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FINANCIAL REVIEW

SE Smart Money
HD Farmers to milk Asia cash cowAU [Tim Binsted](#)
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LP As Asia gets richer and the world's population moves towards 9 billion people by 2050, demand for food and agricultural produce is set to boom.

Australia's proximity to the Asian market and its reputation as a clean, green producer of quality food gives local companies a big advantage. The flood of mergers and acquisitions activity and foreign investment interest in the sector underscores its value.

TD In 2014, Canadian dairy giant Saputo's \$500 million-plus acquisition of Warrnambool Cheese & Butter, after a dramatic takeover battle, threw a spotlight on dairy.

In November, on the day after Australia inked a landmark free-trade deal with China, Chinese giant New Hope signed a \$500 million deal to invest in new farms and processing with locally listed Freedom Foods.

China alone is expected to face a shortage of about 20 billion litres of milk by 2020.

That bodes well for local dairy players such as ASX-listed [Bega Cheese](#), which is rumoured to be a takeover target itself. The [Murray Goulburn](#) farmer co-operative is aiming to list a unit trust on the ASX in 2015, which will have some similarities to the dual-listed-Fonterra Shareholders' Fund .

New Zealand minnow a2 Milk is seeking an ASX listing in 2015, and investors will soon have a number of investment options to get exposure to dairy. While the long-term demand for milk powder, infant formula and cheese is strong, dairy commodity prices have been highly volatile and collapsed in the second half of 2014. Internal levers, external opportunities

PAC Partners analyst Paul Jenz still thinks Bega Cheese is a good buy. But he is not playing a particular commodity. He thinks the recent selloff in high-quality mid-cap food companies – including Bega, salmon producer Tassal and almond company Select Harvests – is an opportunity.

"These companies still have internal levers and external opportunities ... the sale has hurt the broader market but we see a recovery in the premium companies that have dependable growth," Jenz adds.

Since the start of 2013, Select Harvests shares have soared more than 350 per cent to about \$6.24. But CIMB analyst Niraj Shah thinks the stock could go to \$7.27 as drought in California, which produces 80 per cent of the world's almonds, threatens supply and boosts almond prices.

Dry weather has been weighing on a number of companies, with east coast grains giant GrainCorp warning its earnings will again be pressured by a small crop.

But analysts and fund managers looking over the medium term still see value in the stock. The potential for American food giant [Archer Daniels Midland](#) to make another takeover bid for GrainCorp is also simmering in the background.

The dry conditions will affect fertiliser demand and weigh on Incitec Pivot, and will also hurt crop protection group Nufarm's earnings. CIMB's Andrew Scott thinks Nufarm will rebound and that the stock is worth \$5.91, compared with the \$4.40 to \$4.60 range it has been trading in recently.

After years of near collapse at Elders, some analysts are starting to turn positive on the rural services company, which has dramatically cut its debt levels.

Perennial underperformer [Australian Agricultural Company](#) has just completed its \$90 million Darwin abattoir, and after years of losses and no dividends, investors will be watching to see if the abattoir actually boosts returns in 2015.

Tim Binsted

CO becoop : Bega Cheese Ltd | mryglb : Murray Goulburn Co-operative Company Limited

IN i4131 : Non-frozen Dairy Products | i010010502 : Dairy Cattle Farming | i0 : Agriculture | i01001 : Farming | i0100105 : Cattle Farming | i41 : Food/Beverages/Tobacco | i413 : Dairy Products | icnp : Consumer Goods | ifood : Food Products | ilsfarm : Livestock Farming

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