Hardware (+2.5%), supported by strategic acquisitions and enhanced operational execution. Group EBITDA rose by 5.6% year-on-year (YoY) to AUD 360 million in 1HFY25, up from AUD 340.8 million in 1HFY24. The reported profit after tax stood at AUD 141.8 million, marking a 0.6% YoY increase compared to 1HFY24. **The interim dividend is 8.5 cents per share fully franked, consistent with the annual target payout ratio of approximately 70% of underlying NPAT. The record date was 16 December 2024, with payment date of 29 January 2025.**
- **Strategic Acquisitions:** Acquisition of Superior Foods enhanced revenue diversification and strengthened Food segment performance.
- **Food Segment Expansion:** Significant revenue growth (+10%) driven by private label sales (+9%) and net IGA store growth.
- **Cost Optimization:** Disciplined execution of a cost-saving program, targeting \$15 million in annual operational efficiencies.
- **Sales – first 4 weeks of 2HFY25 Update:** Total food sales (excluding tobacco) rose by 22.6%, or 12.4% when including tobacco. Sales for Supermarkets and Campbells & Convenience increased by 2.9%, though they declined by 2.6% when including tobacco. Wholesale sales in Supermarkets grew by 2.3%, while they decreased by 3.7% when tobacco is included.
- **Full-year 2025 guidance:** Metcash Limited expects continued growth driven by strategic acquisitions, cost optimisation, technology enhancements, and resilience in Food, Liquor, and Hardware segments.
- **Valuation:** We recommend a “Buy” rating on MTS assigning P/E multiple of 13.84x to FY26E EPS, which gives the target price of \$3.74 for the period of 9-12 months.

Stock Information

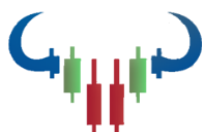
Ticker	MTS
Mkt Cap	\$3.38 Bn
52-Week H/L	\$2.96- \$3.98
Beta (x)-5Y Monthly	-0.01x
Div. Yield (%)	5.32%
Outstanding Shares (mn)	1,097.71 Mn
Duration	9 to 12 months

Stock Performance



Company Overview

Metcash Limited (ASX: MTS) is an Australian-based wholesale distribution and marketing company that offers merchandising, operational, and marketing support to its customers in the food, liquor, and hardware sectors. The company operates through three main segments: food, liquor, and hardware. The food segment supplies a variety of products and services to independent supermarkets and convenience stores. The hardware segment focuses on distributing hardware products to independent retailers and managing corporate and joint venture retail stores. The liquor segment supplies alcoholic beverages to independent retail outlets and hotels, offering a range of brands such as Thirsty Camel, Big Bargain Bottleshop, and Duncans.



Financial Highlights (\$ Mn)

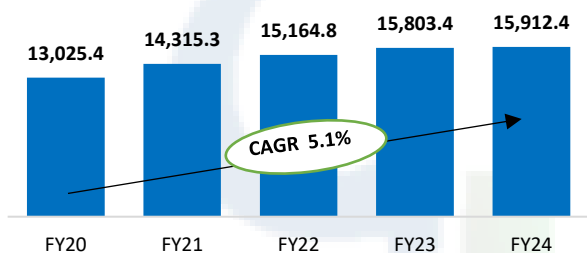
YE April (\$ Million)	FY20	FY21	FY22	FY23	FY24	Growth Trend
Revenue	13,025.4	14,315.3	15,164.8	15,803.4	15,912.4	
EBITDA	328.0	389.0	467.7	511.8	505.8	
EBITDA Margin (%)	2.5%	2.7%	3.1%	3.2%	3.2%	
Net Profit	-56.8	239.0	245.4	259.0	257.2	
Net Margin (%)	-0.4%	1.7%	1.6%	1.6%	1.6%	
EPS (\$)	(0.06)	0.23	0.25	0.27	0.26	
Dividend Payout Ratio (%)	57.0%	71.0%	70.0%	70.0%	71.0%	
RoE (%)	-4.2%	18.1%	20.8%	23.9%	19.8%	
Total Debt	1,074.5	1,034.6	1,324.3	1,488.5	1,411.0	
Free Cash Flow	56.0	389.9	310.6	220.6	346.7	

Source: Companv, tikr.com, V2U Research

Quick Financial Analysis

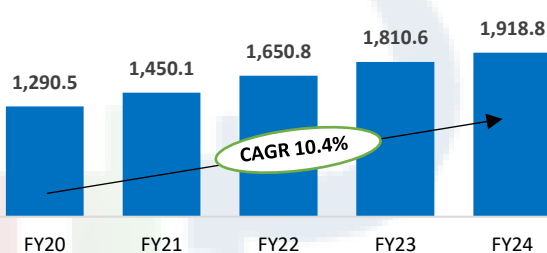
Revenue (\$mn)

