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Costa's challenges mount

Costa Group has turned to investors to raise more equity after downgrading its earnings guidance for the third time this year

Leading Australian grower-packer-exporter Costa Group has announced it will raise approximately A$176m (US$120m) in equity to try to strengthen its balance sheet after downgrading its earnings guidance again.

In an announcement on 28 October the company issued a new earning guidance for the 2019 calendar year, the third update in 2019. The previous week the trading of the company's shares was suspended in anticipation of the announcemnt.

It reduced its expected earning to approximately A$98m (US$67m) from a range of $140m (US$95m) to A$153m (US$104m) and reduced its expected profits to A$28m (US$19m) from a range of A$57m (US$39m) to A$66m (US$45m).

"Previously foreshadowed challenges facing the company have continued to crystallise. In addition, prolonged extreme dry and hot conditions are now impacting fruit sizing and yield in avocados, blueberries and the late season citrus crop," the company said, explaining the source of its troubles.

To help address these challenges Costa Group said it will raise $176m through a fully underwritten entitlement offer.

Approximately 80m new shares will be issued under the offer at a price of A$2.20 (US$1.50). This is 36.4 per cent discount to the last close price of $3.46 (US$2.37) on 21 October.

"The equity raising will strengthen Costa's balance sheet and ensure that Costa has an appropriate capital structure in place to support the continuation of the company's growth strategy in light of recent trading and market conditions, and the prolonged impact of drought conditions," the company said.