

Bellamy's Australia

BAL

April 30, 2019 FAT-AUS-919

AUD10.80

Speculative



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BAL Snapshot



Gaining Approval

Shares of organic infant formula maker, **Bellamy's Australia** (ASX.BAL) have had quite a ride over the past year as the company faced two major headwinds in 2018 in the form of regulatory delays and US-China trade issues. Given the battering the shares took in the second half 2018 our call to sit on sidelines was appropriate. However, the circumstances have changed as the company has finally received the imprimatur from the State Administration for Market Regulation in China for its new infant formula offering which in turn has improved the likelihood of its flagship organic offering receiving approval. We revisit the investment case today.

What's new?

Before we look at the latest developments, here is a brief recap on the company.

Bellamy's is an ASX-listed (ASX.BAL) organic infant formula (IF) and organic food company that was founded back in 2004 in Launceston, Tasmania. It was the first company to offer an organic infant milk formula range to Australian mothers.

We first had our look at the infant milk player back in July ([FAT-AUS-881](#)) when we highlighted that its chief difference among its peers was its organic infant formula (IF) This is the fastest growing segment globally as more mothers switch towards these alternatives as they believe it will provide their babies with the best upbringing.

The company had a track record of growing sales in the domestic market and was seeing benefits of scale having delivered profits compared to some other smaller rivals which are still loss makers. The company was also making a presence in overseas markets such as Singapore, Hong Kong, Vietnam, Malaysia, New Zealand and attempting to gain legitimate distribution in China.

That said, despite the positives we opted to sit on the sidelines as the company was still facing delays in approval from regulators due to the government merging various offices into one body as the Chinese State Administration for Market Regulation (SAMR) to eliminate duplication of work and streamline regulation.

Our call to hold off from entering prove to be the right one as the shares eventually lost ground from the \$13.52 price when we covered it and eventually collapsed to its \$6.71 low in late 2018 as there were further delays along with the US and China seeing trade tensions worsen.

However, recent developments have spurred us to revisit the company's investment case. The most salient development is that the company announced last week that its has received approval from SAMR for its new Bellamy's ViPlus IF formula.

We note though this approval wasn't the main application (organic IF) but it is quite reassuring that the company's prospects have improved and the CEO, Andrew Cohen, has commented on the development, saying:

"This is the first step in recommencing sales in the China offline channel and executing a multi-tier product strategy. It will position us well to compete in the critical battleground of Tier 3 and 4 cities."

Brand Name	Facility	Bellamy's SAMR registration	Formulation	Consumer segment
Bellamy's 贝拉米	Camperdown	Pending	Organic	Super premium
Bellamy's 贝拉米 维爱佳	Viplus	Approved	Conventional	Premium

As mentioned by Mr Cohen, the ViPlus IF will largely be sold to lower tier (3 and 4) cities using an offline distribution model. We believe this move to be prudent as it is an 'entry level' premium product to build brand awareness as its main organic IF product is still pending approval. The company has also strengthened its distribution network to a massive reach covering all of the key provinces as well as the tier 3 & 4 cities (dark grey):

OFFLINE SUB-DISTRIBUTOR NETWORK



Source: Company Presentation

Given the breadth of the distribution network, we believe the uptake on the company's mainline offering (organic IF) will be rapid given that the Bellamy's brand is well known in China after the company's investments in marketing over the years. There is also a clear

demand from the market for its offerings with 74% (a large percentage for a 'Super Premium product) of mothers saying that it is a "must have".

