This 3DAdvisors Report Covers:	
	Insider Trading: Insider Trading Behavior
✓	**Accounting**: Quality of Earnings Issues
	Governance: Corporate Governance Issues
✓	**Fundamentals:** Analysis of fundamentals

Perfect Storm: Debt Market Mess, Falling Bean Prices
Bunge Limited (NYSE:BG) Update

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Bunge Limited, through its subsidiaries, operates as an agribusiness and food retail company worldwide. The company operates in three divisions: Agribusiness, Fertilizer, and Food Products. Agribusiness division purchases, stores, transports, processes, and sells agricultural commodities and sells to oilseed processors, feed manufacturers, wheat and corn millers, and edible oil processing companies, as well as to livestock, poultry, and aquaculture producers. Fertilizer division produces and supplies fertilizers to farmers in South America. Food Products division offers edible oil products, including bottled, packaged, and bulk oils, as well as shortenings, margarine, mayonnaise, and other products derived from the vegetable oil refining process; and milling products, such as wheat flours and corn products comprising dry milled corn grits, meal and flours, and soy-fortified corn meal and corn-soy blend. Bunge Limited was founded by Johann Peter Gottlieb Bunge in 1818 and is headquartered in White Plains, New York.

Summary of 3DAdvisors Findings for BG

- **Fundamentals:** Falling soybean prices could act as catalyst for downgrade
- **Accounting:** With dramatic drop in soybean prices, net income could take a hit
- **Accounting:** Now more than ever continuing need for cash spells trouble

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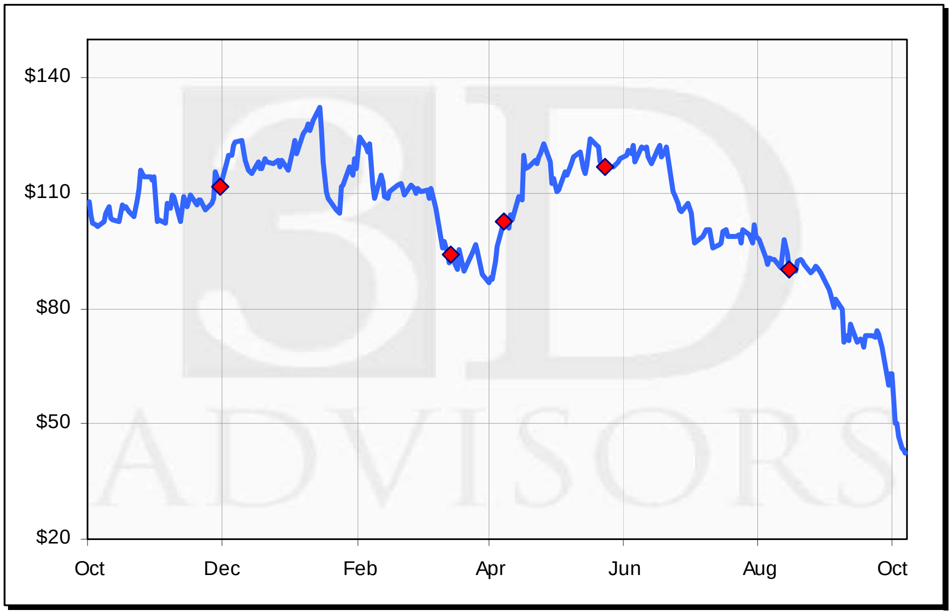
Discussion of 3DAdvisors Findings

Bunge shares were pummeled last Thursday (10/02) along with the rest of the agricultural group after Mosaic Co. (NYSE:MOS) earnings failed to meet Wall Street expectations the previous day and fear grew that tight credit markets would make it hard for farmers to keep on paying high prices for crop inputs in the face of falling grain prices. BG shares closed down over 20% at $50.16, but had traded as low as $46.97 during the session, more than 25% below the prior day's close. Overall, BG shares have continued to sag under persistent selling pressure along with the rest of the group, and at yesterday's close of $42.87, are down 68% from the 52-week high of $135 reached on 01/15/08.

As beaten up as BG shares have been since June, we still feel there is considerable downside risk because the liquidity issues we have focused in our recent updates (see reports on 04/07/08 and 08/15/08) may be approaching a critical phase as turmoil in the credit markets may make it impossible for the Company to continue borrowing and farm economics appear poised to deteriorate even further in Brazil.

Figure 1. BG Daily Closing Price, 10/01/07 through 10/09/08. Red diamonds are the dates of our most recent update reports. Source: Reuters and 3DAdvisors, LLC.



