

Executive summary

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 - It doesn't appear that de leveraging is occurring
 - But debt servicing easier with interest rate falls
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Value of the Industry

Industry value is broadly correlated to NZ milk price

2008

Value peaked at \$73b

Payout at \$7.66/kg ms

Industry EBIT at \$6b

Farm value per ha at \$35,000

2009

industry EBIT crunched to \$2.5b
(with interest costs above \$3b)

2010 - 12

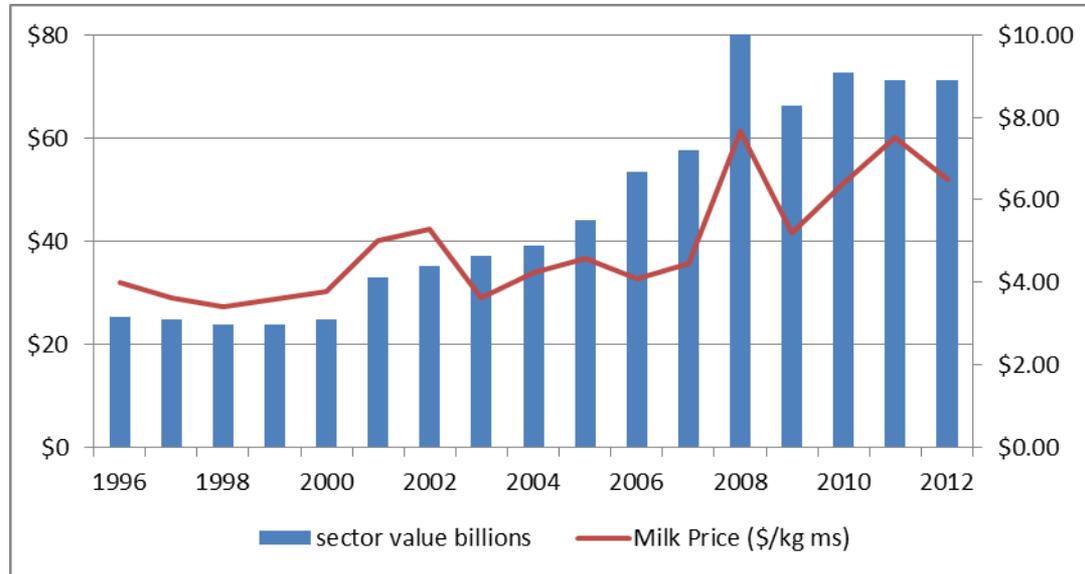
Value down 15% to \$62b

Then settling down at \$65ish (even though more land, more cows and more milk)

Industry EBIT up to \$4 b

Interest costs down as farmers get to lower floating rates

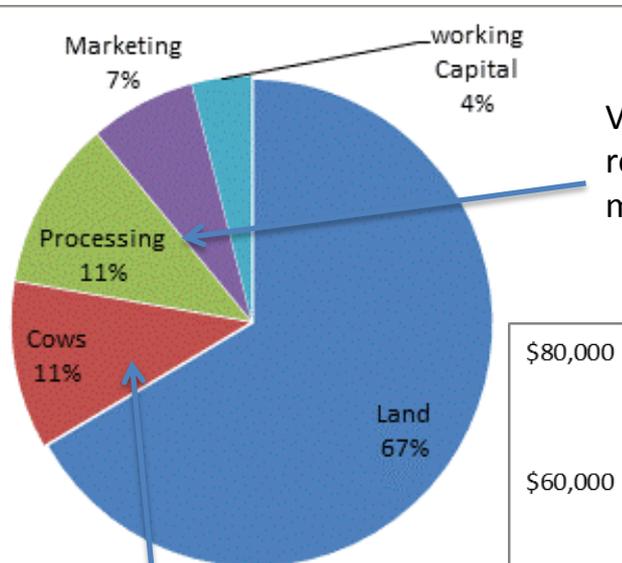
Farm value per ha at \$25 - 30,000



*About the same value as
NZ's listed equity market*

What assets make up the industry?

