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

A Flurry of Financing Activity, But Big Issues Remain
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

- **Accounting:** A counterparty's doubts about BG creditworthiness
- **Accounting:** Shareholders' equity continues to contract
- **Fundamentals:** Counting on big 2H fertilizer sales to make guidance risky
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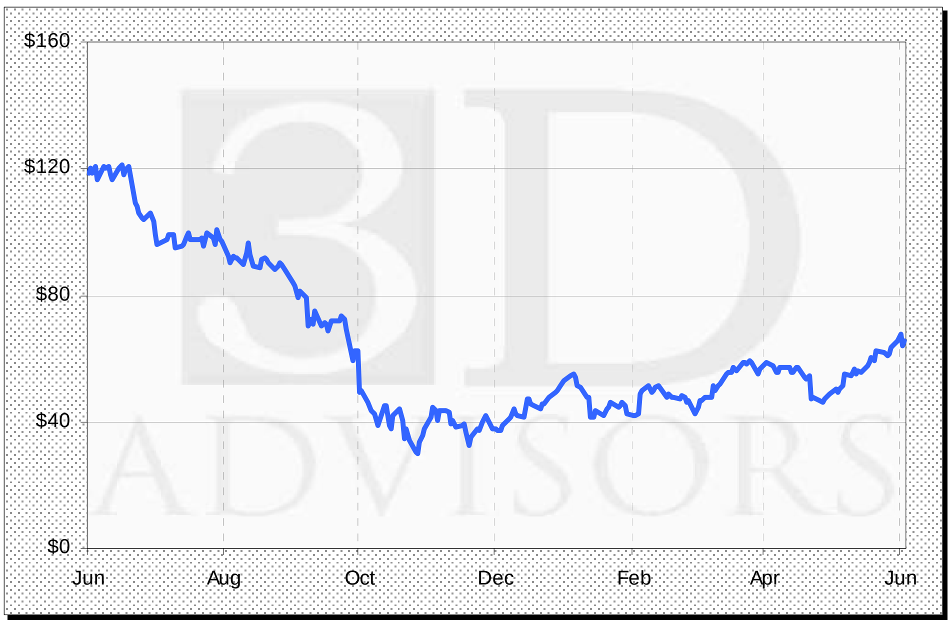
Discussion of 3DAdvisors Findings

For us, Bunge's 1Q09 results have brought it to the point where its liquidity issues may have finally intersected with poor results. Despite this, the shares have advanced nearly 24% on the year and are up a whopping 137% from the 52-week low hit back in October. But even its deft maneuverings and the rally in commodities-related stocks can not conceal the reality that Bunge's cash on hand is critically low and it appears that the Company is entering into another period, similar to last year, where rising commodity prices will cause it to utilize increasing levels of working capital. In spite of its accumulated debt, the Company has yet to show it can consistently make money and continues to rely on a crazy-quilt mixture of financing just to keep operating.

Bunge just announced earlier this week (06/03/09) the renewal of both its revolvers, which were expiring soon, to the tune of $1.65 billion. As in the past, however, it took a patchwork of twenty banks, across two oceans, to get it done. The majority of the new facility, $1 billion, is for three years (the previous was for five) with the remaining $645 million being a one-year deal. The Company continues to rely on a hodgepodge mixture of short-term financing to support day-to-day operations.

Adding to the flurry of financing activity this week, the Company also announced yesterday (06/04/09) that it had priced a public offering of $600 million of 8.5% senior unsecured notes due 2019 that are rated BBB- by S&P and Baa2 by Moody's. The Company said proceeds will be used to repay existing debt. At 03/31/09, BG total short and long-term debt stood at $3.7 billion and trade payables at $3 billion, while true cash on hand available to use was $197 million.

Figure 1. BG Daily Closing Price, 06/02/08 through 06/04/09. Source: Reuters.