In fact, BG is now confronted with an almost certain perfect storm. In an environment where triple-A rated General Electric Co. has to pay a 10% dividend *and* throw discounted warrants into the deal to raise $3 billion from Warren Buffet, it would seem the Company has no chance of continuing the patchwork of short-term borrowing against its already heavily leveraged balance sheet that has kept it afloat for the last couple of quarters. If soybean prices continue to plummet and farmers slow down even further the delivery of soybeans in payment of various debts that now total $1.7 billion (as of 06/30/08), a ratings downgrade seems almost a certainty. As we have said previously, from there it is not difficult to envision a downward spiral where the Company's ability to survive is in serious doubt or at minimum end up in a much weakened financial condition with a severely depressed stock price.

Fundamentals: Falling soybean prices could act as catalyst for ratings downgrade

As of 06/30/08 Bunge had $922 million in trade accounts receivable outstanding, most of it amounts due from Brazilian soybean farmers for fertilizer and other crop inputs. In addition, there is another $784 million in pre-paid commodity contracts and secured advances to farmers. The total amount, $1.7 billion, is owed Bunge by farmers who typically pay off these debts by delivering soybeans to the Company. As we have covered in detail in prior reports, the quality of these assets, especially the trade receivables, is highly suspect. Nearly 40% ($361 million) of the $922 million in total trade receivables is classified as "non-current", and reserves against the non-current portion are about 55% ($199 million).

As the prices for soybeans continue to drop in Chicago trading, the likelihood that the quality of these assets will decline further is high. As soybeans become less and less profitable, and in some regions (i.e. Mato Grosso) can't be produced profitably at all, even those farmers who do have beans available for delivery may resist doing so. The downward pressure on grain prices is likely to continue as the credit crisis sweeps across the globe and traders appear to have embraced the idea that fears of an economic slowdown have evolved to include fears of a cycle of deflation in commodity markets. Such a scenario does not bode well for Bunge's being re-paid anytime soon with the soybeans it is owed.

Moody's currently rates the Company's unsecured senior notes Baa2, but any significant deterioration in the quality of its $1.7 billion in outstanding accounts receivable would be almost certain to result in a debt rating downgrade. In 3Q08, we will be looking to see if any more A/R's are moved to non-current, or if the reserves are substantially increased, or both. The Company says it has no downgrade triggers in its covenants that would accelerate repayment of debt, but it may be required to post additional collateral in the event of a downgrade and future borrowing would be significantly more expensive even during normal times, but under the present circumstances may make it all but impossible to raise cash at any price.

Looking at Figure 2 below, the November 2008 contract for soybeans peaked just after the start of the third quarter at around $16.40, and closed yesterday on the CME at $9.80, roughly a 40% drop. While it is possible that the Company had hedged its exposure to declining soybean prices and thus received some financial benefit from the decline, any such hedge would not help the plight of Brazilian farmers who are becoming increasingly desperate as prices decline while input prices remain high. Again, the situation could well lead to a further deterioration of A/R quality, which in turn could be a catalyst for a downgrade which would only intensify the liquidity crisis facing the Company.

Figure 2. Daily November 2008 Soybean Future Contract Prices. Source: CME Group.

Accounting: With dramatic drop in soybean prices, net income could take a hit

Another factor impacting BG as soybean prices decline is that the Company reports total inventories of $8.8 billion (as of 06/30/08), $5.3 billion of which are "Readily marketable inventories at market value". The Company defines RMI as "inventories [that] are agricultural commodities inventories that are readily convertible to cash because of their commodity characteristics, widely available markets and international pricing mechanisms." The $5.3 billion in RMI, which we believe consists mostly of soybean inventories, represented about 19% of total assets.

Throughout the first and second quarters, the prices of agricultural commodities, including wheat, sugar and soybeans, were escalating at a record pace, with soybeans reaching a peak near the end of the second quarter and beginning of the third quarter as shown in Table 2 above. The Company of course says that changes in the fair market values of these inventories are recognized in their consolidated statements of income as a component of cost of goods sold, and given the escalation in soybean and other commodity prices, we have to assume net income got a considerable boost as the value of the inventories was written up, and the cost of goods sold was reduced. The exact numbers are not disclosed, but given the rapid escalation in prices, we have to assume there was a significant benefit to net income.

