

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



2 March 2010

MG takes 5%, will bid higher for WCB

Murray Goulburn has bought some shares in the market and will take its argument to the WCB shareholders

Murray Goulburn says it will make another bid for Warrnambool Cheese, and late in last week announced it has built a 5% stake in its target. MG said it received an approach from a shareholder seeking to sell its WCB stock. MGC bought further stock on market. "This demonstrates that, despite the WCB Board's assertions, a number of WCB shareholders support our views", Murray Goulburn Managing Director, Mr Stephen O'Rourke said.

The opposition to the Murray Goulburn approach is said to be coming from dairy farmers who supply milk to Warrnambool and currently control between 30 per cent and 40 per cent of the Warrnambool register.

Warrnambool's constitution restricts shareholdings in the company to a maximum of 10 per cent but this will rise to 15 per cent in May this year, and will have no limits from May 2011. The limit needs to be removed by shareholders early to allow a takeover to occur now. The WCB board's argument is that the vote cannot succeed.

Bega is top brand in dairy

Based on consumer support, the cheese brand comes out 3rd of brands in the Australian market

Retail analysts AC Nielsen have named Bega as the 3rd placed brand in their 2009 Top Brands report, coming in after Cadbury and Coca-Cola in the recently released assessment, based on household penetration, average spend and attitude or affinity towards the brand. Dairy brands were well represented in the top 25 of the rankings – Mainland came in at Number 7, Bulla at 11th, Dairy Farmers 21st, Coon 22nd and Pura 25th.

Woolies profitability puts Coles in the shade

The first half results from the largest retailer show flagging sales growth but stronger margins, giving it greater muscle in the discount wars

Australia's largest food retailer reported a slight slowing in sales growth through its food & liquor business in the first half of the year, and for once fell behind its major rival Coles on a few indicators, including same store sales – especially when you adjust for retailer price inflation. Woolworths business remained strongly more profitable than its rival, with an EBIT margin twice that of Coles, which only grew its margin 0.2% in the first half, which was behind the improvement in the Woolworths margin gain of 0.4%). The two retailers also provide their shareholders with a vastly different model for return on invested capital.

Woolworths management revealed it expected to increase the company's investment in pricing, which will be funded by "margin expansion".

A2 is still deep in red

A2 is still in losses, after a marginal improvement in performance

A2 Corporation made an unaudited post-tax loss of \$717,172 in the six months to December 31 from a loss of \$1.99 million in the corresponding period last year. The NZAX-listed company said its operational loss of \$566,476 was better than the \$691,000 loss expected in the company's budget and the \$1.89 million loss in the corresponding period last year. A2 is repositioning itself as a fast-moving consumer goods business rather than as an intellectual property company. A joint venture, A2 Dairy Products Australia Pty continues to grow fresh milk sales in line with expectations.

Headlines

- MG builds a small stake
- Woolworths margins get bigger
- Milk sales dipped in January
- US exports sharply lower in 2009
- Fonterra will hold profit gains

Indicators	
Dairy export index	Down slightly this week
World dairy prices	Further declines in butter and cheddar of US\$50 per tonne
Grain futures	Prices weaker for local grains, US wheat slightly higher
US prices for Australian cull cows	Prices continue to improve

Quotes from Australian Dairy Conference

The conference held in Wollongong last week was a chance to get an update on production know-how and the state of the world around dairy, in a format that was highly relevant and accessible to dairy farmers. Here are some notable quotes from some of the speakers ...

- Every one of what people call "value-add" becomes tomorrow's commodity - **Michael Magan, ex-Chair of Lakeland Co-op (Ireland)**
- China's destiny in food is not about dominating the world but simply feeding its people - (**James) So Hua, large dairy builder, China**
- It's not whether China imports, it will be what it imports that will matter – cattle, feed or dairy products – **Tim Hunt, FAR Group of Rabobank**
- Those who survive in the future world market will be those with the cheapest water - **Michael Magan**
- There is a myth that increased competition will mean better milk prices - **Michael Magan**
- You don't need to be a good inventor, just a good copier of ideas – **Neville Kydd, dairy farmer**

Milk sales dipped in January

Milk sales growth has slowed in the 2009/10 year after a poor post-Xmas period

Australian milk sales slowed in January 2010 to be a fraction higher than the same month in 2009, pegging year to date sales growth to 2.1%. NSW and Queensland posted the worst performances, both states recording falls in sales from the comparative of 3.4% and 1.3% respectively, again not helping the surplus milk supply situation in the combined region. The biggest category (full cream milk) took the greatest sales hit, as more business migrated back to reduced fat products.