Despite the bout of activity replacing old short and long-term debt with new short and long-term debt at a higher price, and the recent rally in its shares, Bunge's lowered guidance for 2009 looks tenuous to us. The fact that the Company lost $214 million in 1Q09 and is, in our view, likely to post either break-even or worse results for 2Q09, gives 2009 full-year guidance of between $4.90 and $5.40/share a certain "Ripley's Believe it or Not" flavor. The Company appears to be counting on a big pick-up in fertilizer sales to help make the numbers, and indeed farmers in Brazil have reason to be buying. But there are multiple risks and uncertainties that could derail a major contribution from fertilizer sales, while the recent strength in soybean prices may force the Company to use up precious working capital to buy in beans. And in the background, the same old issues remain: questions regarding the quality of its receivables, inventory valuations, and whether or not it can actually make money in its principal operating activities and not rely on non-operating accounting adjustments to make its numbers all remain. We start this update with some incremental new information concerning the Company's creditworthiness.

Accounting: A counterparty's doubts about BG creditworthiness

The state of Bunge's credit worthiness is brought to mind with a new disclosure in the 1Q09 10-Q concerning a recent financial guarantee made by the Company. In the past, the same guarantee required only Bunge's pledge to pay up in the event of default. Now, the scenario has changed so that cash is required to back the guarantee. From the 1Q09 SEC Form 10-Q [bolding is ours]:

> **In March 2009, we issued a guarantee to a financial institution related to a loan made to one of our U.S. biofuels joint ventures. The term of the guarantee is for 18 months, which is equal to the term of the related financing. In the event that the joint venture should default on its loan repayment, we have provided cash collateral of $28 million to the financial institution. We will be issued additional ownership interests in the joint venture if the collateral is used to repay this loan. As of March 31, 2009, we have recorded this collateral as restricted cash in other non-current assets in our condensed consolidated balance sheets. The fair value of these guarantees at March 31, 2009 was not significant.**

Prior to the above deal, Bunge needed only to post a letter of credit for $27 million in order to secure the guarantee. From the 2008 SEC Form 10-K:

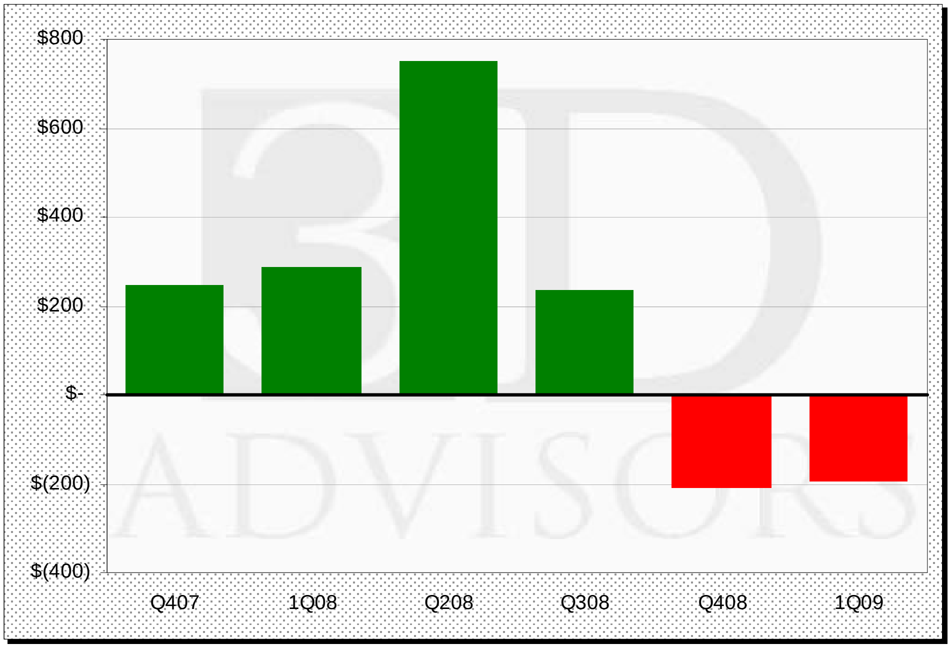
> **Bunge has provided a $27 million irrevocable letter of credit as security for a bridge loan made to one of its U.S. biofuels joint ventures by a financial institution that matured on March 1, 2009. Bunge will be issued additional ownership interests in the joint venture if the letter of credit is drawn upon. As of December 31, 2008, no liability was recorded in the consolidated balance sheets in respect of this letter of credit.**

