

fatPROPHETS™

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Trilogy International

10/04/2018 FAT-AUS-868

TIL

\$2.90

Spec.

HIGH**S**

Proposal accepted

The final chapter in the takeover of cosmetics and candle manufacturer Trilogy International (NZX/ASX: TIL) has been completed with the scheme of arrangement now binding on all shareholders. Shareholders will receive consideration of NZ\$2.90 cash per share on 18 April 2018, with shares transferred to CITIC Capital. The shares have ceased trading on the NZX Main Board and the ASX.



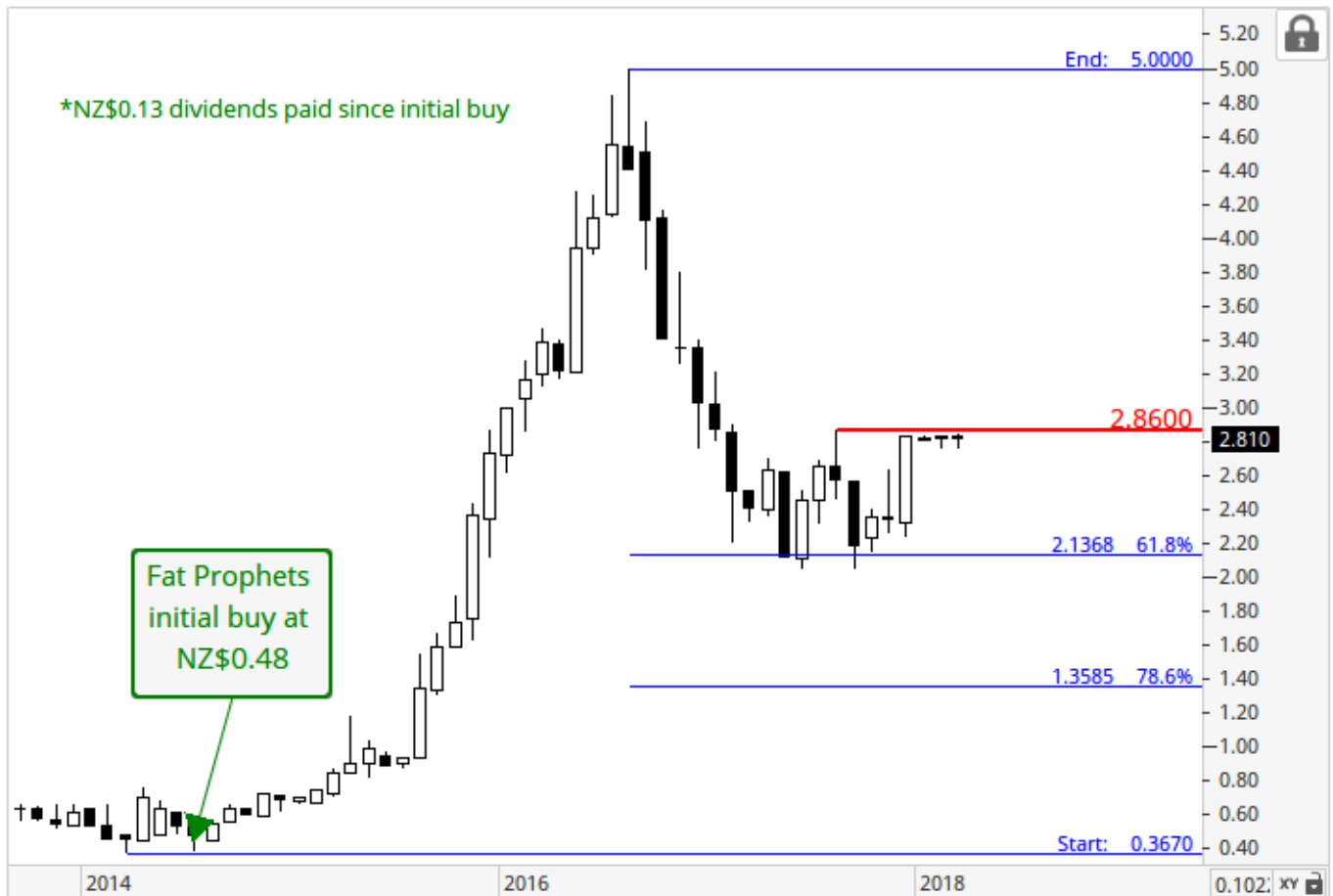
Image Source: Company website

This is a strong outcome for shareholders, and particularly those that bought in at much lower levels. The shares have delivered a 500% return since our recommendation at NZ\$0.48 in July 2014.

