Agribusiness Forum

From family farm to international markets

Newsletter June 2011

Trivia

When was the Australian Agricultural Company established?

In the news

Currently there is a large amount of activity in the agricultural industry. This activity reflects increased concerns regarding food security and demand together with Australia's position as a large exporter of agricultural produce.

Government places ban on exports to Indonesian abattoirs
On 30th of May the ABC's four corners program broke a story on the mistreatment of Australian cattle exported to Indonesia for slaughter. The graphic story showed cattle being whipped, beaten and kicked before slaughter. In response to this story, the government has suspended exports to 11 of the abattoirs investigated by the program. The Australian minister for agriculture, Senator Joe Ludwig, has also announced an independent review of the whole supply chain of Australian cattle to Indonesia.

SunRice shareholders reject EBRO offer
Shareholders of SunRice have rejected a $610 million takeover bid from Ebro. If the bid was successful, A-class shareholders would have been paid $50,000 for their shares and B-class shareholders were being offered $5.025 per share. At the vote 76% of B-class shareholder voted for the takeover, however the bid failed as only 67% of A-class shares voted for the takeover.

Food prices to double by 2030: Oxfam
Oxfam has recently released a report entitled 'Growing a Better Future'. The report predicts that food prices will double by 2030 and unless the world's food system is reformed we will enter an 'avoidable age of crisis'. It reports that one in seven people currently go hungry each day even though the world is capable of providing food for everyone.

Joint venture between Teys Brothers and Cargill Beef Australia
Cargill Beef Australia and Teys Brothers have announced that they have agreed to form a joint venture. The move follows Cargill purchasing James Packer's Consolidated Meat Group's 50% stake in Teys Brothers. The joint venture will consolidate Teys position as the second largest meat processor in Australia and further concentrate processing capacity. If regulatory approval is given by FIRB and the ACCC, the venture will trade as 'Teys Australia – A Cargill Joint Venture' and it appears that senior management will largely come from Teys Bros. The company will include seven beef processing plants, two feedlots, one hide processing facility and a wholesale business.

The budget and rural Australia
Although the government promised a 'tough budget', agricultural producers will not experience all of the budget cuts. Whilst cuts will be experienced by the Cooperative Research Centres ($30 million redirected over three years) and the Department of agriculture ($33 million over four years). However funding will continue for the rural financial consulting service and the drought assistance pilot program will continue and increase its footprint. Although funding to Research and Development Corporations will remain at around $250 million p.a. it is unclear whether the structure of this funding will change.

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Senate inquiry into international investment in Australian agriculture
A private members bill was introduced into the Australian senate late last year to amend the Foreign Acquisitions Amendment (Agricultural land) Act 2010. Various changes are proposed under the bill: firstly, a national interest test should be applied to land acquisitions. Secondly, foreign acquisitions of over 5 hectares should be bought to the attention of the treasurer. Thirdly, foreign land ownership should be publicised online and a failure to comply with these requirements should invoke a penalty. The senate referred this bill to the Economics Legislation Committee for further inquiry and report by June 15.

AACo capital raising
AACo. recently undertook a $86.3 million capital raising. This raising included a $56.3 million equity placement and $50 million share purchase plan. The money will be used to retire the debt that was incurred during the acquisition of the Tipperary herd and leasing agreement of the property (reported in last months newsletter). The remaining money will be used to co-invest in an abattoir in Darwin. Funding received from the raising will facilitate the continuing transformation of the company that was established in 1824 from a pastoral company into a vertically integrated beef producer and trader.

Tully Sugar
The three-way bidding war for the public unlisted Tully Sugar Mill heated up towards the end of May in response to a shareholder vote to allow a takeover. US commodity trader, Bunge, has increased its offer to $43 per share which matches the Chinese Oil and Food Corporation (or COFCO). The local bidder, Mackay Sugar (backed by Louis Dreyfus) increased its offer to $43 a share and now has a combined holding with Queensland Sugar of 30%. At $43 per share, the company is valued at $133 million meaning that FIRB approval is not required for the Bunge proposal. However, because COFCO is owned by the Chinese government its offer requires approval. The bidding war is likely to continue.

Elders records half-year loss and lowers profit forecast
Elders announced a first half (to March 31) loss of $14.6 million and is expecting a full year profit at the lower end of a $7.5-24.5 million range. This negative information led to a fall in share price, however notwithstanding 'one-off' events the company made a $1 million profit. Furthermore, many profit indicators increased throughout the period compared to a $165.9 million loss for the corresponding period last year. The half-year loss and profit downgrade was blamed on weather events over summer and stagnant sales in its automotive arm.