Strong brand, and now a winning product



Sources: Nielsen Research, Morgan Stanley January 2019, Euromonitor

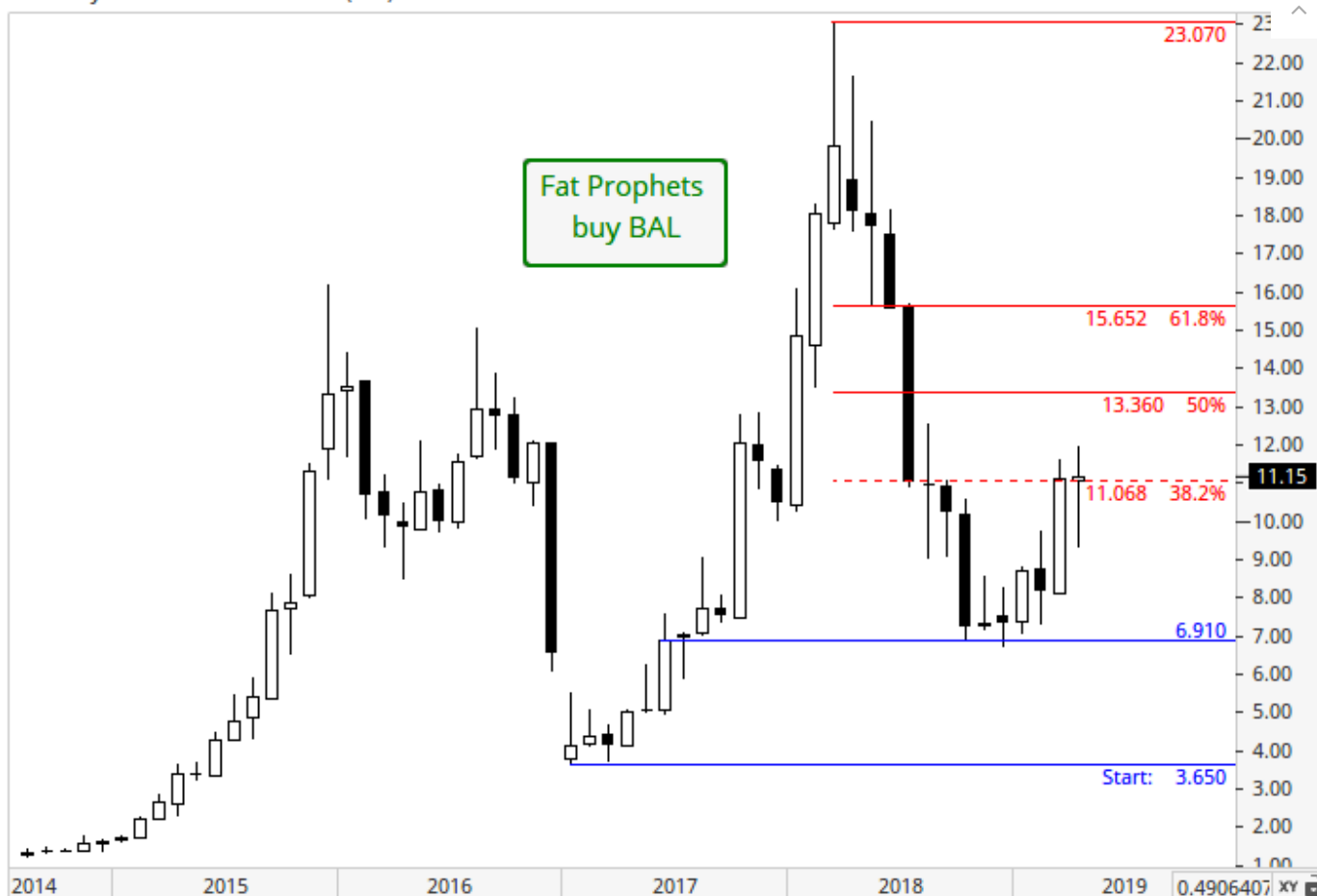
Source: Company Presentation

In light of these positives, and the increased likelihood of its organic IF receiving regulatory approval, we believe now it is an opportune time to initiate a position in **Bellamy's Australia (ASX.BAL)**. Accordingly, we rate it as a **BUY** at current levels as the risk-to-reward ratio has noticeably improved after the earlier fall in the price and the positive development linked to SAMR.

Turning to the charts, Bellamy's has staged a firm recovery since hitting lows beneath the \$7 mark at the end of last year. Prices have breached previous resistance at \$9.36, while a bullish moving average crossover was established recently – this is where the 50 day moving average (red) breaks above the 200 day moving average (green). Dynamic supports have been established at \$9.22 and \$10.01, and a move above the \$12 mark has become a real prospect. From there targets would be towards the 78.6% Fibonacci retracement at \$14.62.



On the monthly chart, the picture has also become more positive. A fall from grace in 2018 vindicated our decision to stay clear of the shares around \$13.50 (July 2018 traffic light report). A bearish phase looks to have terminated earlier this year, and a move above the 38.2% Fibonacci retracement at \$11.07 sets the scene for a move towards the 50% Fib at \$13.36, and from there the 61.8% Fib at \$15.65. At that point some discussion could also be had about the shares moving back towards all-time highs.



Summary

Shares of organic infant formula maker, **Bellamy's Australia** have had quite a ride over the past year as it faced two major headwinds in 2018 in the form of regulatory delays and US-China trade issues. Given the battering the shares took in the second half 2018 our call to sit on sidelines was appropriate. However, the circumstances have changed as the company has finally received the imprimatur from the State Administration for Market Regulation in China for its new infant formula offering which in turn has improved the likelihood of its flagship organic offering receiving approval.

In anticipation of this approval and considering the growing demand for premium organic infant food products, we believe now is an opportune time to initiate a position in **Bellamy's Australia (ASX.BAL)**. We recommend the stock to Members as a **BUY** around current price levels.

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