



KordaMentha

Agribusiness Industry Roundup

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Overview

- The Bureau of Meteorology's latest Drought Statement reported that the pattern of above average rainfall in south eastern Australia and below average rainfall in northern Australian had continued through April 2009. As a consequence, there are only a small number of areas with rainfall deficits over the last 12 months although the severity of the drought means that the lower Murray Darling basin still exhibits severe rainfall deficits when periods of greater than 18 months are considered.
- The Bureau also reported an increased risk of an El Nino event in 2009 with odds of an El Nino event now predicted at double those of a normal year. The expectation of the Bureau is for the impact of the El Nino event to become evident across Australia over the latter part of 2009.
- News from listed agribusiness companies was generally pessimistic in April 2009 with a number of profit downgrades being released. The appointment of voluntary administrators to Timbercorp Limited also dominated agribusiness news given the number of investor impacted by Timbercorp's failure and the anticipated fallout on other MIS operators.

Listed Company News

Australian Agricultural Company Limited (AAC)

- AAC announced on 16 April 2009 that it had completed the sale of three of its Queensland Gulf country properties including 53,000 branded cattle to Macquarie Pastoral Group for \$145.7m.
- AAC announced on 24 April 2009 that it had agreed the sale of its Northern Territory Rockhampton Downs property for \$35.7m.
- AAC announced on 27 April 2009 that its shareholders had rejected the proposed purchase of Tipperary and Litchfield cattle stations which formed part of Futuris Corporation Limited's plan for the disposal of its shareholding in AAC.

ABB Grain Limited (ABB)

- ABB announced on 28 April 2009 that it had received a conditional and non-binding proposal from Viterro to acquire all of the issued shares of ABB through a scheme of arrangement. The proposed consideration under the proposal reflected a range of \$9.00 to \$9.50 for each ABB share via a mix of cash, Viterro shares and franked dividends.

Australian Vintage Limited (AVG)

- AVG announced on 30 April 2009 that Indage Holdings had failed to complete the purchase of the Loxton Winery from AVG and that AVG had reserved its rights against Indage Holdings. AVG previously announced the sale of the Loxton Winery for \$60m in May 2008.

Costaexchange Limited (CHQ)

- CHQ announced on 23 April 2009 that it managed certain Riverland citrus orchards for Timbercorp Limited and would be meeting with Timbercorp Limited's voluntary administrators to discuss arrangements for ongoing management of the orchards.

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Great Southern Limited (GTP)

- GTP announced on 8 April 2009 that it expected to report a loss after tax of \$120m to \$130m reflecting reduced MIS sales, project cancellation fees associated with divestment of its cattle projects, write off of goodwill and an adjustment to the carrying value of its loan book.

Gunns Limited (GNS)

- GNS announced on 21 April 2009 that it had progressed its search for a joint venture partner to fund the Bell Bay project to a stage where joint venture agreements were being negotiated.

Namoi Cotton Co-operative Limited (NAM)

- NAM announced on 21 April 2009 a NPAT of \$7.0m for the year ended 28 February 2009 compared to the prior year NPAT of \$4.5m reflecting an increased market share of Australian cotton marketing operations although the crop size was historically small.

PrimeAg Australia Limited (PAG)

- PAG announced on 1 May 2009 a profit warning with its full year profit guidance expected to range from a pre-tax loss of \$2.0m to a pre-tax profit of \$1.0m.

Timbercorp Limited (TIM)

- TIM announced on 23 April 2009 that it had appointed KordaMentha as voluntary administrators after it had been unable to secure additional funding to continue operations.

Warrnambool Cheese and Butter Factory Limited (WCB)

- WCB announced on 8 April 2009 that it had reversed its previously announced milk price cut given volume losses suffered following the milk price cut in order to stabilise its supply arrangements and maintain suppliers.
- WCB announced on 9 April 2009 that it had decided not to proceed with the previously announced rights issue to fund the acquisition of its 50% share of Australian Cheese Company given the impact on its financial position of reversal of its milk price cuts. WCB indicated it would update its profit guidance but that it expected a material adverse impact on profitability given the reversal of its milk price cuts.
- WCB announced on 14 April 2009 a revised profit guidance of a loss of between \$10m to \$12m compared to its previous profit guidance of a profit of \$6m. WCB attributed the profit downgrade to continuing weakness in global dairy prices, the impact of the stronger Australian dollar, loss of milk supply and costs associated with the Australian Cheese Company joint venture with National Foods Limited.