The above speaks to Bunge's creditworthiness, at least in the eyes of the related counterparty to the deal. As of 03/31/09, BG reported $498 million in cash, but 61% ($301 million) was held at Fosfertil, its non-wholly owned publicly-traded fertilizer subsidiary, leaving it with just $197 million. Judging by the reduction in Bunge's Equity in Earnings of affiliates, which has fallen by almost 70% in the 1Q09 from the year-ago period, it would seem that based on fertilizer loses, Fosfertil's results were also down. That may mean it will be less likely that Fosfertil will pay cash dividends out to Bunge, which is the only way it can get access to the cash.

Accounting: Shareholders' equity continues to contract

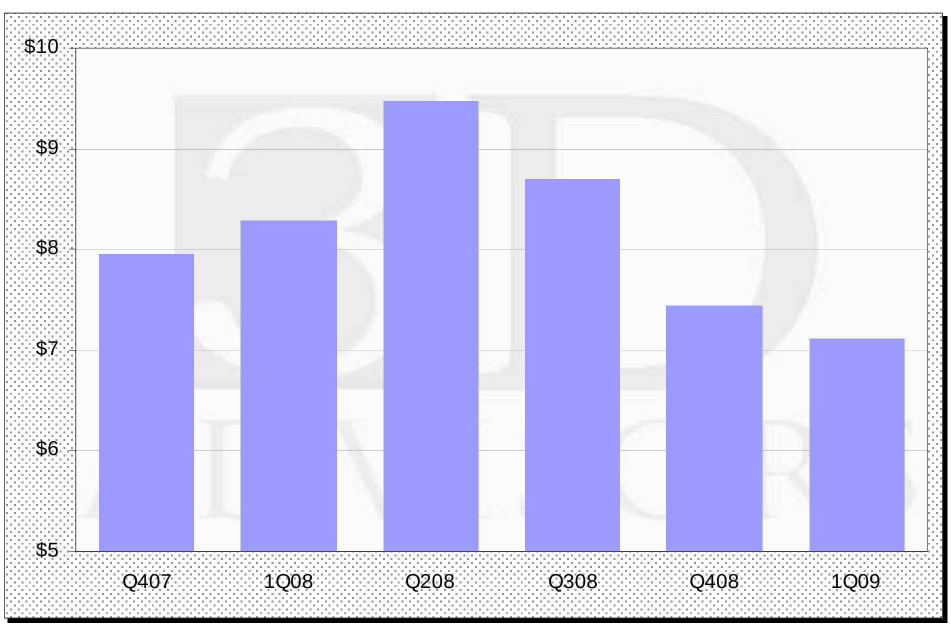
It is not lost on us that shareholders' equity (S/E) has been contracting, even before the Company posted back-to-back operating losses for the 4Q08 and 1Q09. No doubt, the losses generated in the 4Q08 and 1Q09 have been the primary drivers in the erosion of S/E. Another contributing factor however, are the large FX translation adjustments, which sit in Other Consolidated Income (Losses) and have been moving higher as a result of weakness in the Brazilian real, which began dropping against the dollar in September of 2008. Prior to that time, a persistently strong real had a positive effect on Bunge's FX translation adjustments. In fact, they actually had boosted S/E by adding $439 million to Other Consolidated Income for Bunge's 2Q08 quarter, pushing S/E into all-time high territory (see Figure 3 below).

Figure 2. BG Net Income, Q407 through 1Q09, Millions US$. Source: BG SEC Filings.



As the real weakened, Bunge saw Other Comprehensive Income quickly turn into losses, which reduced S/E by $1.35 billion by 12/31/08. Since the close of the 1Q09, the real has regained its footing and has rallied back to retrace about 50% of what it had lost late last year.

Figure3. BG Shareholders' Equity, Billions of US$, 4Q07 through 1Q09. Source: BG SEC Filings.



