

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



23 February 2010

Warrnambool rejects 2nd MG offer

Murray Goulburn offered WCB \$4.35 a share but got another knockback

Warrnambool Cheese & Butter said a higher bid of \$4.35 a share made during the week by Murray Goulburn does not provide enough value for its shareholders, and has resolved not to take the offer into a due diligence phase nor put it to the WCB shareholders. WCB's statement to the ASX said the revised proposal continues to be unsolicited, non binding and indicative in nature and subject to a number of conditions including due diligence, ACCC approval, majority WCB board approval and removal of WCB's shareholder cap, which isn't scheduled until May 2011.

WCB directors continued to defend their stance claiming the latest MG bid does not reflect the company's medium and long term prospects. Murray Goulburn Co-operative managing director Stephen O'Rourke says he is "disappointed" Warrnambool Cheese and Butter has rejected its higher bid valuing the Victorian dairy company at about \$173 million.

WCB's profits improve

After a horror year in 2008/09, Warrnambool has posted a return to profitability in its half-year results

WCB reported a jump in half-year profits on the back of rising commodity prices. WCB said the figures for the six months to the end of December were a "significant improvement" on the year before. EBIT jumped from \$4.6m in the six months of fiscal 2008/09 to \$14.7m in the current financial year. WCB made a net profit of \$8.9m, against just \$1.4m a year earlier.

David Lord to take over at WCB

David Lord, a 14-year veteran of Parmalat, of which 7 were as CEO at the Brisbane head office - is to trade the Queensland weather for the Cool climates of the Victorian coast and will take over as CEO of WCB in June this year.

Reeves not happy with NatFoods results

Plenty of work to do to achieve potential

The CEO of National Foods has admitted the Australian dairy group is still "some distance" off generating "acceptable" returns as the company integrates local firm Dairy Farmers. Andrew Reeves said the coming together of the two companies during 2009 had created a "leading branded dairy and juice business" - and he insisted the combined group was "well-positioned" to invest in its business. Reeves said National Foods' 2009 results were a "significant improvement" on 2008 but insisted that more needed to be done to improve returns.

Coles continues turnaround

The first half sales and profits from Coles show it has stopped the rot in the battle against its major rival

Wesfarmers reported half-year earnings showing a continuing improved performance from its subsidiary Coles Supermarkets. Food and liquor revenues rose 7.5%, while underlying or comparable store sales were 6% ahead in the half, well up from 2.6% at the same time in 2008.

EBIT for the supermarket group was up 12.8%. EBIT margin crept ahead to 3.6% compared with 3.4% in the same half of 2008, after management invested capital in refurbishments, discounting and promotions to win over customers from rival Woolworths and independents. The underlying sales growth for Coles has been booked at a faster rate than major rival Woolworths, as Coles claws back some ground but also continues to come off a low base it established in the 2nd half of 2008.

Headlines

- Warrnambool says no again
- WCB was profitable in first half
- Coles well on the way back
- US production turns the corner
- Chinese scandal will blow-over: Rabo

Indicators

Dairy export index	Down 1 points this week
World dairy prices	Further declines in butter and SMP of US\$50 per tonne
Grain futures	Prices steady despite a changing crop outlook
US prices for Australian cull cows	Sharp improvement is sustained due to US shortages

Domino's boosts sales and earnings

The results from one of the largest pizza players show how the consuming public have helped keep up the demand for cheese.

Domino's Pizza reported a 39% increase in net profit for the six months to January 3 to \$8.74 million, with same-store sales across the group rising 2.9%, while same-store sales in Australia and New Zealand rose 4.6%. CEO Don Meij said Domino's iPhone application achieved more than \$2m in sales and 200,000 downloads in its first 12 weeks, while online ordering accounted for 28 per cent of sales in Australia during the half.

Meij said the company planned to open more than 50 stores in fiscal 2010, up from previous guidance of between 40 and 50 new stores. Domino's currently has 813 stores, with 518 in Australia and New Zealand and 295 across France, Belgium and The Netherlands.

Fertiliser prices on the move

Global pressures start to push prices back upwards after the crash following the GFC

With the global financial crisis now settling into a gradual recovery in trade and in economic prospects, international fertiliser demand and price pressures are returning. As the GFC took effect, prices sank to levels which were below cost as fears of weaker demand for user industries caused uncertainty and forced suppliers to discount to clear stocks. Pipelines are now pretty much cleared and demand is quickly catching up with supply in major lines such as DAP, and urea. In the past two months, international DAP and urea prices have risen significantly, with DAP rising as much as 45 per cent.

Nitrogen prices have moved higher on increasing demand and rising natural gas prices, while increases in phosphate prices was caused by growing demand and the rising cost of raw materials ammonia and sulphur.

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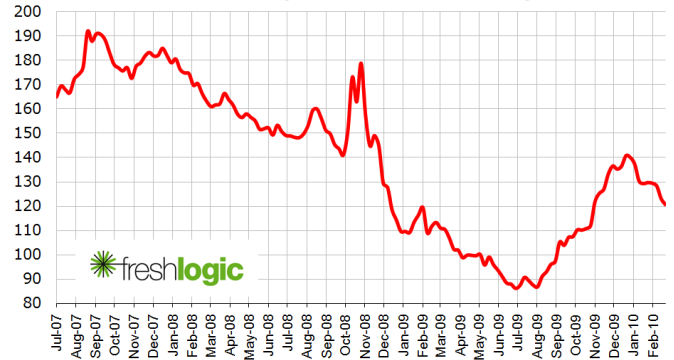
Index down further

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.

