

# THE AUSTRALIAN

Wealth

## Infant formula makers go after China's \$2bn goat milk market

Tim Boreham

735 words

14 April 2018

The Australian

AUSTLN

Australian

32

English

© 2018 News Limited. All rights reserved.

Bubs Australia (BUB) 83c and others With the Chinese food regulator declining to tinker further with the rules over the last six months, there's a heightened confidence on the part of the local infant formula producers.

While the Asian (mainly Chinese) demand remains resilient, the market is becoming increasingly crowded as dairy producers seek to avoid the depressed market for commoditised milk.

But infant formula itself is a commodity (despite the marketing gloss) and any board that relies on a simple "build it and ship it" business model is a herd of goats.

Speaking of which, at least two players are eyeing the market for goat milk infant formula, which is a much smaller market than for cow's milk formula but less heavily competed.

In November last year Bubs Australia acquired NuLac Foods, the country's biggest producer of goat's milk products, for up to \$38.4 million plus a 19.9 per cent Bubs stake.

The deal includes Caprilac brand and — crucially — a five- year exclusive supply deal with 8500 goat farms here and in New Zealand. These farms can supply 6.2 million litres, but the cow cockies shouldn't be worried given our conventional milk output is around 9 billion litres a year.

Bubs is in "advanced discussions" with the CNCA (Certification and Accreditation Administration of China) to get a goat milk infant formula certified.

Rather than bleating about dairy conditions, food manufacturer Wattle Health (WHA, \$2.26) has won a Chinese "brand slot" for its goat milk-based product, via Blend and Pack. Wattle Health estimates the China goat milk market at \$1.9 billion.

Goat's milk is the preferred nutrient for the lactose-intolerant and has other claimed health benefits such as being lower in cholesterol and allergens.

At the time of writing, Wattle Health shares were suspended pending a potential capital raising and finalisation of a joint venture with the country's biggest organic milk producer, the Organic Dairy Farmers of Australia co-op.

The JV plans to build a dedicated organic spray drying facility in Geelong. Victorian land owner Australian Dairy Farms recently said it would convert its farms to organic production and build a compliant plant (including a spray dryer) to produce infant formula.

Clover Corp (CLV) 92c The maker of a key baby formula ingredient has ridden the boom in the commodity, led by demand from a Chinese populace freed from the shackles of the abolished one child policy.

But Clover is now set for a leg-up from further afield: a European diktat that will mandate increased minimum levels of its encapsulated form of tuna oil containing docosahexaenoic acid (DHA).

That doesn't sound like the sort of substance mums should be feeding their little ones. In reality, it's an omega-3 fatty acid that occurs in breast milk and is linked to improving kids' brain development and preventing heart disease. It's also prevalent in fish oil and thus a crucial additive in baby infant formulas.

Happily for Clover holders, the company is a leading supplier of DHA in the form of encapsulated or powdered tuna oil additives for the food and pharmaceutical industries.

The process, licensed from the CSIRO until 2027, means the product doesn't pong like a rotting fish and it has a longer, two-year shelf life.

"We are a little business very focused on doing one thing well," CEO Peter Davey says. "We are in a great industry that's running to keep up with itself at the moment." Europe is the biggest single infant formula market and by January 2020 any baby formula sold there must contain double the current requirement (as measured by calorific content).

Despite Australia's "clean and green" hype, The Netherlands is the biggest single exporter to China, followed by New Zealand, Ireland, France and Germany.

While formula sold outside of Europe won't require the super-sized DHA dose, Davey says Europe tends to drive global regulations and other countries are likely to follow the lead: "There's a perception if the Europeans can get together and make it work, then others will follow." Davey expects DHA powder to fill at least half of the increased requirement, with Clover enjoying the benefit.

Tim Boreham edits The New Criterion [Tim.boreham@independentresearch.com.au](mailto:Tim.boreham@independentresearch.com.au)

Document AUSTLN0020180413ee4e00071