

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



23 August 2011

## Bega lists on a tough day for shares

*Bega shares fall on debut, with a million shares traded in the market.*

the timing of the listing of Bega Cheese shares was unlucky as local share markets generally reacted on fear rather than fundamentals to the jitters to the risks of deepening credit and recessionary pressures in the US and Europe. The shares, issued at \$2, opened at \$1.90 before closing at \$1.84 last Friday, and then falling further to \$1.76 on the 2<sup>nd</sup> day of trading. More than 1 million shares were traded on the opening day. Bega adviser and managing director of investment bank Kidder Williams, David Williams, said he was "reasonably pleased" with the listing considering that the market fell more than 3 per cent.

## ADF gets a new president

*Dairy farmer with extensive experience to step into Wes Judd's shoes.*

Gippsland dairy farmer Chris Griffin has been elected as the president of the Australian Dairy Farmers. Mr Griffin has over 34 years of experience in dairy farming and a strong history of industry involvement. He has been an ADF Board member for over six years and President of the United Dairyfarmers of Victoria since 2009. His deputies will be Noel Campbell of Victoria and formerly the Bonlac Supply Co Chair, and Peter Evans from WA.

## Bright takes control of Manassen Foods

*Bright Food buys 75% of Manassen to tap into the global food market.*

Chinese food group Bright Food has purchased a 75% stake in the Australian branded food business Manassen Foods, in a \$400 million deal that is expected to give Manassen an estimated enterprise value of \$530 million. The remaining 25% of Manassen will be owned by its current shareholders, including Roy Manassen, whose father started the business in 1952. Funds advised by Champ Private Equity and members of Manassen's management team will also remain shareholders.

Manassen Foods is majority-owned by Champ Private Equity and manages a number of specialist dairy brands, including imported cheeses such as Fromageries Bel and Castello Cheese and domestic brands such as Lemnos Foods. It is also the parent company of 70 food brands such as Sunbeam, Trident, Angus Park, Golden Days, Simon Johnson, Ryvita, and S and W.

## Coles results: no let-up in pressure is likely

*Coles delivers solid results for parent Wesfarmers.*

Wesfarmers released full year results for the 2011 financial year which showed a 23% lift in EBIT for the food and liquor division of its Coles subsidiary, adding \$200 million to that line for a \$1.066bn full year result. The growth in store revenue due to increased customer traffic and basket-sizes more than offset the margin given up in the deep-discount campaign waged in the 2<sup>nd</sup> half of the financial year. Revenue was up 6.3% for the full year, and the EBIT margin lifted 0.5% to 4.2%. Coles has valued the savings through its discount campaign at \$800 million, but savings in supply chain costs and the margins on additional sales revenue have more than compensated for the cost impact of lower prices.

Chairman Richard Goyder promised more of the same saying that there was still plenty to do at the unit to reach acceptable levels of return on capital. Coles employs 53% of Wesfarmers capital yet only contributes 35% of group EBIT, returning just 7.8% when the overall group averaged 11.8%.

Woolworths' full-year profit announcement will be made this Thursday. The comparisons will be interesting.



## Headlines

- ADF chooses its new president
- Bright takes control of Manassen Foods
- Coles results: price pressure to stay
- Dairy product prices dip in GDT
- Heat slowed US milk output in July

Indicators	
Dairy export index	Recovering dollar curbs index
World dairy prices	WMP falls, others steady
US cull cow prices	Prices decrease as demand for imports falls
Grain futures	Sharp rise in wheat futures; local grains fall

## Woolworths recruits Tesco's retail chief

*Woolworths new recruit – a strategic move to outplay a resurgent Coles.*

It seems the flood of UK retail management will continue. Regime-change continues at Woolworths with the appointment of the current CEO of Tesco Malaysia - Tjeerd Jegen - as its new Director of Australian Supermarkets and Petrol, to succeed present divisional boss Greg Foran. Aged 40, Jegen has held store operations, commercial, marketing and general management roles with three leading international retailers in seven countries.

He was Chief Operating Officer for Tesco Thailand before his appointment as CEO in Malaysia, in early 2010. Jegen is expected to start his new role at Woolworths, following a release from his current contractual arrangements by the end of this year.

## Choice reignites Traffic Light debate

*Colour-coded labelling debate flares up, as study shows surprising results.*

CHOICE has renewed its call for mandatory traffic light labelling for packaged goods, after it tested 159 mueslis and found one brand to contain twice the amount of fat of a McDonald's Double Quarter Pounder. This system features red, green, or amber symbols on the label for each of the main nutrients in the products.

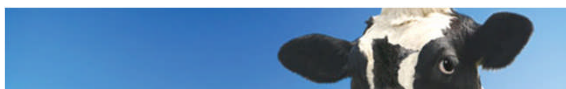
However, the Australian food industry – led by the AFGC – firmly rejects traffic light labelling as it risks being misunderstood by consumers and has been rejected by many countries, including the EU. Instead, the food industry favours an alternative labelling system - Daily Intake Guide (DIG) - which quotes a daily intake percentage for every nutrient in a thumbnail format on the front and at present appear on more than 4,000 supermarket products in Australia.

