

HD **Farming's no growth sector**
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Money is moving out of **iron ore** but where it goes next is the more interesting question, because it seems that some investors are developing a taste for agriculture - a shift that might prove to be a case of leaving the frying pan to land in the fire.

Recent rural investments by two people who have made their fortunes from **mining**, plus changing consumption habits in **China**, are reasons for the growing interest in food.

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Iron ore billionaires Gina Rinehart and Andrew Forrest are at the forefront of the rush to **stake** a claim in agriculture, with both adding beef-breeding properties to their portfolios, and with Mr Forrest reportedly looking at a flutter in the **dairy** industry.

It's stating the obvious to say that both can afford the luxury of diversifying their interests because both can afford the luxury of getting it wrong, despite the recent contraction in their wealth.

Both Mrs Rinehart and Mr Forrest are a few **billion** dollars poorer today than they were 12 months ago, but they still control assets worth around \$20 **billion** and \$3.4 **billion** respectively.

Farming to them is simply a case of putting a small bet on what might be the next big thing.

Other people with less money to play with will need to take much greater care, though it is likely that the recent crash among small **iron ore** stocks is acting as an incentive to join the rural rush.

Two points in those initial observations need expanding.

Firstly, just how big has the crash been among small **iron ore** stocks, and secondly, why is farming such a poor investment?

A simple test of share prices and the overall value of **mining** companies best tells the story of **iron ore**.

BC **Iron**, for example, traded as high as \$5.50 just eight months ago. Today it dropped below \$1 for the first time in more than five years. Atlas **Iron** hit \$4.25 in mid-2011, but reached an eight-year low of 32.5 cents yesterday. Mt Gibson traded up to \$3.50 in early 2008 but is today close to its 12-month low of 46.5 cents.

More sobering than the shares prices are the market capitalisation numbers, or what you could **buy** the entire **business** for today (if you can find enough sellers) - BC **Iron** is valued at \$198 **million**, Atlas is valued at \$312 **million**, and Mt Gibson is valued at \$501 **million**.

It isn't that long ago that each was valued at around \$1 **billion**, which is roughly what three local base metals stocks are worth today. Independence (nickel, **copper** and **gold**) is worth \$1 **billion**, as is Sirius (nickel) while Sandfire is valued at \$887 **million**.

Put another way, BC **Iron**, Atlas and Mt Gibson, combined, are now worth less than Independence or Sirius.

With value disintegrating so fast in **iron ore** it might seem easier to understand why agriculture looks attractive, especially as it is said to be producing what **China** wants today.

But that's when a few home truths need to be told, starting with the appallingly long list of failed farming ventures that include the great wool collapse of the 1980s, the wipeout of grape growers and **wine** producers, the tree copping catastrophe still before the courts, and now the collapse of international **dairy** prices.

There is a common thread linking the problems of agriculture, and it is identical to the problems of **iron ore mining** - overproduction flooding the market.

Farming, despite the perceived nobility of the man on the land, usually produces more disasters than **mining** because it has even fewer barriers to entry - a way of saying it's easier to grow grapes and trees, and to raise sheep and cattle, than it is to find and develop a mineral resource.

The **dairy** crisis, which is yet to hit the headlines, has led to a plunge in prices for exported products such as **cheese** and **butter** of 40 per cent (the same as **iron ore**), because Russia has banned international imports and European material earmarked for Russia has been dumped on the world market.

Mr Forrest, Mrs Rinehart and their rich friends might be expanding their agricultural interests at a low point in the price cycle, but that's before the get whacked by seasonal factors such as droughts and floods.

For most investors, a shift now from **mining** to agriculture could be the worst decision they ever made.

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