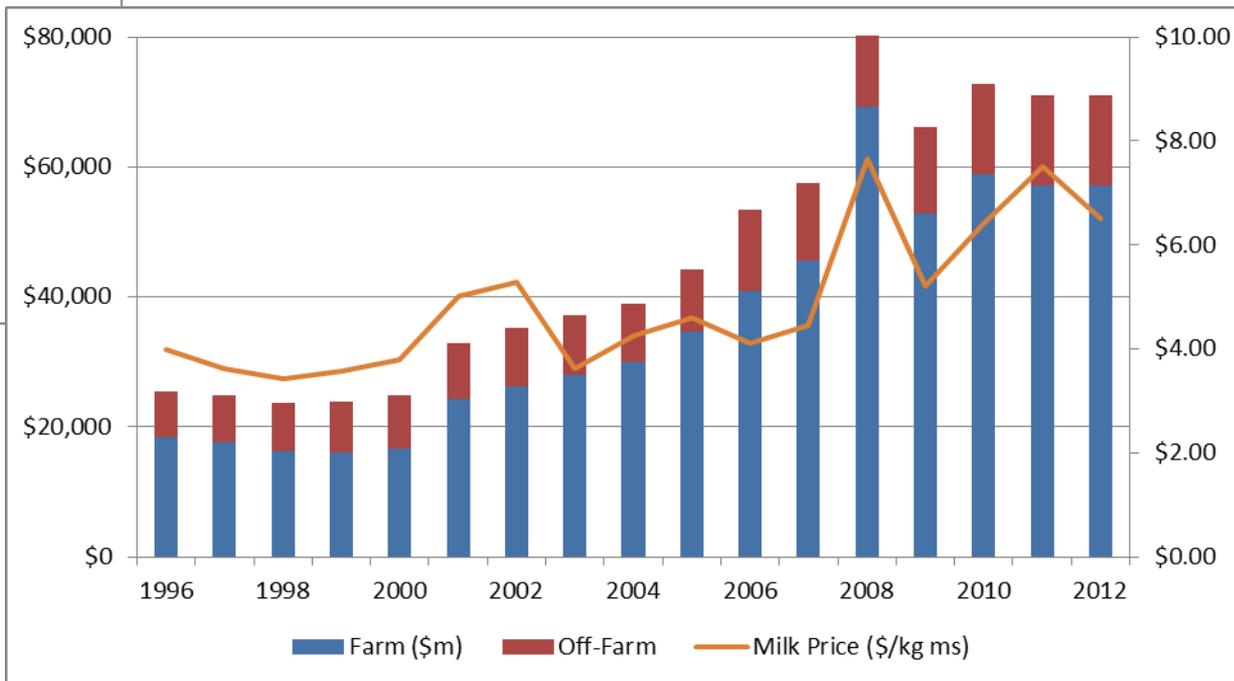
Off-farm assets 20% (est) or \$13b of industry value and growing in size in line with milk growth.



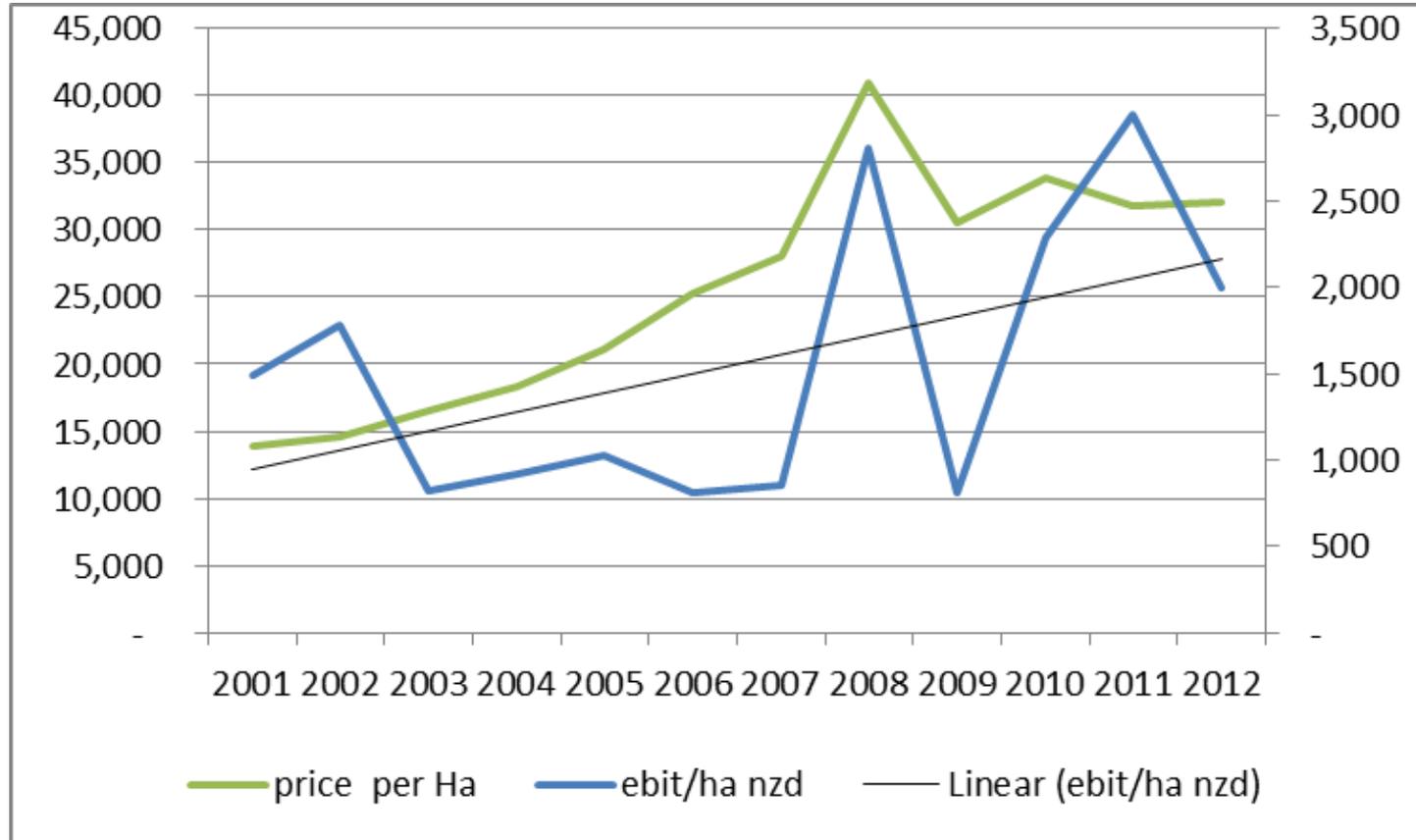
Very high 2011 milk prices have reduced profit for processors and marketers restricted value