Whether the move is sufficient to replenish some of Bunge's lost S/E depends on the persistence of the recent real rally. We will see the effect in the Company's 2Q09 results.

Fundamentals: Counting on 2H fertilizer sales to make guidance

To call Bunge's 2009 guidance a stretch is, in our opinion, quite the understatement. We feel Bunge is likely to hit breakeven numbers at best for the 2Q09. Assuming a null 2Q, the Company will have to generate $925 million in net income in the second half of 2009 to get to the mid point of its $4.90 to $5.40 already-reduced guidance. Such earnings have never been produced in the second half of any year in Bunge's history.

The Company is clearly counting on huge fertilizer sales in the second half. There is good reason to expect a higher pace of sales: Farmers held back on much of their fertilizer use last year due to the high price of the stuff and tight credit conditions. With the dollar weakening against the real through May, however, the local price of fertilizer trade (soybeans for fertilizer) has become more difficult for the Brazilian farmer. Although the contract price for soybeans has risen, it has not offset the damage created by the higher real. The U.S. dollar has been weakening against the real since March. The consensus in Brazil is that the farmers will pull the trigger now out of concern that the dollar may further weaken.

Of course the ultimate question will be whether fertilizer supply will meet the anticipated demand. One source tells us that in order for Brazil to produce a bumper 2010 crop, more fertilizer will have to be applied than the 22.4 million metric tons used in 2008. We are told that this year, it is possible that 24 mmt will be needed. The May figures are not out yet but what we currently know is that, through April of 2008, domestic fertilizer production was 3 mmt and imports totaled 5.3 mmt, or 8.3 mmt combined, or about 37% of the anticipated annual total. Through April of 2009, however, domestic production of 2.2 mmt and imports of 1.5 mmt are far behind last year's pace and represent only 15% of the estimated demand for the year. Granted, there is inventory overhang from last year. If we are to believe BG CEO **Alberto Weisser**, however, the drawing down of inventory is close to being over.

If the inventory drawdown was principally over by the end of the 1Q09, as Weisser implies, why have prices remained low in May when all indications point to a perfect storm developing for heightened demand in Brazil? Could it be that we find out that Bunge had more excess inventory to work through than it had initially implied? Such a case could set up a scenario for further losses in 2Q09, making the Company's current guidance further out of reach.

When the inventory draw downs are done, given the production and demand metrics above, it would seem that there is the possibility the Company could find itself again in a scenario where it is forced to import high-priced fertilizer to meet demand, thus eating up precious working capital. In the 1Q09, the Company was then forced to write down $64 million in fertilizer that was bought at higher prices in 2008, contributing to the quarter's loss. The following quote is from Alberto Weisser during the 1Q09 conference call [bolding is ours]:

> **But when you think about these losses that we have in the first half really it is much more related to the retail buying and selling of imported products that we bought last year and we were unable to sell it all last year. Remember that during the year we have been saying that fertilizer demand in the country would be up 5%, 6% but the industry was talking about 10%. It ended up being 9% down, so this is something like four million tons of additional imported materials that were not sold and they were bought at higher prices. Plus obviously some input raw materials, like sulfur and others, so this, as it was not sold by the end of the year, it had to be sold in the beginning of this year, so this is not completely flushed out but it is, most of it is -- it's nearly, we are at a level that is nearly seasonal.**

So Bunge "got it wrong" last year when it had estimated fertilizer demand to be high. When it actually dropped, it appears they were stuck with about 4 mmt of the stuff. Now, they expect big demand once again. We will be keeping an eye on fertilizer prices in June. As expectations for further dollar weakness against the real rise, so do Brazilian farmers fear of eroding profitability, making them more anxious to lock in fertilizer purchases.

<u>Fundamentals: As with fertilizer, expectations for crush margins are back loaded</u>

Another interesting issue facing Bunge will be its crush margins going into the second half of the year. The Company has run into increasing competition from chemical suppliers in their green bean (beans for inputs) trading. Soy prices have stabilized recently due mainly to poor harvests in Argentina and stockpiling by China, and are unlikely to resume a downward path this year. Thus, with recent tighter crop yields, soybean farmers have been holding onto beans and looking for the best price deals.