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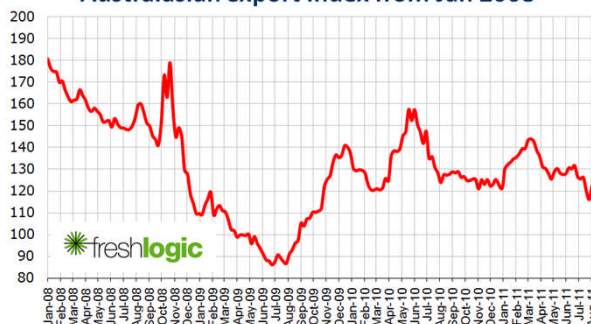
## Index of export returns

*Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.*

**Prices hold.** The only movement seen this week was in WMP prices which fell by US\$75/t, while others stayed firm. The \$A closed the week slightly stronger against the US dollar at **\$US1.0398**, which helped prune the index of spot returns by a point to **121.1**.

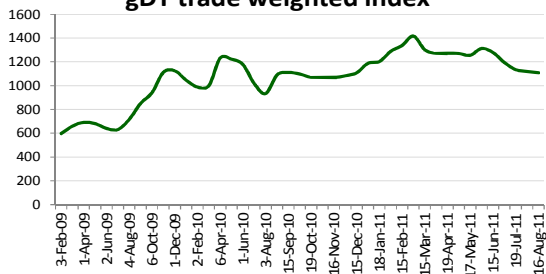
**Prices dipped 0.9% in GDT auction.** Average dairy product prices posted their smallest decline in five consecutive sales at the latest online auction. The latest *globalDairyTrade* weighted index fell 0.9%, compared to the previous auction held a fortnight ago on August 2. The biggest movement was recorded in WMP, which led the decline at an average of \$3,385/t, down 2.2% compared to the previous auction. It was followed by SMP which dropped by 0.8% to \$3,438/t, AMF by 0.3% to \$4,273/t, and rennet casein by 0.3% to \$9,473/t. In contrast, milk protein concentrate rose 5.9% to \$5,965/t and BMP by 3% to \$3,420/t.

Australasian export index from Jan 2008



**Take note:** The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

gDT trade weighted index



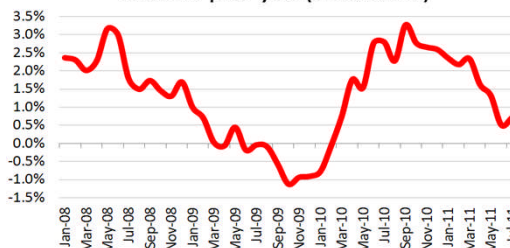
## Hot weather slows US milk output in July

*Milk flows sluggish in July, as hot conditions curb per cow yield.*

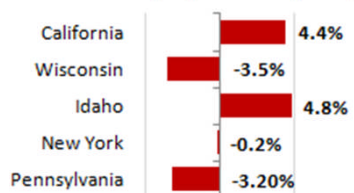
According to the USDA figures, US milk production during July 2011 totalled 7.51 billion litres, a gain of 0.7% on the corresponding month in 2010. The number of dairy cows in July rose 0.9% to 9.215 million cows compared to July 2010. Per cow yield has suffered at present due to the hot and humid conditions across the US.

Growth in the month in the five largest states shows a mixed bag, with only two of the five exceeding the national rate of expansion. The hot weather is a double-whammy for milk producers as it is also affecting corn and soybean crops, pushing up prices in trading.

US milk production % change on same month of prior year (since Jan 08)



Where US growth is occurring - The largest 5 states (July 2010 v July 2011)



## Fonterra restructures organic operations

*Fonterra chalks recovery plan as growth stalls in the organics sector.*

Fonterra has announced that it would be restructuring its organics operations, as growth in this market has significantly slowed since the global financial crisis. As part of the process, it would be meeting with its organic farmers to discuss a four-point plan, which aims to provide the best returns to the company. Some key points of the plan include: Concentrating Fonterra's North Island organic suppliers around one key certified organic processing site; reducing processing amounts at other sites; prioritising the organic product range to focus on cheese; and focusing on emerging Asian and Australasian organics markets.

## Real winners in NZ dairy farm purchases

*Germans - not Chinese - have largest slices of NZ dairy farms.*

The latest Overseas Investment Office data shows that Germany is the single largest foreign buyer of NZ dairy land sold, accounting for 5,760ha, which is over half of the total foreign dairy farm sales. The Aquila group – by working with Fielding-based MyFarm Investment Company – has acquired a total of 3,547ha, with the rest now largely owned by DAH Beteiligungs. Other foreign entities that purchased NZ dairy land include Dutch firms (650ha) and Irish interests (450ha). Despite the intense national debate over the Chinese ownership of the NZ dairy land in the past year, Chinese and Hong Kong buyers have acquired only 533ha of land over the past six years.

## NZ Milk collections hit by big snowfalls

*Farmers forced to dump milk as tankers kept off roads.*

Milk collections have returned to normalcy in NZ, after snow blocked roads, disrupting transport services earlier last week. Fonterra stated that milk was collected from 98% of its farms later in the week, with the exception of only a few in the Otago region who could not be reached. An estimated 9.5 million litres of milk was dumped by farmers earlier in the week, as Fonterra's tankers were unable to collect milk from more than 1,700 of its 10,500 farmer suppliers because of snow-blocked roads.

## USDA lowers milk output forecast

*High feed costs and hot weather trim 2011 total output projection.*

The USDA has trimmed its 2011 milk production estimate, due to higher feed costs and hot, humid weather which are expected to constrain per cow output. Total 2011 milk output projection has been revised to 86.15 million litres, down 44 million litres from a month ago. While this forecast has been reduced, it still represents an increase of 1.5% from 2010. The USDA has left its 2012 milk production and marketing projections unchanged, at 87.56 million litres and 87.13 million litres, respectively.

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