Cotton

- The latest United States Department of Agriculture's Cotton & Wool Outlook provided its first forecast for 2009/10 world cotton consumption with an expected rebound from the dramatic fall in 2008/09 with cotton consumption forecast to rise 3.2% to 113.5m bales. The USDA's most recent analysis indicates that the dramatic decline in cotton consumption in 2008/09 (down 10%) reflected substantial reductions in yarn inventories that were greater than the fall in retail sales. The USDA expects that this will underpin consumption in 2009/10 as there will be limited capacity for further yarn inventory reductions.

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- The USDA expects production to again decline in 2009/10 by 1.3% as production falls in China (down 2.8%), Brazil (down 5%) and Uzbekistan (down 8%) outweigh production gains in Australia (up 31%) and India (up 9%).

Dairy

- Dairy Australia reported that milk production for the month of March 2009 was up 0.6% from the prior year as a fall in Victorian production of 4% was offset by increases in every other state.
- Media reports indicated that Warrnambool Cheese and Butter lost suppliers providing around 280m litres of milk when it implemented the first stage of planned price reductions in late March 2009 with most suppliers moving to Murray Goulburn or Fonterra (*The Weekly Times*, 16/04/09).

Grains

- The USDA's Wheat Outlook's forecast that the 2009/10 wheat crop would be 657.6m tons, down 4% from the record set in 2008/09 but still the second largest production year on record. Despite the slide in wheat prices from March 2008, world wheat plantings were expected to be little changed. With world wheat consumption expected to fall the USDA is forecasting higher wheat stocks to keep downward pressure on prices.

Livestock

- The Eastern Young Cattle Indicator ended April 2009 at 316.75, which was only 1.1% up from the March 2009 figure of 313.25 although the index did spike up 3% in mid month before gains were reversed.

Water

- The Murray Darling Basin Authority latest drought update forecast that the outlook for 2009/10 was not good with record low inflows, low levels of water in storage and expected dry conditions over the period from April to June 2009. Inflows of 140GL for the period from January to March 2009 were lower than the previous quarterly record low inflow of 150GL over January to March 2007.
- Although the Authority expects that water storage for human and stock consumption is sufficient, the outlook for irrigators is again poor with expectations of minimal water availability for irrigation.

Wine

- The Australian Wine and Brandy Corporation released figures showing that the volume of wine exported in the year to 30 April 2009 fell only marginally by 0.7% or 5m litres although realised prices fell by around 14% to around 332¢/litre.

About The KordaMentha Research Unit

Background

KordaMentha is an independent professional services firm specialising in corporate restructuring, corporate advisory and real estate services.

Our national practice spans all major cities in Australia and comprises in excess of 180 staff. Internationally, we work in cooperation with AlixPartners, a global restructuring firm covering North America, Europe and Asia.

Our partners, directors and staff have extensive experience across a broad range of industries and our firm has a culture based on creative solutions and implementation. The strength of KordaMentha's experience makes us well placed to monitor, evaluate and comment on issues and developments in industry, and in corporate restructuring, workouts and insolvency generally.

Statement of Direction

The KordaMentha Research Unit aims to:

- develop intellectual property
- share our knowledge of specialist topics with insolvency stakeholders; and
- develop balanced solutions for issues in the industry.

Personnel

The KordaMentha Research Unit is headed by Andrew Malarkey (amarkey@kordamentha.com). KordaMentha Partners and Directors contribute to the KordaMentha Research Unit.

Current Research

In addition to general publications, the KordaMentha Research Unit regularly publishes Industry Roundups and Industry Vitals.

Industry Roundups provide a concise summary of recent news and development, covering a number of industry sectors.

Industry Vitals provide a snapshot of key issues relating to selected industries.

All KordaMentha Research Unit publications can be accessed via our website – www.kordamentha.com

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