There was a further softening of spot prices for butter and SMP this week, with SMP on a slide now for the past 10 weeks. Both products are suffering from too much product in stockpiles in the EU, and in the case of milk powder, in the US (to a lesser extent).

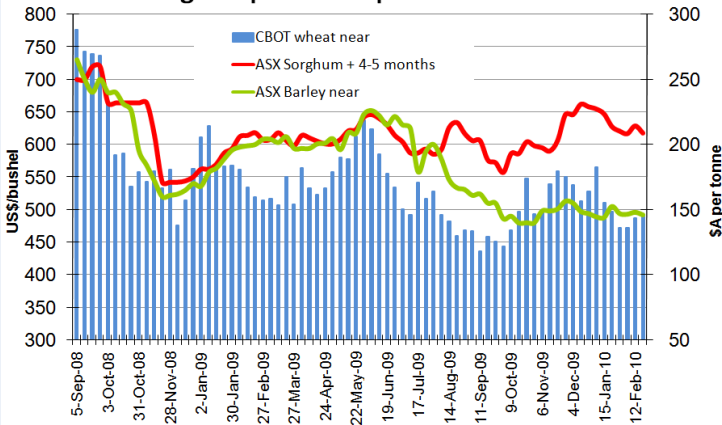
The \$A finished up 1c at **US\$89.96c**, weakening the index to **120.5**.

Australasian export index from July 2007



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.

Feed grain prices - Sept 08 to Feb 10



US milk production starts to turn the corner as herd grows

Despite a lot of complaint about milk prices in 2009, US producers barely cut into overall milk production. With prices now stronger, the herd is growing again

The US milk cow herd at the end of January rose to 9.085 million head from 9.082 million at the end of December, the according to the USDA, but January's milk cow herd was still down 2.4 percent from a year ago. The USDA also said nationwide milk production declined 0.6 percent in January compared with the same month in 2009. Production per cow continues to climb, with cows in the 23 major dairy states averaging 1,782 pounds for January, up 1.7 percent on January 2009. For the full 2009 year, USDA confirmed that US milk production totalled 85.9 billion litres, just 0.3 percent below 2008.

Uruguayan operation sees a light at the end of the tunnel

The large NZ-owned dairy farmer has improved but remains in losses

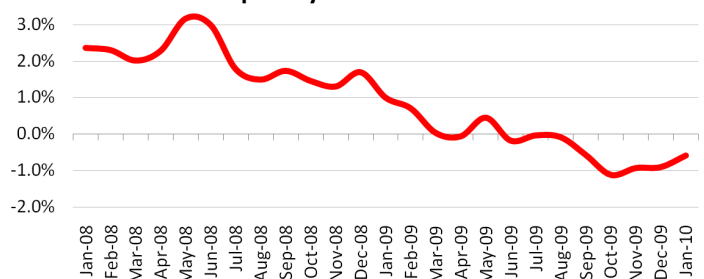
NZFSU last week reported a US\$7m half-year loss in the period to December 2009. It says its forecast loss of a maximum US\$10m earnings before interest and tax for the full year was unchanged. A year ago the company announced a US\$8.9m half-year loss in the period to December 2008. Chief financial officer Andrew Clark said NZFSU was working on capital-raising options including a second bond of similar size to the first US\$30m bond issue in Uruguay last year. Other options included the sale and leaseback of some developed farms in Uruguay which run 54,300 livestock and a milking herd of 19,600, and other forms of funding including the sale of land. By December, the company had 11,100 hectares of its 33,500ha of land in production, with 1240ha under irrigation with a further 700 hectares awaiting final connections as part of its plan to get 50 per cent of the dairy land irrigated as fast as it could.

US Government suggests farmers get their act together if they want change

US dairy farmers have been told what it will take for change

US Agriculture Secretary Tom Vilsack has gently told the dairy farming sector of the US industry to get its act together if it wants the government to come up with revised dairy policies that avoid the boom-bust cycles. Vilsack intimated that the nation's farmers need to come together and reach compromises leading to a package of reforms that can be presented to Washington as the wishes of a unified dairy industry. His government will not come up with change unless farmers develop a consensus plan and support its adoption by lawmakers. Vilsack said he would support "supply management" – an issue which has already divided the industry - to inject more stability in milk pricing if producers from different regions were able to achieve consensus on such an approach.

US milk production % change on same month of prior year since Jan 2008



New trouble will "blow over"

Rabobank reckons the latest outbreak of the melamine scandal amounts to little

Brady Sidwell, one of Rabobank's leading experts on China, has written in an update on the Chinese market by the bank, describing the recent discovery of tainted milk in Ningxia, northern China, as "a one-off", a temporary setback in the recovery of the domestic dairy industry. Sidwell said the recent scare had been triggered by some "pre-crisis powder" getting back onto the market, via some smaller traders. The bank expects the Chinese dairy industry, which is already worth US\$20 billion, to reach \$30bn in the next five years.

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