To recap, in December last year, CITIC Capital, one of China's leading alternative asset managers, made a takeover bid for Trilogy, pitched at NZ\$2.90 per share, valuing the company at NZ\$210.97 million. That marked an EV/EBITDA multiple of 13.6 times based on the 12 months to 30 September 2017 result.

CITC clearly saw strong value in Trilogy's proposition, and particularly with the manufacturer looking to expand to China, which is one of the faster growing large markets for cosmetics. The timing was also savvy in our view, with Trilogy's share price having fallen from the peak levels of around NZ\$5 in late 2016, and having plateaued through 2017.

Trilogy International Ltd - TIL.NZ (NZE) - 1 Month CandleStick Chart - NZD



This was also ironic given that many local brokers had become increasingly upbeat about Trilogy on the way down. Having made an initial recommendation below 50 cents we were off the opposite view, and that much of the growth had already been priced in by investors. We made a number of take profits recommendations, with the last at NZ\$4 in May 2016.

We were though content to sit on the remaining exposure pending an independent adviser's report, and also on the prospect of a superior proposal. In the event the latter was not forthcoming, with the deal effectively rubber stamped by the company's biggest shareholder, the Business Bakery, which signalled an intent to vote its 31.2% stake in favour of the scheme.

Trilogy International Ltd - TIL.NZ (NZE) - 1 Day CandleStick Chart - NZD



For investors the timing of the exit now is fairly apt in our view, with the company starting to see earnings pressures on a few different fronts. Notably in a March trading update the company stated that trading had been 'relatively' volatile with Ecoya candles sales lower than expected. In addition there were orders for the Trilogy candle business and the newly acquired Lanocorp that might not close by the balance date. These factors could negatively impact FY18 earnings by up to 10%. Possibly though there was some 'kitchen sinking' to ensure investors were nudged to vote the right way at the special meeting.

There have though certainly been margin headwinds, including price increases for rosehip oil at the cosmetics unit, and supply constraints on wax and glass supply for the candle business. A softening in the key NZ economy could also take the gloss off the bottom line going forward. The prize no doubt longer term for CITC is though growth in international markets, with Asia in particular focus.

Summary

The final chapter in the takeover of cosmetics and candle manufacturer Trilogy International has been completed with the scheme of arrangement now binding on all shareholders. Shareholders will receive consideration of NZ\$2.90 cash per share on 18 April 2018, with shares transferred to CITIC Capital. The shares have ceased trading on the NZX Main Board and the ASX.

This is a strong outcome for shareholders, and particularly those that bought in at much lower levels. The shares have delivered a 500% return since our recommendation at NZ\$0.48 in July 2014.

Following the takeover we will cease coverage of Trilogy, and the stock will be removed from the Fat Prophets Portfolio.

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Snapshot TIL

Trilogy International

Latest Closing Price: NZ\$2.90

The company was floated in May 2010 under the name Ecoya on the New Zealand stock exchange in a \$10.1 million IPO priced at \$1 a share. At the time the company's main product was a scented candle range under the brand Ecoya.

The company was transformed a few months later by the \$19.2 million (cash and scrip) acquisition of Trilogy in September 2010. The addition of the skincare business more than doubled company's revenues, diversified the geographical reach, and boosted overall growth potential. To reflect the new direction of the business, and the 'opportunities available' in both home fragrance and skin care, the company took over the acquired businesses name.

Today the Trilogy business has established strong markets in both Australia and New Zealand, as well as a substantial and growing presence in Asia and the UK. Further long term growth potential is also on offer following an entry into the US market.

Market Capitalisation:

	FY1	FY2
Price to Earnings	15.8	13.8
Dividend Yield (%)	1.8	2.3
Price to Book	2.3	2.1
Return on Equity (%)	15.5	15.6
EV/EBITDA	11.4	10.3

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