With more competition on the chemical side (from BASF and DOW), Bunge is being forced into a position to have to bid up the price it is willing to pay for beans. Alberto Weisser contradicts himself on this but it is our bet that there will be pressure on Bunge's crush margins on the Agribusiness side, the Company's largest revenue contributor. More importantly, paying higher prices for beans will increase working capital pressures, as was the situation last year when paying up for beans caused the Company to burn most of its cash.

When it comes to crush margins, Weisser's comments are confusing and seemingly contradictory. Early in the 1Q09 earnings conference call, when pointedly asked what the historical relationship between soybean prices and soybean margins his answer was "There's not a very good correlation between margins and soybean prices." When pressed further the exchange went like this:

> **Analyst:** So you could actually make margins in a higher soybean environment? Or you don't care if the price of soybeans is high?

> **Alberto Weisser:** It is not automatic. It's not automatic but when soybean prices are high there is a tendency -- there is enough money for the farmers, so there is a little bit the expansion in the margins. When soy prices are lower

> normally we make it up through more volume so margins tend to be a little bit higher in high soybean price environment.

Now, just a bit later in the same conference call, this is what he had to say to an analyst attempting to drill into why Bunge's crush margins contracted in the quarter:

> **Analyst:** Jackie, did you say you lost money in oil seeds processing in the quarter?
>
> **Jacqualyn Fouse, CFO:** Yes
>
> **Analyst:** But that I guess where I am confused isn't that a spread business?
>
> **Fouse:** I think we even spoke about it maybe in February where we saw the US margin sort of bottom out in November/December. They got quite low.
>
> **Weisser:** Plus the farmers were very, very slow in selling so they capitalized so you had a reluctant farmer selling and a slow demand that really reduces margins like we haven't seen in awhile,
>
> **Analyst:** That wasn't an issue of you owned soybeans at price X and the crush went to well below X?
>
> **Weisser:** No it's a slower demand and also the reluctant farmer selling, so we had to pay a heftier price for the farmers to get the beans and so there was a squeeze on the margins.

So, we see that at least in recent periods of strong soy prices, the farmers have been unwilling to sell early, choosing to hold on for better prices later. This, when combined with reduced demand for soybean meal and/or oil has an effect on Bunge's crush margins.

According to BG, In spite of the fact that global soybean meal consumption in 1Q09 fell by 6% over the same period in 2008 and 9.5% in 4Q08, Weisser is looking for a rebound in the second half of the year sufficient to cause annual soybean meal consumption to net out a 1% gain for 2009. But indications are that the likelihood for further soybean meal consumption contraction in Q2 is high as well:

> **Analyst:** With the soy meal demand, as you mentioned in your prepared script down 6%, I think -- I'm a little confused on some of your comments here regarding the 1% full-year number because that mathematically then has to work out to be a fairly sizable pick up in terms of growth in the future quarters.
>
> If we -- and right now everything that I am seeing would say that second quarter would also be down quite significantly, similar to the first quarter. That puts a much larger onus on Q3 and Q4 to see soy meal demand actually reach 1%. What's your confidence in this number? It feels optimistic to me but you're the expert. What's -- what am I missing here? Why should I be more confident in this growth?

> **Weisser:** I would use the best way always to do it, the way we also do it, is let's use the USDA figures. The USDA figures show that on the harvest year-to-year basis, so October '08 to September '09 soybean meal demand will be down 2.5%. But the last quarter of this year doesn't need to increase significantly vis-à-vis the fourth quarter of '08 because the fourth quarter of '08 was down 9.5.
>
> That is why I mentioned on an earlier comment 1% up doesn't mean a lot so because probably vis-à-vis '07 it's less. But we are now working off a lower environment so we are not saying that we see very, very strong demand. We're saying it's sluggish demand but at least it is not going further down, so that is what we are saying, stabilization of the environment, which I think is positive.