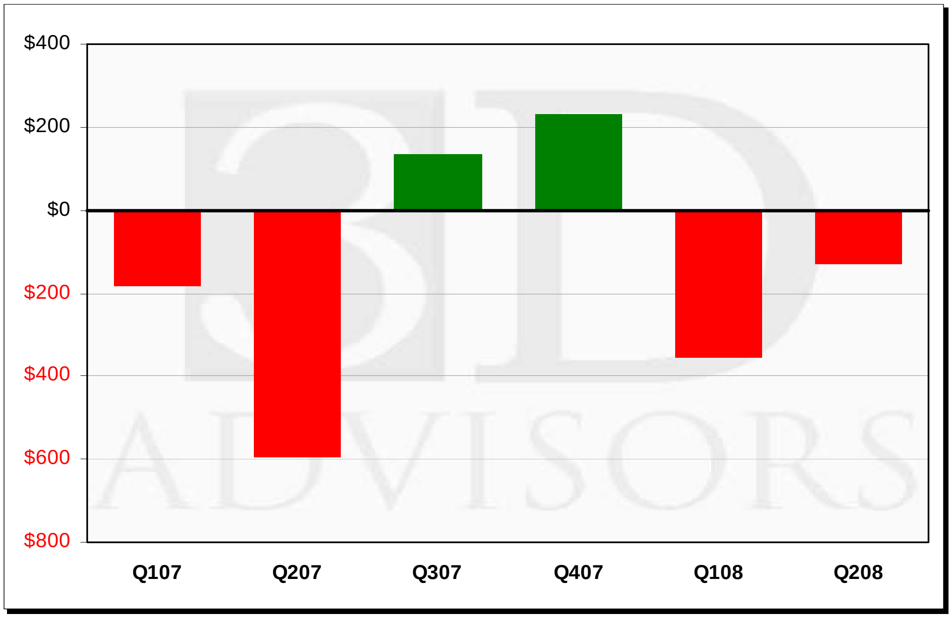
Now, with prices dropping as much as 40%, it will be interesting to see if they are as quick to mark the inventories down and charge cost of goods sold, thereby reducing net income. Management may try to avoid marking down the value of inventories by arguing that it believes the decline in market values is temporary, but by year-end, when the auditors come, they may have no choice.

Accounting: Now more than ever continuing need for cash spells trouble

We have repeatedly noted in our recent update reports that the Company continues to need new debt financing with each quarter just in order to keep operating, and the hodgepodge of recent debt financings strongly suggests an inability to put together a comprehensive long-term credit facility. In the most recent quarter ended 06/30/08, cash flow *used* by operations was $130 million, and operations have cumulatively used a total of $894 million over the past six quarters (see Figure 3 below). Cash *used* in investing activities was $257 million for the quarter and over the past six quarters has totaled $1.3 billion. Only cash from financing activities has been positive as the Company has strapped on more and more debt; $705 million was added in the quarter and over the past six quarters has been positive to the tune of $2.8 billion.

In fact, had the Company not added net new debt totaling $719 million (proceeds from short and long-term debt minus repayments of short and long-term debt) the Company would have run out of cash in the quarter. That's because of the $1.1 billion shown as the end of period cash balance (06/30/08), only $413 million is actually available to Bunge, with the balance ($687 million) held at Fosfertil, a subsidiary that is not wholly-owned. Appendix A presents the quarterly cash flow statements for Bunge between Q107 and Q208.

Figure 3. BG Cash Flow From Operations, Q107 through Q208, Millions of $. Source: BG SEC Filings.



Though the Company has historically managed to generate positive cash flow from operations in the third and fourth quarters (Q307 and Q407 in Figure 3 show the typical pattern), it has still had significant proceeds from new debt or sale of preference shares in the second half of the year, and given that only $413 million in cash was available at the end of June, the need for more cash is obvious. That's one reason we were a bit surprised to see the Company declare common and preferred share dividends that totaled approximately $42 million last week, although that may have been motivated by fear that a dividend cut would have put even more pressure on the stock.

But given current debt market conditions where even the highest rated credits are having difficulty raising new money, we wonder what options the Company has left at this point. The commercial paper market is not accessible, and it is very unclear what committed but unused facilities the Company still has access to. Combine that with the likely deterioration in the quality of its receivables from Brazilian farmers and the looming possibility of a ratings downgrade, and the very real possibility exists that the Company could run out of cash. Again, to repeat, even though the stock is now way off its January highs, we still think there is plenty of downside risk left in the shares.

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Appendix A: Bunge Limited Cash Flow Statements, Q107 through Q208