Agricultural Outlook

Commodity prices continue to retreat from the record highs experienced earlier in this year. Price falls reflect the effect that the high Australian dollar is having on processor and exporter margins. Furthermore, the La Nina weather event has finished which is creating dry conditions throughout the nation. The release by the US Department of Agriculture (USDA) 'World Agricultural Supply and Demand Estimates' provides insight into the short-term future of soft-commodity markets.

Cotton
Harvest is nearing completion and yields are high for those whose crops were not decimated by pre-Christmas flooding. The season commenced favourably with significant amounts of rainfall around planting time. Although this created significant sub-soil moisture, it saturated many crops leading to losses. Despite this generally good start, minimal in-crop rain and low temperatures impeded growth. Considering these challenging growing conditions, the crop has produced some great yields for irrigated and dryland crops. At this stage, prospects for next years' crops appear favourable, water storages are nearly full, forward prices are favourable and dryland planting is set to increase.

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Grains and oilseeds

Planting of winter crops is underway in many areas. Recent rain, significant subsoil moisture and good growing conditions indicate a favourable beginning to the winter cropping season. However, spring rainfall will be required to maximise the potential of the crop. Rain has also been received in WA which produces around 40% of Australia's wheat. The USDA is predicting that strong production in India, North Africa, the EU and Canada will increase global production by 3.3%. Wheat export competition is set to increase given strong Canadian production and a recent announcement by Russia that there is a 90% chance that they will discontinue the export ban currently in place. Despite these competition and production increases, the USDA predicts that ending stocks will fall slightly. This, together with weather events throughout the world (drought in China, drought and flooding in US) is creating significant concerns around food security.

Beef

Although the Eastern Young Cattle Indicator (EYCI) continued to fall throughout May, the market appears to have stabilised. The fall in the EYCI is due to increased supply (which has come from the previously flooded Queensland), high Australian dollar and onset of winter. Due to abundant feed and lower prices, farmers have been encouraged to secure stock to carry through to heavier rates, it is likely that this has created a price floor. Although the EYCI has fallen from its peak, it remains around 15% above this time last year. The continuing high Australian dollar is likely to make other exporting countries such as the US more competitive in international markets.

Sheepmeats

Since Easter the price of lambs has decreased significantly. This price fall is partly due to decreased quality which has been blamed on cold weather leading into winter and seasonal market conditions. Recent rain is likely to increase grass driven demand from restockers.

Wool

Prices made significant advances during the early parts of this year, however in the time around Easter prices retreated sharply. In recent weeks the market has regained most of the lost ground, with the indicator price currently sitting just below the year high set in the first half of April. As previously reported, the negative effects of the summer rains are manifesting themselves in many lines of wool. Discolouration and contamination (from grass seeds) is causing significant discounting on some lines.

Dairy

Milk processors have recently increased farm-gate milk prices (prices paid to farmers). This has occurred despite the milk price wars and is giving dairy farmers more confidence in their sector. Despite this confidence, farmers are likely to use these increased farm-gate prices to deleverage rather than increase production. During winter, production will decrease slightly (especially for export orientated producers), thus focus will turn to international markets. Currently, increased production from the US and EU is being offset by increased domestic demand in these production areas.

Poultry

Between 1975 and 2010 consumption of poultry in Australia has increased from 6kg to 37 kg per person per annum. Strong prices for substitutive commodities such as lamb and beef is increasing the demand for poultry globally and domestically. The future of the industry looks promising due to significant genetic gains which have increased productivity dramatically. Furthermore, Australian producers are yet to develop export markets which means that there is significant potential to service increased demand.

Sugar

In Australia the sugar industry is currently focused on the takeover activity surrounding Tully Sugar. Prices for sugar have fallen significantly from records seen earlier in the year. This price fall is due to increased supply which has stemmed from a record crop in Thailand together with a strong crop in India and Brazil. Due to weather events, the Australian crop is likely to be limited to around 3 million tonnes this year (below 10-year average of 4.72 million tonnes). The crushing season has begun in some areas and will begin in others throughout this month.

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PwC and Agriculture

PricewaterhouseCoopers has a long-standing history of servicing the Australian agricultural industry. Our track record is founded on our intricate knowledge of the industry. This knowledge has been attained from servicing our clients across the whole spectrum ranging from family owned and operated farms through to large publicly traded agribusinesses. Throughout our time we have travelled the long and sometimes troubled road with our clients continually helping them to rise to their challenges and capitalise on their opportunities

Our experience and knowledge of the industry together with the fact that PwC is a leading professional services firm places us in a unique position to service the needs of the agricultural industry. If you would like to speak to one of our agribusiness specialists please contact your usual PwC contacts or visit our website at www.pwc.com.au/industry/agribusiness.

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