Revenue has grown at CAGR of 5.1% over the past 5 years



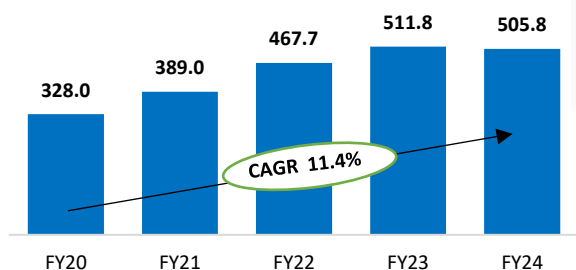
Gross Profit (\$mn)

Gross Profit Showing Growth Trajectory Since FY20



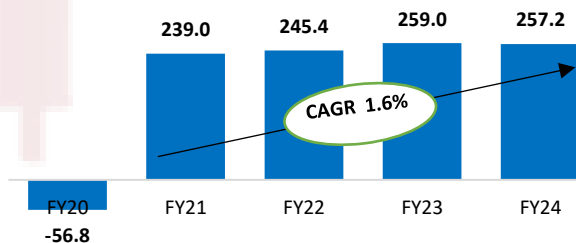
EBITDA (\$mn)

EBITDA has grown at CAGR of 11.4% over the past 5 years



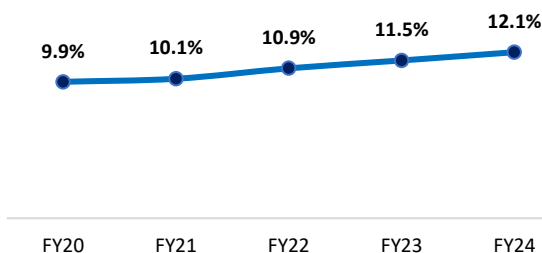
Net Income (\$mn)

Net Income has grown at CAGR of 1.6% over the past 4 years



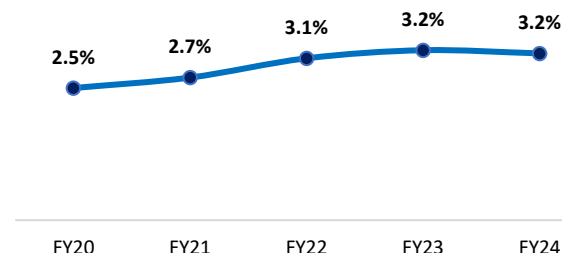
Gross Margin (%)

Gross margin increased by ~60.1 basis points in FY24



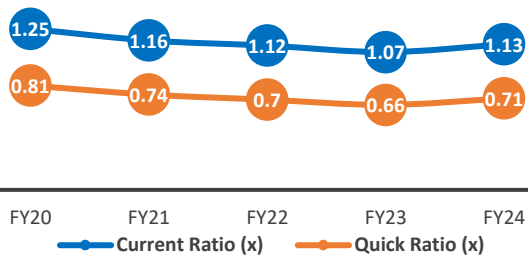
EBITDA Margin (%)

EBITDA margin decreased by ~6.0 basis points in FY24



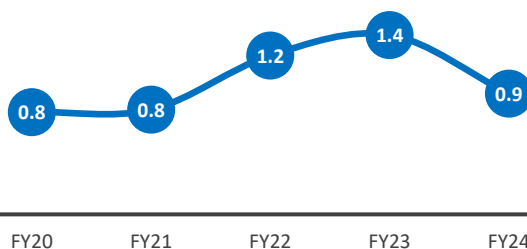
Liquidity Profile

Liquidity ratio increased in FY24



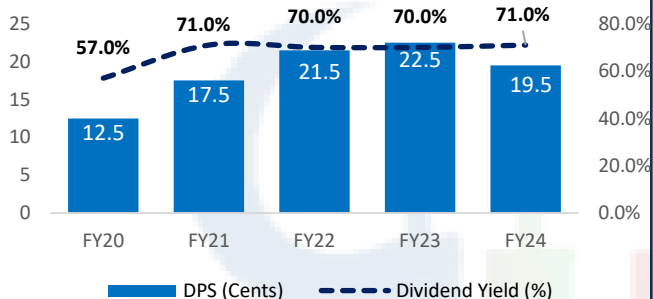
Debt to Equity (x)