Weisser does not dispute the analyst's comment that soybean meal demand would be down in the 2Q similar to what happened in the 1Q. So, as in so many other situations involving "Alberto-Speak", believing in Weisser's outlook for soybean meal and crush margins for 2009 requires a leap of faith that things will roar ahead in Q3 and Q4.

Taking Weisser's comments such as this at face value are risky, such as when he made the following comments concerning fertilizer inventories during the 3Q08 conference call. This inventory, of course, came back to haunt the Company:

> **Weisser:** I would add that this excess inventory is perhaps one month more than usual. Instead of four months we might have five. But it doesn't worry us because most of these products are important type of products and anyway are for the season, for the corn, for the sugar cane, for coffee, so this is good value we are sitting on, bought at good prices. So it is not too much.

<u>Fundamentals: Victim of fertilizer price cutting, or was BG the instigator?</u>

Bunge's 1Q09 conference call was fraught with questions concerning the drop in "local prices" for fertilizer in Brazil that was brought on when "smaller retailers needed cash", according to CFO **Jacqualyn Fouse**. This presumably was one of the contributing factors in Bunge's loss during the period. To this, we have an interesting disconnect between when Ms. Fouse said the Company became aware of the situation and what our sources have found to be the case [from the 1Q09 conference call]:

> **Analyst:** One final question, Jackie, can you give us the indication as to what's happened to MAP prices at the retail level in Brazil? You made comments here that this has moved, so I mean back on the January call you were optimistic on this. Then now today you're telling us that there was intense price competition. Can you give us some numbers so that I can understand it? What did it start in January? How did it end in March and what's the feeling right -- or what's the actual experience right now at the retail level on phosphate prices?
>
> **Jacqualyn Fouse, CFO:** Well, as we started the quarter, what we saw is that local prices basically maintained their parity with international prices. There's always some degree of discount to your list retail price but it's based on some kind of historical average, so it can be anywhere from maybe 10% to 25% or something, but that's normal. But the parity relationship was maintained and then, as we moved through the quarter we started to see that break down as

> some of the smaller retailers needed cash and then started [discounting]. Everybody tried to hold the line and then they started to discount more heavily because they needed the cash, so that took place over the course of the quarter and, as we got towards the end of the quarter, we were seeing discounts substantially higher than they typically would be.

We found the above exchange rather incredible since our sources had reported that, back in December, Bunge was selling potash at prices below what Cargill was able to buy it for in Saskatchewan (see *Research Notes* on 03/06/09). Here is the communication from our consultant in Brazil on the matter:

> I just chatted with an American buddy in Bahia. He is good friends with a Cargill fertilizer dealer there. Keep in mind Bahia planted later this year; Oct, Nov and even into Dec. Lack of credit forced many guys to wait. Many producers did not use any fertilizer this year. If they did it was just some potash. The Cargill guy was frustrated because of late season competition by Bunge in the region. Bunge warehouses were full and they were told to dump it, whatever the price.
>
> The Cargill guy could not compete. Bunge was selling fertilizer for less in Bahia than what Cargill could even buy it for in Canada. The Cargill guy's supervisor would not let him match price. The Cargill guy was the #1 salesman for the area in 2007/08.

So not only does this provide evidence that Bunge knew about fertilizer discounting in the state of Bahia in December, far earlier than Ms. Fouse claims, but more importantly that Bunge itself was the aggressor in discounting prices to move excess inventory. This prompted one of our most experienced members, who has in his career been both the CEO of a major steel company and a board member of a large investor-owned public utility, to quip:

> They blew up their own margins. In my career, every competitor that we found to be cutting prices, always said, "We are just meeting competition." I'll bet that is exactly what Alberto would say if confronted with the fire sale activity. You can never find the guy who threw the first stone.

<u>Accounting: More questions about "Readily Marketable Inventories"</u>

Bunge maintains that its Readily Marketable Inventories, or RMI, are as liquid as cash and should be treated as such when considering the strength of its balance sheet. The description of RMI and their levels from the 1Q09 SEC Form 10-Q:

> **Readily marketable inventories are agricultural commodity inventories, such as soybeans, soybean meal, soybean oil, corn and wheat that are readily convertible to cash because of their commodity characteristics, widely available markets and international pricing mechanisms. Readily marketable inventories of $2,562 million at March 31, 2009 and $2,619 million at December 31, 2008 were included in our agribusiness segment inventories for each period. In addition, inventories at fair value of $109 million and $122 million were included**

in our edible oil products segment inventories at March 31, 2009 and December 31, 2008, respectively.