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Index slightly weaker

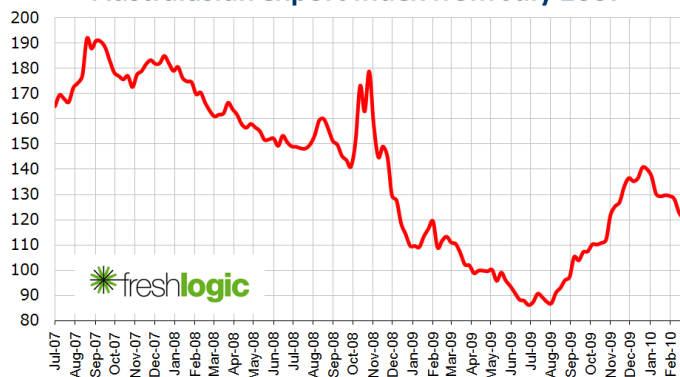
Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.

There was a further softening of spot prices for butter and cheddar – each by US\$50/tonne this week – which SMP stayed flat for the first time in 11 weeks. The \$A was slightly lower this week at **US\$89.48c**, as weakness in the US economy caused concern for the pace of global economic recovery. But Australia's own data lifted hopes that interest rates might rise again, keeping the \$A firm. The net effect of product prices and the small movement in the \$A weakened the index slightly to **120.2**.

Better market for culls

Tightness in the US meat supply market has caused a strong rise in the value of export dairy cows to the US manufacturing meat market in the past few weeks, pushing the \$A prices up to their best levels in the past year.

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.

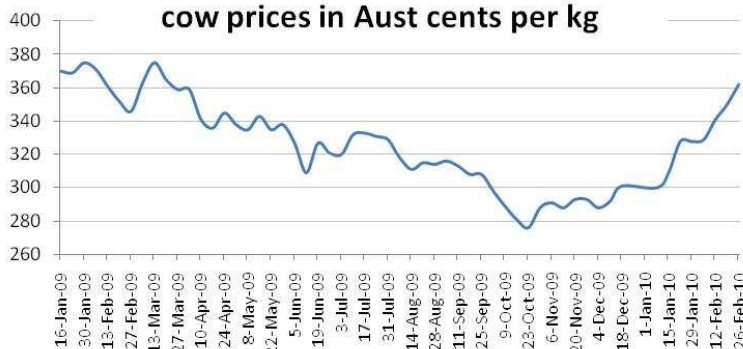
US exports fell 16% last year

The US export council reports on last years full year of export performance of the US industry, and has a shot at the industry's preoccupation with domestic protection...

US dairy exports sales dropped 39 percent, to be valued at US\$2.32 billion, much of which was reflected lower world prices, according to the USDEC, with commodity prices were 30-40 percent lower in 2009 than 2008. Overall export volume was 16 percent lower than the prior year, at 2.18 billion lbs. of milk solids. Export volume represented 9.3 percent of U.S. milk production in 2009, according to the data, down from 11.0 percent in 2008 and 9.8 percent in 2007.

USDEC's Margaret Speich gave the industry a serve in commenting on the results. "The biggest concern going forward is that the United States could continue to struggle to become a consistent exporter because we're still generally guided by a production-oriented mindset, rather than a global-customer-centric one," Speich said. "Unless the United States deals with the fundamental problems that make it the residual supplier to the world, we will remain the last-in/first-out player in base commodities, which accelerates volatility."

Recovery in prices starts 2010 - US 90CL cow prices in Aust cents per kg



Fonterra will hold onto profit gains

The NZ co-op is evolving changes in structure and philosophy, increasing its retention of profits as the 200/10 year improves

Fonterra boosted its distributed profit forecast to up to 50c a share last week, but says the extra cash will be retained. The distributable profit forecast range for this current financial year is now 40-50c a share, up from 35-45c a share. However, there is no change to the target dividend range of 20-30c a share and 10-30c a share will be retained by the company. Fonterra chief executive Andrew Ferrier said the increase in the distributable profit range was driven primarily by gains arising from divestments, improved joint venture returns and lower funding costs through improved working capital.

Russians look to protect by investment

The Russian Government is sick of depending on its neighbours for dairy imports.

Russia is to back the dairy and meat industries with more than 220 financing projects this year, at a cost of just under almost 165 billion roubles (or €4bn), the government has announced. The aim of the investment program is to boost domestic production at the expense of exports, and the agriculture ministry in the country predicts a 32% increase in milk production by 2012 while imports are forecast to decline by around 16%. The Russian government has said it would also back domestic milk, butter and hard cheese production with targeted intervention and customs measures.

Walmart will drive change into retailer green policies



The world's biggest retailer locks into a greening of its supply chain – if Government's can't get change into the system, then it will do it anyway

Walmart announced that the company plans to eliminate 20 million metric tons of greenhouse gas emissions across the lifecycle of the products the company sells by 2015. According to its CEO, this is equivalent to removing 3.8 million vehicles from the roads each year. The 20 million metric tons represents approximately 1.5 times the expected carbon growth of the company during the same time period.

It will be working with its more than 100,000 suppliers to reduce the company's carbon footprint starting at the sourcing of raw materials and ending with the way in which Walmart customers use and dispose of the products purchased at stores worldwide. The company plans to achieve that goal by focusing on popular product categories with the "highest embedded carbon" – milk, bread, meat, clothing – and by pressing its suppliers to rethink how they source, manufacture, package and transport those goods.

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