Milk price coming off but milk volumes very good in 2012

Cow prices much better correlated to milk price and profits than land prices....cow prices now 50% higher than 2009!



Earnings crunched in 2009, then very high pre interest returns in 2011, coming back down 2012, and



.....Current spot and forward NZ milk price forecasts lower 2013 returns

“Milk prices have been fuelled by many of the same trends that have sparked a boom in grain demand and meat production: expanding middle classes in developing nations, particularly China, that are seeking better diets higher in protein”

Wall Street Journal
18/2/12



But USD commodity price gains negated by greater fall in USD versus NZD....

Supply increases suggest a headwind into 2013

Record dairy profits and milder weather are leading to a surge in milk supplies from Auckland to California, turning last year's best-performing commodity contract into one of the worst of 2012.

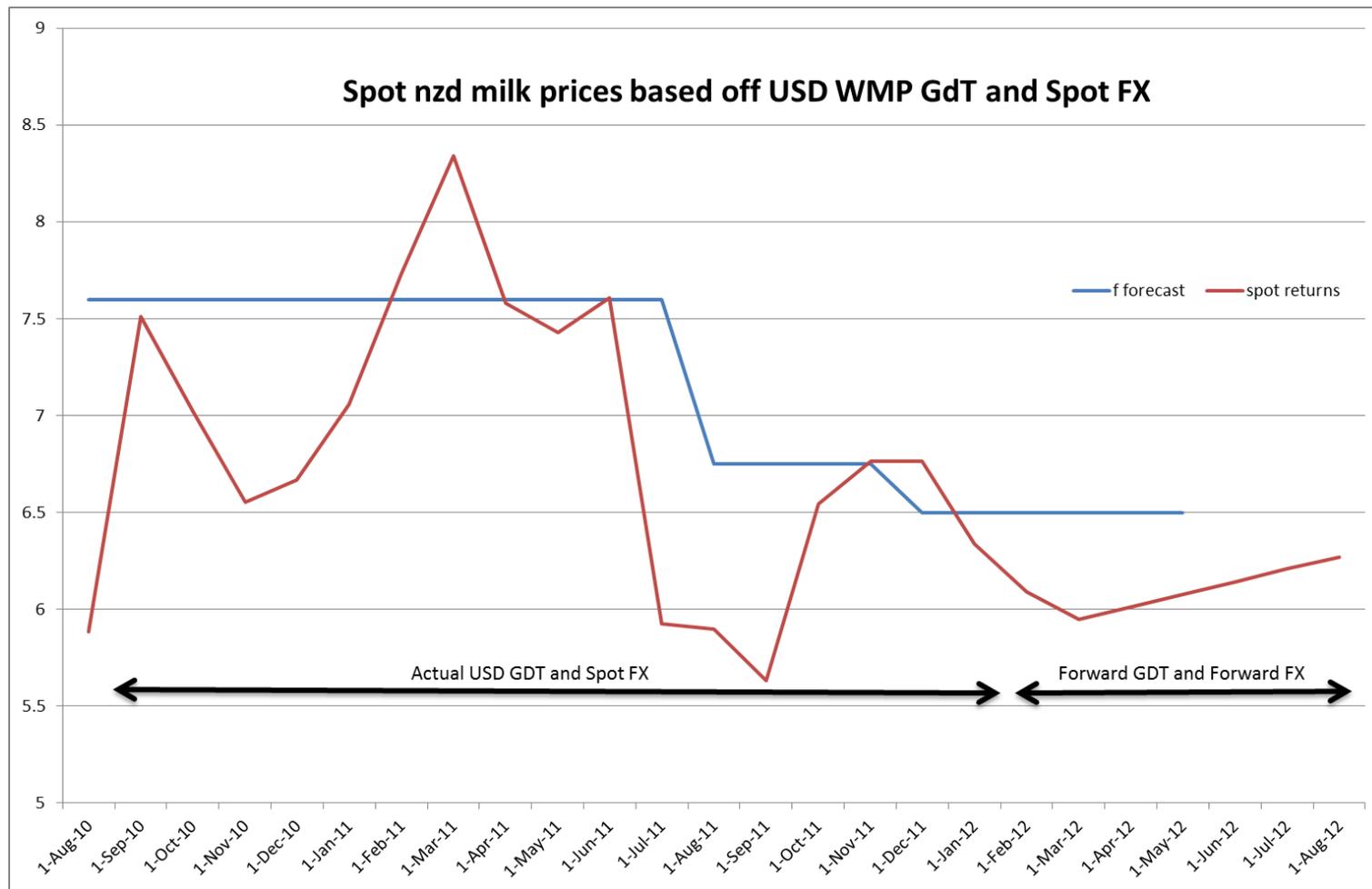
Milk futures that jumped 31 percent last year, more than any of the 24 commodities in the Standard & Poor's GSCI Spot Index, dropped 10 percent since Dec. 30 to close at \$15.49 at 1:10 p.m. in [Chicago](#). Only natural gas and arabica coffee fell more.

• <http://www.bloomberg.com/news/2012-03-12/milk-price-souring-as-record-profit-spurs-expansion-of-herds-commodities.html>

.....already fell 29 percent from a four-year high in August and may drop another 8 percent to \$14.25 per 100 pounds by July, the median of six analyst estimates compiled by Bloomberg shows.



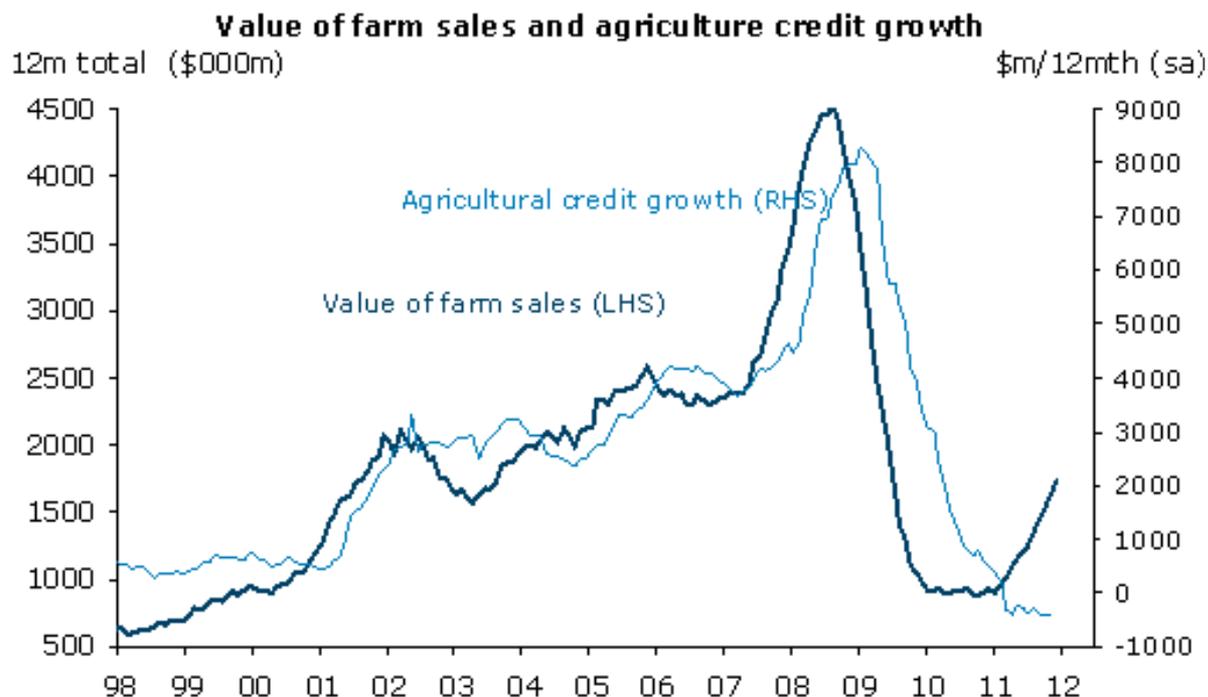
AndCurrent spot milk price down to \$6.....(when we refer to milk price we mean the farmgate milk price not the fully shared Fonterra return)



