



ASX Small Caps Stocks Down Under

📖 *What matters most is how well you walk through the fire.* 📖

- Charles Bukowski (1920-1994), Author

LARK DISTILLING

We'll still drink to that

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Stocks Down Under rating: ★★☆☆

ASX: LRK
Market cap: A\$272.5M

52-week range: A\$1.65 / A\$5.60
Share price: A\$3.62

Yes, we're talking about that Lark Distilling, which had its managing director Geoff Bainbridge depart in circumstances you would imagine more befitting of a rugby league player. But the Tasmanian whisky maker is in good hands in the interim with Laura McBain, who is ex-Maggie Beer (ASX:MBH) and ex-Bellamy's, taking over for the time being. The circumstances of Bainbridge's departure may weigh on the company in the short term, but we continue to be bullish on this company as we were back in November 2020 when it was trading at less than half of its current price.

Share price chart



Source: Tradingview

Turbulent times

Lark Distilling was founded in 1992 and is named after its flagship brand of whisky. It has three distilleries – Pontville, Cambridge and Bothwell - all in Tasmania – and three whisky bars in the Hobart CBD. It produces whisky as well as gin. Additionally, the company hosts public tours of its distilleries. Although Lark was a stranger to controversy until Geoff Bainbridge's departure, it is not the first time the company has experienced turbulence.

Lark Distilling was listed on the ASX in 2003, but until a couple of years ago it was known as Australian Whisky Holdings. The company endured a tough few years leading up to COVID-19, which culminated in the entire board (except company founder Bill Lark) being overthrown by shareholders, led by Hobart rich lister Bruce Neill. This overhaul is how Geoff Bainbridge, a co-founder of the Grill'd burger chain, came to be at Lark. Laura McBain joined a few months later after stints at Bellamy's and Maggie Beer (ASX: MBH). Bainbridge sought to set a new course for the company, telling shareholders he wanted Lark to become to Australian whisky what Penfolds is to wine.

Then in 2020, the COVID pandemic struck the world. Lark had no interruption to its distilling operations due to COVID being kept out of Tasmania until the recent Omicron wave. Unfortunately, some of its distribution channels have been affected by lockdowns and supply chain disruptions. Still, Lark managed to record \$16.5m in revenue and a \$3.4m profit, which was 126.5% and 370.5% higher than in FY20.

The company's momentum has continued into FY22 - its half-yearly net sales were \$10.4m, up 78% compared to the comparable period last year. As of January 28, 2022, Lark has 1.34m litres under maturation, \$56.2m in cash and \$290m in net sales value. It's share price is up over 300% since May 2020, even with Bainbridge's recent departure.

What now for the company?

Putting the circumstances under which Bainbridge left to one side, shareholders would be disappointed with his departure considering his achievements during his tenure. Lark is currently searching for a new CEO, but it is in good hands in the interim, having put Laura McBain in the hot seat. Before joining Lark, she was the boss of Maggie Beer and prior to that of infant formula maker Bellamy's.

Lark has told shareholders it is looking for Bainbridge's successor to bring its export ambitions to fruition. It named China, South East Asia, the Middle East and selected parts of North America as potential markets and have said the successful candidate must have experience in at least some of these markets.

We are also excited about the Pontville Distillery and Cooperage acquisition, which Lark is in the final stages of completing. It expects distilling to begin shortly and to build a new 1 million litre distillery at Pontville, expected to be commissioned in 2023. But even before the site upgrade, this acquisition takes its estimated whisky under maturation to 2 million litres and increases current production capacity by 193,000 litres per annum.

Is Lark worth the premium?

[The last time we covered Lark](#), it had not yet reached profitability, and there were no market estimates for its FY21 results. This time around, Lark is profitable and there are consensus estimates – but the company has become more expensive. Consensus estimates anticipate \$45.2m in revenue and \$10.2m in EBITDA predicted for FY23 representing growth from FY22 of 73% and 251% respectively. At Lark's current share price, it has an EV/EBITDA ratio of 20.5x and a P/E ratio of 38.7x.

This is ahead of all of its peers with the closest being Mighty Craft (ASX: MCL), which is trading at a P/E of 30.5x for FY23 even though it more than 15% underwater from its IPO price. Mighty Craft has a more diversified portfolio than Lark - with gin, vodka and beer in addition to whiskey. However, Mighty Craft has a heavy reliance on venues and despite it being forecast for higher revenue in FY23 (\$98.9m), consensus estimates are for lower EBITDA (\$10.1m) than Lark.

We would also note that Lark's market capitalisation is slightly lower than the value of Net Sales for its whisky set to mature in the years ahead (\$290m), but we expect the company's valuation to increase as Pontville is upgraded.

We believe once the dust settles from Bainbridge's departure, the company has a bright future ahead. The worst of the pandemic and supply chain disruptions appear to be behind us and we think Pontville will be a substantial cash cow for the company. We will be watching closely to see who Bainbridge's permanent replacement will be, but we think Lark is in safe hands in the interim and look forward to seeing what it can deliver when the current Omicron wave recedes further. Four stars from us.

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