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MarketWatch

Dairy newcomer looks to milk rising prices

CRITERION WITH TIM BOREHAM

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Australian **Dairy Farms Group** (AHF) 22c FROM graphite to grass munchers: [Syrah Resources](#) Paul Kehoe has emerged as a 10 per cent investor in this **dairy** farm consolidation play, along with a slew of **Hong Kong** institutions.

Let's hope there's similar upside to be milked from buying up **dairy** farms as there was in discovering tonnes of the flaky metal in Mozambique.

Last year's takeover of Warrnambool **Cheese & Butter*** has left processor [Bega Cheese](#) as the only listed **dairy** play. Listed via the shell of [APA Financial Services](#), ADFGfills the void with an ambitious plan to become a 50 **million**-litre-a-year producer.

ADFG debuted yesterday after raising \$9.3 **million** at 20c per share, with the proceeds used to **buy** two farms near Warrnambool producing a combined 7.5 **million** litres a year.

ADFG director Adrian Rowley says hitting the 50 **million** litre target would entail buying 14 to 16 similar-sized farms, at a cost of \$80m-\$100m.

This would make ADFG one of the country's biggest producers in what's a highly fragmented sector.

Rowley says the backers are exploiting a climate in which **milk** prices are firming, yet farm prices are subdued because of a dearth of buyers. Unlike producing **iron ore** — or indeed graphite — higher **milk** production means a higher average received price. That's because the three producers have excess capacity so are keen to attract the bigger suppliers.

"If we did nothing more than aggregate 10 farms we would get 13 per cent over the (producers') base price," Rowley says.

He says the backers of the **company** received a few calls from **Chinese** investors, asking how much they needed to invest to secure a **board** seat.

Rowley says the **company** should be immediately profitable, despite a dry spring. But investors are really punting on capital growth as the **company** hooovers up farms from ageing cow cookies. Spec **buy**.

Having said that, we caution [Australian Natural Proteins](#) (AYB, 0.4c) — a farm **acquisition** play based on fat lamb production — has dwindled to irrelevance.

The Roger Corbett-chaired PrimeAg listed in 2007 with a similar land-grab charter, but **sold** the farm to US interests last year.

*Don't write in! Warrnambool **Cheese & Butter** (WCB, \$8.30) remains listed because buyer Saputo narrowly failed to reach the 90 per cent compulsory **acquisition** threshold.

The stock occasionally trades and could be seen as a long-term **buy** on the assumption Saputo returns to mop up the recalcitrant holders.

Vocation (VET) 99.5c AN unusual consequence of the training provider's 56 per cent share implosion yesterday is that the instos, rather than retail investors, end up as the wood ducks.

Ahead of yesterday's bombshell, the instos forked out \$3.05 per share in September's \$74m raising. The final stanza — a \$10m share placement plan for retail holders — is to be priced at a 2.5 per cent discount to the average price decided between November 17 and 21.

Depending on one's view of the likely collateral damage from the Victorian snafu, that's a further 2.5 per cent off a deeply discounted bargain — or still 97.5 per cent too much.

Having protested that the Victorian issue was not material, Vocation late on Monday revealed it had forgone \$19.6m in Victorian government subsidies, resulting in a \$5m earnings hit and a 10-15 per cent profit downgrade.

A government review decreed that three outsourced courses did not meet the required standards and were inappropriate for the needs of some enrolled students.

The problems affected two of Vocation's four Victorian-registered training organisations (RTOs), BAWN and Aspin.

Vocation's sandbagging strategy has been to roll these RTOs into the two untainted ones, ceasing the practice of training provision and recruiting by third parties.

Yesterday's lesson from Certificate in Corporate Governance 101 is that any management that declares there's nothing to see one day and then lobs an earnings grenade the next will find its credibility in tatters. While the \$19.6m had not been received, a portion relates to "earned" income given the service has been provided. In effect, some of the amount is a de facto fine or penalty.

On revised guidance, Vocation trades on an earnings multiple of 6.5 times and a 10 per cent yield. With flow-on nasties bound to emerge, that's too good to be true.

We rated Vocation an avoid at \$3.18 in June, after the **company** shelled out \$84m for the Endeavour College of Natural Health. We'll continue to avoid this one, 2.5 per cent discount or not.

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