However profitability of farms is resulting in a recovery of the number of sales of farms....but

FARM SALES DO A SKI JUMP

Farm sales plunged following the tightening in credit and fall in commodity prices accompanying the 2008 Global Financial Crisis. But it now appears they have successfully navigated the trough and are rising strongly as low interest rates and still-high commodity prices work their magic. It's not a good look for proponents of rural deleveraging. But it's off low levels, and doesn't at this stage look likely to kick-start a spending boom throughout the provinces or a big pick-up in agricultural borrowing, given the global situation and reduced appetites to lend. Time will tell.

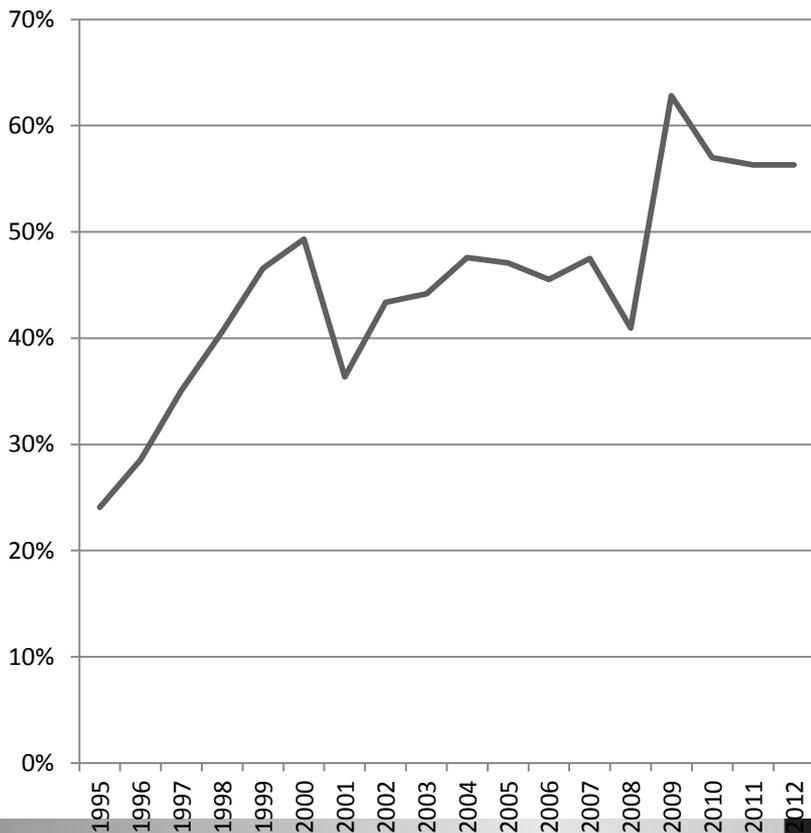


Sources: ANZ, National Bank, REINZ, RBNZ

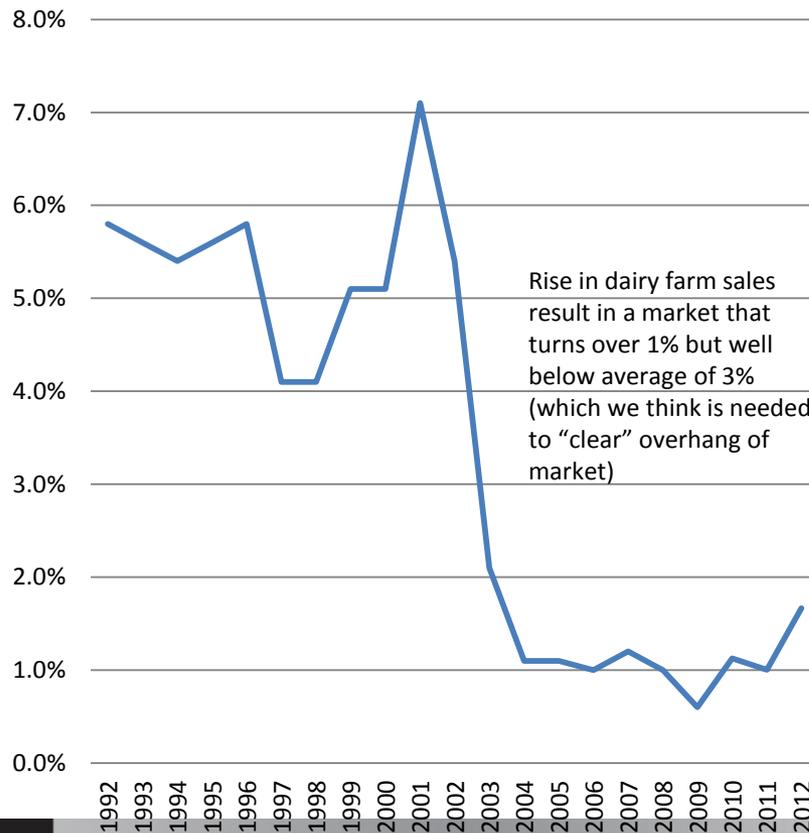
.....De leveraging still to play out ?

Still a overhang of farm sales and still banks needing to reduce their lending.

