

# Ansell Limited

## Company Summary

Ansell Limited (ANN AU) is engaged in the development, manufacturing and sourcing, distribution and sales of gloves and other protective personal equipment in the industrial and medical industry.

## Investment Recommendation and Thesis

I arrived at a **Buy** recommendation as Ansell Limited is poised for further growth through its penetration in emerging markets, expansion of channel partners, cost-saving initiatives, building of competitive advantages in R&D and CAPEX efficiencies, and holding a strong financial position to continue its strategic direction of acquisition product growth.

- **Organic Sales Growth:** Despite decreased organic sales growth rates to 5% which has contributed to stagnated stock returns, Ansell has positioned itself to capture sales market share and has had significantly strong sales growth of 22% in the emerging markets of China, South-East Asia, Brazil and Mexico supported by e-commerce. The company is rapidly expanding its distribution channel partners, adding 25 channel partners to its 54 in half a FY which will further enable Ansell to organically grow its existing product line and new products developed through R&D and acquisitions of growth brands. In addition, the company has increased its ability to tailor products for clients which provides Ansell an edge in capturing market share; launching 8 new products in the first half of 2018 alone.
- **R&D Future Competitive Positioning:** Ansell divested from its Sexual Awareness business unit to focus in industrial and medical manufacturing. The economies of scale from focusing on two units and synergy focused drive has enabled the company to increase the effectiveness of the company's R&D efforts. In comparison to competitors such as ResMed Holdings Limited (RMD), Ansell has decreased its required R&D by 15%. Despite the capital-intensive industry, the company also has decreased the required capital expenditure % of revenue whilst maintaining market share as a rising competitive advantage of the company.
- **Acquisition Growth and Sustainability:** Following the clear strategic direction of the company, Ansell continues to diversify its product range through its latest acquisitions of over 11 products in the past FY including MicroFlex, Microgard, and HyFlex as growth brands. Ansell's strategy of acquiring and expanding products with a ROIC of 10% will enable diversification of its revenues as a key strength. Previous returns on the Ansell were reduced mainly due to volatile revenues, fluctuating around 10%. The diversification of sales revenue sources with new business opportunities will enable Ansell's stable high revenue growth. With a total debt ratio of 36%, current ratio of 3.19x and EBIT to net interest payments ratio of 25.95x, Ansell is in a strong position with cash availability and debt options to further its strategic direction of acquisition growth.

## Investment Risks

- **Investment risks include loss of intellectual property, product risk and raw materials price increases.** Ansell has mitigated intellectual property and product risk through continued R&D and acquisitions supported by its economies of scale and scope in realigning its global business units. Further increases in raw materials price increases (which costed Ansell 10% of its profits in 2018) is a risk which the company has mitigated by engaging in the derivatives markets and aggressively increasing cost-efficiencies and cost-savings initiatives.

## BUY

**Author:** Samuel Ting

E: [Samuel.ting@outlook.com](mailto:Samuel.ting@outlook.com)

M: (+61) 410 018 860

**ANN.AX, ANN AU**

**Price:** A\$26.74 (at CLOSE, 23 April 2019)

**Price Target:** A\$31.78

**Return:** 18.8%

**WACC:** 8.79%

**Terminal GR:** 2.5%

**Methodology:** DCF

## ANN AU History:



## Investment Fundamentals:

		2016E	2017E	2018E
Revenue	M	2161.3	1822.6	1922.7
EBIT	M	310.8	239.5	248.8
Net Income	M	232.8	177.4	195.7
ROE	%	14.6	10.2	9.8
ROA	%	7.1	5.0	5.4
EPS (recur.)	\$	1.4	1.3	1.5
EPS (dil.)	\$	1.4	1.3	1.2
Dividend per share	\$	0.6	0.6	0.6
Total Debt/Equity	%	61.7	59.5	36.0
P/BV	x	1.8	2.2	1.9
EV/EBITDA	x	8.9	13.7	12.5