We know in Q109 that Bunge recorded $64 million valuation write-down on fertilizer inventories. It is our bet the devaluation for RMI was greater. They wouldn't characterize that as a write-down, but rather, they always just cover it by saying they are valued at market. Whatever one wants to call it, there was probably a de-facto write down of RMI during the period on top of fertilizer.

Soybeans delivered that are yet to be priced at prevailing market prices went from $41 million at year-end to $184 million at 03/31/09. The question is whether the current carrying value is more or less than the prevailing price: Bunge doesn't say. Presumably this is a matter of dispute with the farmers, as it would determine how much credit they get when paying off their debts to Bunge using soybeans. Our best guess is that they have taken them in at higher prices from farmers and are somehow hoping for lower prices before pricing them. That is speculation on our part, but seems a plausible explanation for the jump in soybeans delivered but yet to be priced.

With regards to those "Readily Marketable Inventories", of the $2.7 billion total, Bunge now records $367 million in Level 3 Assets, up from $183 million at 12/31/08. Looking at fair value determinations on unaudited financials does not inspire confidence. It really is becoming more and more of a stretch to argue that RMI are "just like cash".

<u>Accounting: Miscellaneous noteworthy items</u>

- **Bad debt still big issue:** It remains quite evident that Bunge is seeing little relief on the bad debt front. Bunge's "Non-Current Advances to Farmers" have not improved since 12/31/08 as they are currently at $255 million, up from $253 million at year-end. In this total are $183 million where the Company has initiated legal action for collection. "Current Advances to Farmers" has dropped from $423 million at year-end to $384 million at the end of the 1Q09. One must keep in mind that Bunge regularly records interest on these balances which, we can easily assume, has not been paid. This interest amounted to $16 million in 1Q09, up from $13 million for the same period in 2008.

  To the farmer debt situation, our consultant in Brazil has been on the lookout for farmers who owe money to Bunge. He tells us the anecdote below that he shared with us recently is "par for the course" in Mato Grosso:

  > I had lunch with another American cattle rancher yesterday. Carbon credits were the focus of the talk. At the end I asked him how his buddy Joan was doing in middle of Mato Grosso. I knew he has had his farm for sale. I asked him if he has heard how Bunge is dealing with his old debts. He just laughs, "Brazil's normal operating procedure…delay, delay, delay." He said Bunge will never see money from Joan. If he sells the land there is a chance, otherwise no way will they collect from him.

- **Fertilizer receivables remain a problem:** Total trade account receivables (both current and non-current) total $594 million, up from $586 million at year-end. To this, the Company carries an Allowance for Doubtful Accounts of $154 million, or 26% of receivables, up slightly from 25% at year-end. The most telling item though is that 86% of the Company's Allowance for Doubtful Accounts relates to non-current receivables.

- **Tax, Labor and Civil claims have not abated:** The Company has accrued liabilities totaling $326 million for such claims, down a touch from $331 million at year-end. Clients may recall that, after 2005, the Company ceased all quantification of its total exposure to such claims. At the time the number was $883 million (more than doubling in a two-year period) and the related accrued liability was $364 million.

- **Related Party Loans:** These loans are still unexplained, and we remain curious that no question concerning the nature of Bunge's "Related Party Loans" have been proffered in any of the Company's conference calls. They continue however, and drained $52 million from cash in the 1Q09.

- **Spread between Unrealized Gains and Losses widens:** 1Q09 is the first quarter we began noticing that unrealized losses on derivative contracts were outpacing unrealized gains by a significant margin. The Company records these unrealized losses at $265 million. No doubt, that is parked in OCI at present, but if the positions are still in a negative mode when the contracts expire, into the income statement come the losses.