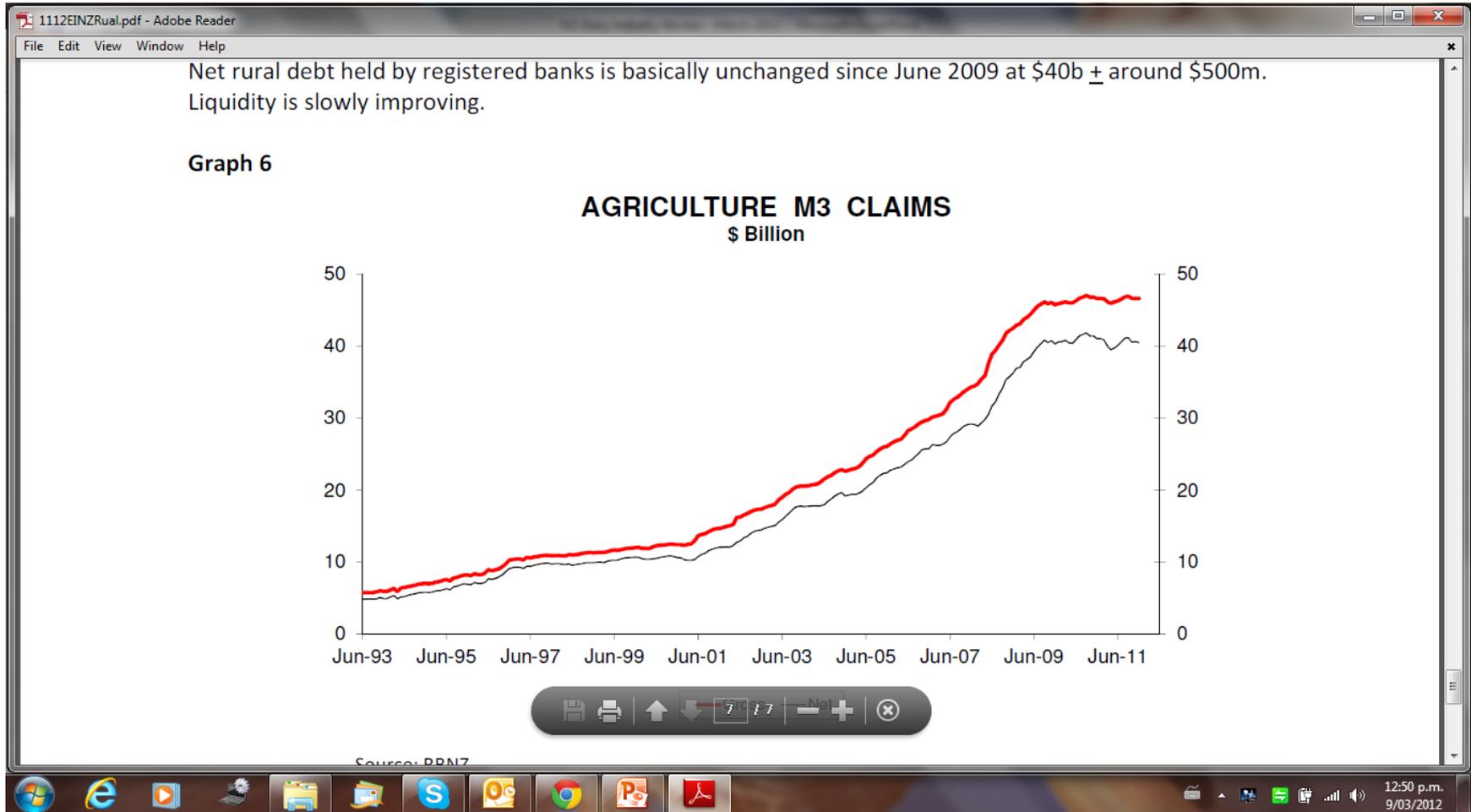
Loan to Value Ratio



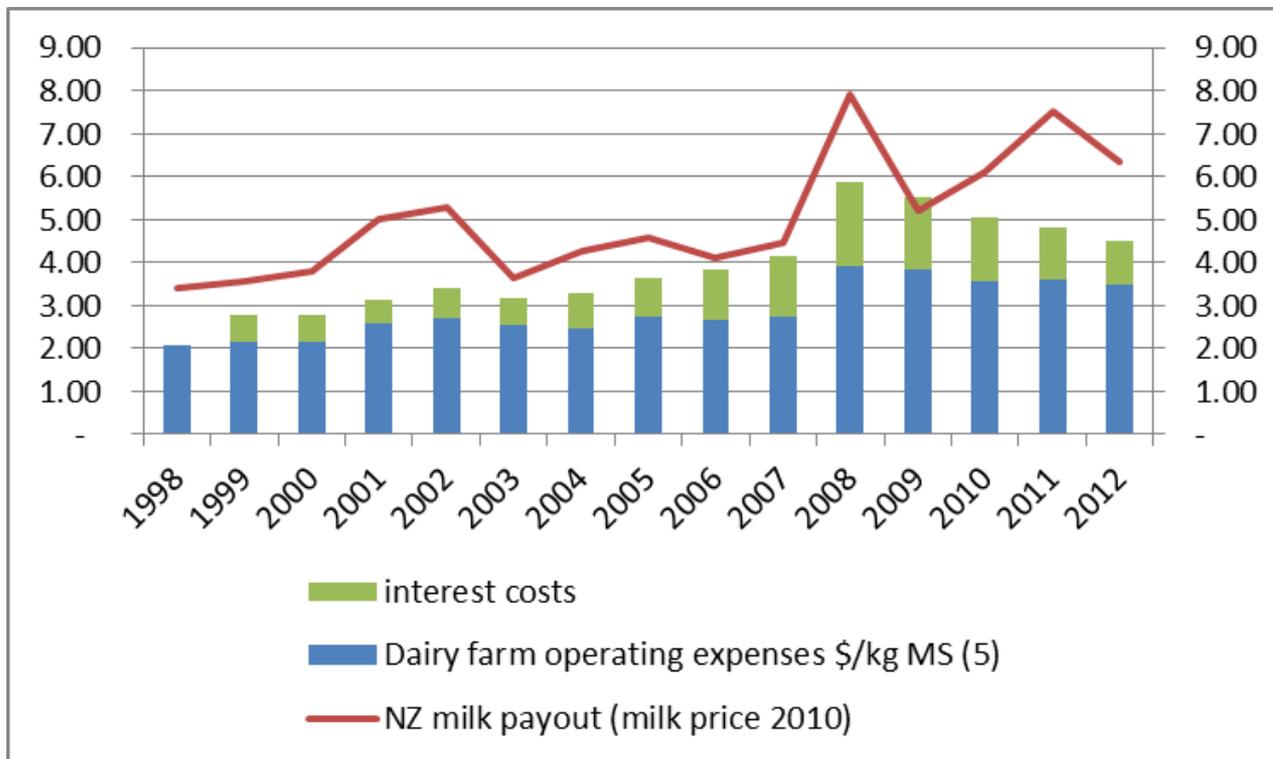
annual dairy farm sales



RBNZ and others seem to comment that deleveraging is occurring but doesn't seem to be supported by the reported numbers ? Deleveraging not really occurring YET?



