

**HD** **Bread and butter:** Investors pile into Australia's **dairy** sector

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SYDNEY, Aug 28 (Reuters) - A tiny financial services **firm** on the Sydney bourse has unveiled plans to sell shares as it re-lists as a **dairy company**, counting on investor interest to develop an industry struggling to keep up with Asia's exploding demand for **milk**, **butter** and **cheese**.

The stars are aligning for companies aspiring to enter Australia's A\$4 **billion** (\$3.7 **billion**) **dairy** sector but which lack the financial heft to wage an outright takeover of a big producer. Offshore pension funds are now on the lookout to **acquire** strategic stakes in the sector, as well as players in the global **dairy** industry itself.

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Six months ago, Saputo Inc took over Warrnambool **Cheese** and **Butter** Factor Co Ltd after a very public fight for Australia's oldest **dairy** producer. The Canadian **company** views Australia as a platform to tap growing demand in Asia's emerging markets.

"There's been a renewed interest in Australian **dairy** assets," said Michael Harvey, a **dairy** analyst at Rabobank, noting a significant portion of the interest is coming from outside the industry.

"That's about managed money and superannuation funds wanting to invest in agriculture, and they see **dairy** and Australian agriculture as a great way to do that."

Hoping to ride on this rising wave of investor interest, small-cap APA Financial Services Ltd will re-list as Australian **Dairy** Farms **Group** this year. APA currently has just two farms in Victoria state, but it plans to grow fast.

**Dairy** producers are looking to ramp up stagnant local production in the face of Asia's fast-growing middle class, which is expected to consume more Australian **dairy** as it develops Western tastes while distrust of local food safety procedures prevails.

Already **China** is the world's biggest **dairy** export market with 1.5 **million** tonnes shipped in 2013, or 13.4 percent of global imports. By 2050, **Chinese** appetite for **milk**-based products may be so high the world's exporters may not produce enough **dairy** to meet it, some forecasters warn.

"That's a big demand curve that's increasing, and processors just can't get enough **milk**," said Michael Hackett, chairman of APA Financial Services.

Within two years, Hackett, a financial services industry veteran, wants ADF running, if not necessarily owning, 16 farms producing 50 **million** litres of **milk** a year, from about 11 **million** litres currently.

Hackett aims to list ADF under its new identity on Oct. 1 after raising up to A\$14.5 **million**. He will fund future investments with a combination of new share issues and debt, once the **company** has proven its mettle with its initial assets.

Interest in the **company**-to-be suggests investors believe in its **business** model - essentially, selling unprocessed **milk** to processors like Warrnambool. Commitments to **buy** ADF shares have already reached A\$8 **million**, above its minimum A\$7.5 **million**, according to Hackett.

"There's quite a lot of opportunity there and you're starting to see some more investment in the Australian processing sector along those lines," said ANZ rural economist Con Williams.

That opportunity has not yet been matched with the necessary increase in production, he added.

#### SLOW PRODUCTION

Australian **milk** production has fallen about 20 percent in the past decade from around 11.2 **billion** to 9 **billion** litres a year because of drought, rising costs and industry deregulation that effectively paid farmers to move on.

Even with farm-gate prices hitting a record A\$0.50 a litre last year, the country's **milk** production may grow just 2 percent in the farming year to June 1, 2015, the Australian Bureau of Agricultural, Resource Economics and Sciences says.

The result is an industry ill-equipped to meet demand but facing significant potential rewards, both from domestic processors who **buy** their product, like Warrnambool, and export markets like Asia.

Investor demand for Australian **dairy** companies has risen with expectations that - notwithstanding the impact of a new Russian trade ban - those companies will benefit from increasing export demand, takeover, or both.

Warrnambool shares more than doubled from September to their closing high of A\$9.475 on Jan. 23 when the takeover battle reached its climax. The shares closed at A\$8.13 on Wednesday.

Shares in Bega **Cheese** Ltd doubled in the seven months to March 19, when they hit a closing high of A\$5.62. On Wednesday, the shares ended at A\$5.06.

Industry **groupDairy** Australia said registrations for a trade conference that it is hosting in September reached its target three weeks before the event.

"Strength of interest... has exceeded our expectations and includes a large delegation from **China**," the **group** said.

Former Warrnambool suitor Murray Goulburn Cooperative Co Ltd (MG) confirmed to Reuters this week that it had received a A\$20 **million** investment from an unnamed Scandinavian pension fund.

The cash bought the leases of nine **dairy** farms, adding some 30 **million** litres to its **milk** supply, which is about 39 percent of the national pool, MG said.

The **company** this week posted a 30 percent jump in exports in the year to June 30 to A\$1.5 **billion**. (1 US dollar = 1.0758 Australian dollar) (Additional reporting by Colin Packham in SYDNEY; Editing by Ryan Woo)

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