

News & Analysis

How to milk it in the almond business

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California's nut orchards have been recovering from a cold snap. But patient investors that keep their cool can still double their money in a matter of years.

"I think bees get more done than people might think."

These words of wisdom from Tony Touma, an ag consultant in Bakersfield, California, show how sanguine the state's farmers remain after a surprise frost in March jeopardized the flowering season.

It seemed pretty bad at first. There had been reports that blooms had been destroyed; even worse, the cold snap, followed by storms, seemed to have nipped some flowers in the bud. Then China hiked tariffs on almonds from 10 to 25 percent – in retaliation to similar moves at its expense by the Trump administration – causing some to worry demand would ebb.

But those concerns soon abated. For a start, China only represents 10 percent of California's almond shipments, less than for other nuts. And Chinese demand has since shifted to Australia, swinging other regions' demand to the US. Meanwhile, better weather has settled in – though growers note a fair bit of "variability" across the state.

For investors, the eventual outcome will do little to change the overall picture: the almond business – blessed with limited risks and potentially huge profits – is one in which you can have your cake and eat it.

Most obviously, there is growing demand. Health-conscious consumers are turning to vegetable-based proteins and gulping almond milk; gourmets have developed a taste for nut-based desserts. Supply remains tight: prices initially jumped 15 percent when the chill hit California.

Less known is the funding drought that's constraining Californian supply. "There's just a lack of capital preventing a lot of farmers from joining the party," says Vincent Enrico of Cantua Land Partners, which offers pooled and direct investments in nut orchards.

To produce to their full potential, almond trees need good access to water. But farmers in the best-producing areas – the dry counties of Fresno and Kern – don't have the cash needed to dig holes and reach underground reserves. And when it comes to planting new trees, they also lack the time. "Growers need income every single year, they can't really go a stretch of five years with literally negative cashflow," Enrico notes.

That's when institutional investors come in. "They're just looking for a home for their investment. They're the perfect people to do it right," Enrico says. In Fresno County, he reckons open-ground land, with nothing planted on it, can be bought for \$5,000 to \$6,000 an acre. It's "that cheap," he observes, because there's very little surface water. Put in a little capital, wait for about four years until production starts, and then your land can sell \$20,000 to \$30,000 an acre, he argues. All in, he says investors can hope to double their initial investment in a period of five years.

There are other strategies. Some investors prefer to buy trees that are already developed, to limit risk. "You have a pretty good idea of what the income is going to be. But then there's a little bit less return, because it's expensive to buy trees that are already mature," Enrico says.

Either way, the opportunity is not lost to everyone. Pensions and endowments have already deployed significant capital in almonds; foreign investors, capitalizing on a cheap dollar, have also come in. Lately, Australia has been in the limelight, prompting some to think California is old news. But the state continues to supply 80 percent of the world's almonds, largely because its high yields make it hard to beat.

Moreover, the entry of institutional capital is having a predictable side effect. "Where the capital is applied, you see the land values explode," says Enrico, whose family has been growing nuts in Fresno County for several generations. "As farmers, we own a little bit of land, so we're happy to see land values go up. But you have to be able to catch the wind in your sails."

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