But cost of debt certainly falling, so lower milk prices coming off a very profitable 2011...milk volumes very good in 2012 and no cost pressure in 2012/13

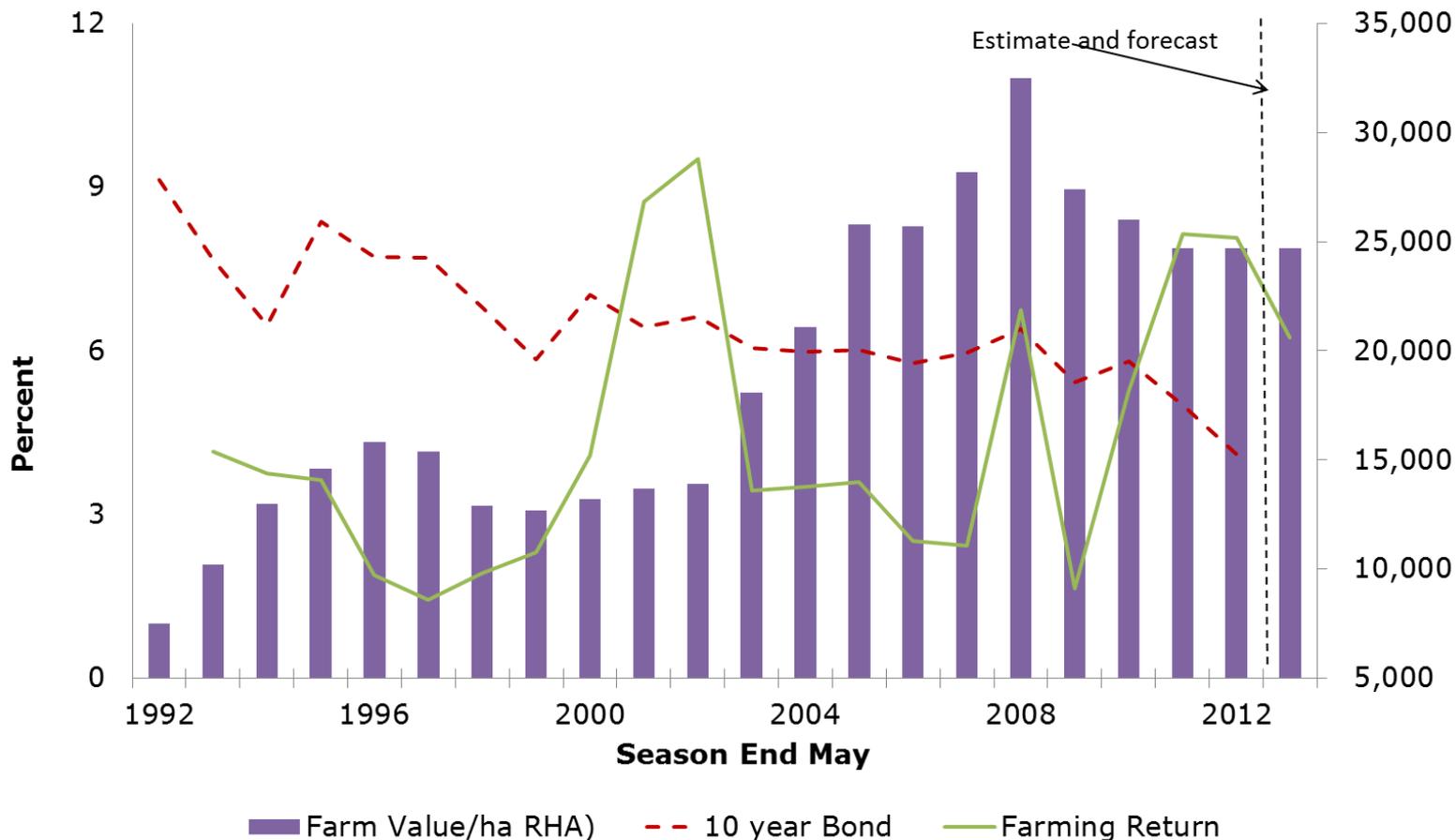


Net debt much the same but lower interest rates now having a noticeably positive effect on “average” farmers costs

So Rising profitability, falling/stable farm prices?

Last year the story was about rising milk prices. This year it will be about farm values not following (and in our opinion falling further).

Returns From Dairy Farming



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