

THE LAND

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HD **Bega grows its bio-health**

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BEGA **Cheese** is making the most of its debt-free balance sheet to launch a new **business** division focused on **dairy** and non-**dairy** bio-nutrient products.

Non-**dairy** products may include specialist grain and animal protein micro-nutritional extracts to complement **dairy** proteins needed by the booming "nutriceutical" ingredient market, including nutritional formula makers.

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The diversification push has already seen Bega ramp up its focus on extracting micro-nutritional protein components from **milk** solids, bolstering its long-established position in the infant formula and lactoferrin protein ingredient markets.

Bega is now one of the world's bigger producers of lactoferrin, which sells for more than \$600,000 a tonne (compared to conventional bulk **milk** powder at \$3000/t).

High-value **dairy** nu-tritional production at its Tatura plant in northern Victoria increased by 23 per cent in 2013-14 after upgrades to the site's lactoferrin extraction and demineralised whey powder capacities.

In April, the NSW farmer-based **company** also began blending and canning its own branded infant and nutritional powders at Derrimut in Melbourne, receiving export accreditation from **China** in July.

Buoyed by its growing nutritional powder **business** and other value-added product sales, Bega recorded a 6.5pc rise in revenue to \$1.06 **billion** and paid a 13.3pc increased total shareholder dividend of 8.5 cents a share for 2013-14.

A \$100 **million** payout (and \$44m profit) from January's **sale** of its 17.5pc **stake** in Warrnambool **Cheese** and **Butter** also left the **company** with funds to invest in capacity upgrades and \$8m in net cash assets.

Executive chairman Barry Irvin (pictured)?told this week's annual general meeting Bega had refreshed its strategic plan for the next six years, adding bio-nutritionals and "science-based innovation" to its core focus of **cheese**, whey powder and nutritional products.

New micro-nutrition products on the radar, depending on research projects with university partners and others, may include colostrum, lipid vitamins and amino globular proteins.

Mr Irvin noted the **business** balance spanning cheddar, cream **cheese**, bulk cream, **milk** powder and protein concentrates had optimised value-added opportunities available from its **milk** pool, placing Bega in a better position than many of its competitors when global **dairy** commodity prices slumped about 45 per cent this year.

"While the **company**'s product mix did not allow us to fully exploit the extreme upside of record powder prices (in early 2014) we were able to maintain a competitive position in the market," he said.

However, Russian trade sanctions, big increases in global production in the past year and **dairy** stockpiles in sectors of the **Chinese** market are expected to flatten Bega's profits after a stellar 2013-14.

Although he expected global **dairy** prices to improve within six months, Mr Irvin tipped Bega's normalised profit for the 2014-15 year would be broadly in line with fiscal 2014's \$42.1m.

"Our view remains there is strong underlying demand for **dairy** products, particularly in Asia.

To help keep pace with that **dairy** demand Bega has signed up more than 90pc of its suppliers to a \$25m program to lift **milk** production 20pc via a three-year sustainable improvement plan involving regular on-farm audits and bonus payments of three cents a litre.

Meanwhile, newly-listed Aust- ralian **Dairy** Farms began trading on the Australian Securities Exchange with its initial 20c shares peaking around 24c each.

The farming **company**, based on two **dairy** farms at Brucknell in south-west Victoria, plans to **acquire** enough land to take its production to 50m litres a year by 2016.

It has attracted US-based Och-Ziff Capital Management **Group** as a key investor with a 9pc **stake**.

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