Source: Calculated from SEC Form 10-K and SEC Form-10Q filings; Millions of $

	Reported Q107	Calc. Q207	Calc. Q307	Calc. Q407	Repoted 1Q08	Calc. Q208
Operating Activities						
Net Income	$ 14	$ 168	$ 351	$ 245	$ 289	$ 751
Adj. to reconcile net income to cash used for op. activities						
Foreign exchange gain on debt	$ (34)	$ (58)	$ (75)	$ (118)	$ (160)	$ (135)
Impairment of assets	$ -	$ 8	$ 2	$ 60	$ 2	$ 3
Bad debt expense	$ 5	$ 11	$ 23	$ 7	$ 40	$ 10
Depreciation, depletion and amortization	$ 86	$ 90	$ 95	$ 114	$ 108	$ 119
Stock-based comp expense	$ 12	$ 8	$ 11	$ 17	$ 13	$ 27
Gain on sales of assets*	$ -	$ -	$ -	$ (22)	$ -	$ -
Decrease in allowance for recoverable taxes	$ -	$ -	$ -	$ 81	$ (14)	$ 5
Deferred income taxes	$ (47)	$ (40)	$ 23	$ 2	$ (11)	$ 33
Minority Interest	$ 12	$ 35	$ 57	$ 42	$ 33	$ 109
Equity in earnings of affiliates	$ (5)	$ 4	$ (6)	$ (26)	$ (20)	$ 7
Changes in operating assets and liabilities (ex. Acquisitions)						
Trade accounts receivable	$ (240)	$ (207)	$ (110)	$ 238	$ (451)	$ (207)
Inventories	$ (151)	$ (781)	$ (639)	$ (172)	$ (480)	$ (1,882)
Prepaid commodity purchase contracts	$ (8)	$ (109)	$ 14	$ (81)	$ 18	$ 20
Secured advances to suppliers	$ 76	$ 52	$ (4)	$ 83	$ 15	$ 154
Trade accounts payable	$ 216	$ 205	$ 487	$ 323	$ 356	$ 568
Advances on sales	$ (37)	$ 13	$ (55)	$ 79	$ (20)	$ 131
Unrealized loss (gain) on derivative contracts	$ 36	$ (65)	$ (170)	$ (331)	$ 51	$ (259)
Accured liabilities	$ (42)	$ 20	$ 148	$ (126)	$ (3)	$ 58
Margin deposits	$ -	$ -	$ -	$ (175)	$ (188)	$ 106
Other - Net	$ (75)	$ 52	$ (18)	$ (9)	$ 69	$ 252
Net cash used for operating activities	$ (182)	$ (594)	$ 134	$ 231	$ (353)	$ (130)
Investing Activities						
Payments made for capital expenditures	$ (84)	$ (126)	$ (172)	$ (276)	$ (148)	$ (224)
Investments in affiliates	$ (3)	$ (23)	$ (10)	$ (3)	$ (61)	$ (18)
Business acquisitions (net of cash acquired)	$ (2)	$ -	$ (29)	$ (122)	$ (19)	$ -
Related party (loans) repayments	$ (7)	$ 10	$ (2)	$ (23)	$ (16)	$ (32)
Proceeds from disposal of property, plant and equipment	$ 12	$ 2	$ 4	$ 37	$ 13	$ 15
Return of capital from affiliate	$ -	$ -	$ -	$ -	$ -	$ -
Proceeds from sale of investments	$ -	$ -	$ -	$ 23	$ -	$ 2
Net cash used for investing activities	$ (84)	$ (137)	$ (209)	$ (364)	$ (231)	$ (257)
Financing Activities						
Net change in short-term debt	$ (72)	$ 429	$ 661	$ (999)	$ 165	$ (207)
Proceeds from long-term debt	$ 910	$ 662	$ 4	$ 1,559	$ 976	$ 1,520
Repayment of long-term debt	$ (440)	$ (367)	$ (234)	$ (1,191)	$ (732)	$ (594)
Proceeds from sale of common shares	$ 16	$ 4	$ 3	$ 9	$ 3	$ 27
Proceeds from the sale of preference shares, net	$ -	$ -	$ -	$ 845	$ -	$ -
Dividends paid to common shareholders	$ (19)	$ (20)	$ (20)	$ (21)	$ (21)	$ (20)
Dividends paid to convertible preference shareholders	$ (9)	$ (8)	$ (8)	$ (9)	$ (22)	$ (20)
Dividends paid to minority interest	$ (6)	$ (1)	$ (1)	$ (10)	$ (62)	$ (1)
Other *	$ -	$ -	$ 28	$ 67	$ -	$ -
Net cash provided by financing activities	$ 380	$ 699	$ 433	$ 250	$ 307	$ 705
Effect of exchange rate changes on cash and cash equivalents	$ 6	$ 13	$ 21	$ 19	$ 19	$ 59
Net increase (decrease) in cash and cash equivalents	$ 120	$ (19)	$ 379	$ 136	$ (258)	$ 377
Cash and cash equivalents, beginning of period	$ 365	$ 485	$ 466	$ 845	$ 981	$ 723
Cash and cash equivalents, end of period	$ 485	$ 466	$ 845	$ 981	$ 723	$ 1,100

Big jump versus the first 2 qtrs last yr.

Biggest jump we've seen

Another big jump

Nothing like a huge, positive jump in "other"!

Still negative dispite big jump in net income. 6 Qtr total is -$894 million

Had the company not had these proceeds from new long-term debt, it would have run out of cash.

Growth here is from borrowing more money and the preferred issue 4Q07. $687 belongs to Fosfertil, so the real number is $431.