Debt to equity ratio decline by 0.45x in FY24



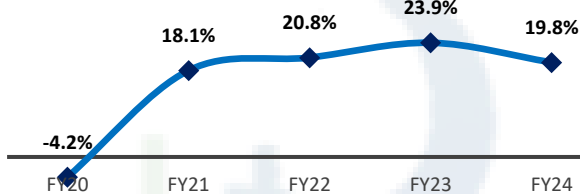
Dividend

Dividend Payout Ratio increased in FY24



Return on Equity (%)

Return on Equity decreased by ~410 basis points in FY24



Source: Company, tkr.com, V2U Research

Valuation Methodology

P/E Multiple Based Relative Valuation

	Earnings Per Share (FY26E A\$)	Price/EPS Multiple (NTM) (Peer Median (approx.))	Market Cap (A\$ mn)	Shares Outstanding (million)	Target Share Price (A\$)	Closing Market Price (A\$) (March 21, 2025)	Recommendation
FY26E	0.27	13.84	4,100.44	1,097.71	3.74	3.19	Buy

Data Source: tkr.com, Analysis by V2U Research

Technical Overview

Published on Investing.com, 21/Mar/2025 - 20:51:45 GMT, Powered by TradingView.
Metcash Ltd, Australia, Sydney:MTS, W



Weekly Chart, Source: investing.com

On the weekly chart, the stock is currently holding a horizontal support level at \$2.960, strengthening this level by a bullish RSI divergence, signaling a potential reversal. However, if this support fails the next key support level to watch is at ~\$2.755, which aligns with the 0.786 Fibonacci retracement from the 2020 low to the 2022 high. These technical factors suggest that the stock is at a strong support zone, reinforcing its significance in the current market structure.

Going ahead, the stock may face an initial resistance around \$3.530, and beyond that, it may find strong resistance around \$3.820. On the flip side, if the stock retraces down, it may take initial support at around a price of \$2.960, and if it break this level, it could find another support at \$2.755.

Stock Recommendation

Metcash Limited presents a compelling investment opportunity with strong revenue growth across its diversified Food, Liquor, and Hardware segments, bolstered by strategic acquisitions like Superior Foods. The company's disciplined cost management, focus on operational efficiencies, and ESG initiatives enhance its long-term value proposition. Metcash's robust technology advancements through Project Horizon and strategic investments in private labels, online channels, and commercial segments further solidify its market position. Despite challenging market conditions, it has an ability to deliver decent revenue and earnings growth in years to come.

The group distributed AUD 147.3 million in dividends during the current financial year (FY24), compared to AUD 217.2 million in FY23. The total dividend payout for FY24 was 22.0 cents per share (fully franked), slightly down from 22.5 cents per share in FY23. The final dividend for FY24 reflects a full-year payout ratio of 71.0% of underlying profit after tax.

Hence, considering the aforesaid facts, decent long-term outlook, paying decent dividends to its shareholders, industry tailwind, and technical analysis, we anticipate the stock to continue its uptrend, and investors with risk appetite can look forward to buying the stock at the closing price of \$3.19 (as of March 21, 2025) for the upside target price of \$3.74 (based on P/E relative multiple method).

Technical Indicators Defined: -

Support: A level at which a downward-trending asset attracts buying interest, preventing the price from falling further.

Resistance: A level at which an upward-trending asset experiences selling pressure, preventing the price from continuing to rise.

Stop-loss: It is a level that prevents further losses caused by adverse changes in stock prices.

Bollinger band: The Bollinger band is a technical indicator that indicates a financial asset is about to enter an overbought or oversold state. There are three lines that make up a Bollinger Band on a price chart. The first line is the simple moving average (SMA), which is usually a 20-period moving average of the asset's price. It takes price data over a specific time frame and averages it out so you can see the big picture. Second is, upper band, which is defined as the band located above the middle band, often two standard deviations higher. Finally, there is the lower band, which is situated a specific number of standard deviations (usually 2) below the middle band and signifies possible overbought situations when prices approach or surpass it. Prices that go close to or go below this zone can be a sign of possible oversold situations.

RSI: The Relative Strength Index (RSI) measures the speed and strength of price fluctuations over a specific time period (typically 14 days). It analyzes the internal strength of a price movement, allowing traders to spot market momentum.

EMA: Exponential Moving Average (EMA) is a type of moving average that gives more weight and importance to the most recent data points. It is used to evaluate the bullish and bearish trends in securities over a specific timeframe.

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Disclosure: We sourced the above information from the company reports, presentations, stock exchange, company websites, publicly available information, and a third-party database, i.e., tkr.com. It is advisable that investors make use of a stringent stop-loss in order to safeguard their investments in the event that any adverse or unpredictable market events occur.