Agriculture Investment Update

Ag Investment
Ag investment themes are still strong underlined by some higher transaction values across the last quarter. Cropping, water and some beef assets have traded at higher values but its not across the board. Higher interest rates leading to buyers dealing with higher hurdle rates (particularly large investors) and Bank debt harder to secure (for private operators) has made it essential that the sales agent markets the property well and on target. Buyers are needing to ensure the property performs to expectations so having a strong history of performance and presentation is essential. There has also been some recycling of assets where owners have or will take advantage of the strong asset prices to allocate capital to other markets or sectors. Whist the market has been strong over a sustained period, there is still value within the market and some sectors, if you would like to discuss, drop us a note...
The general market outlook we think its best summed up by Rural Bank in their last Farmland Values Report. "With the key drivers of farmland values set to remain in a holding pattern in 2024, it is likely that the market will see a plateau in values. There is little to suggest that there will be a widespread resurgence in demand for farmland purchases nor a greater pressure to sell for prices below recent levels. Rather, a continuation of firm, but not rampant, demand coupled with ongoing tight supply should see farmland values hold near current high levels."

Overview - rates
Higher rates are starting to bite the capital city housing market as inflation continues to be sticky and further rate rises are in view. The hikes in rates have been (to date) absorbed or dulled by savings and or having lower rates (locked in previously). The high rates now has numerous owners under pressure, even those who have strong equity. The AFR reports that corporate profit margins are also under real pressure with interest rate rises and cost pressures finally hitting companies where it hurts. Two years and one month after the rate rises started, households (in particular) are out of puff. People are saving less than any other time in the past 15 years. It seems the buffer is gone and we could be running on fumes..... and in light of this, the AFR reports average home loan size surges to record highs across the nation. However, this week prices are now stalling in Sydney $2M home market with media reporting up to 7.5% drops in values across the past three months. We do not think the above rate moves will effect the general rural property market (broadly) mainly due to continued solid commodity prices, good seasonal conditions and lower overall leverage levels.

Carbon and Agri Deals
- Telstra have announced that they are re-prioritising their climate change investments to take more direct action, moving funds away from the purchase of carbon credits in favour of decarbonisation projects that will reduce their footprint overall."Until now, the use of carbon credits has formed one part of our climate change strategy and they have been used to counteract the emissions that remained after achieving emissions reduction. We sourced our credits both globally and domestically, from projects related to renewable energy development, First Nations savanna burning activities and restoring biodiversity, and we certified our carbon offsetting status via the Climate Active program. We are now looking to drive more investment in reducing the emissions of our operations rather than offsetting what remains."
- Qantas Super has committed $200 million to agricultural investor GO.FARM to "transform" under-utilised agricultural land into horticultural projects in NSW's Riverina, northern Victoria, and other parts of Australia
- Ag tech focused fund Tenacious Ventures has just sec used another $18M in its second fund. This follow the first raising $35M in its first fund. Some of their investment to date include Swarmfarm Robotics and green ammonia company Jupiter Ionics.
- PSP has invested over $C7 Billion into Australian farming land from eggs, beef, sheep, tree nuts and cotton. Deborah Orida PSP's Global Head says its all about diversification. " We recognise the opportunity, given the long-term nature of our liabilities to diversify into alternative asset classes, harvest some of the liquidity premium and provide some of the stability from diversification." Thats a pretty good endorsement for our sector and we like the diversification theme which we always strongly advocate.

Harvest Agents and Advisory

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- ASX Listed Group Rural Funds Group may look to sell around half is stakes in $163M of farms it owns and operates as it looks to reduce gearing mind expectations interest rates will remain higher for longer. This follows the recent sale of Qld irrigated properties for $39M." Recycling as noted above is a constant theme in the industry but we are always surprised at the the volume traded.
- The titanic tussle for control of Rose Street Wee Waa or otherwise known as Namoi Cotton seems to be in a holding pattern. Olam and LDC which owns gins in some of the same valleys as Namoi Cotton has raised concerns for the ACCC and is supported by the NSW Farmers. ACCC has stated that bidders (Louis Dreyfus and Olam) "Both of them clearly have serious competition issues, and that something that they need to overcome to get our clearance."
- Woodside has invested in Monaro farmland to offset carbon emissions. The ABC reports Woodside has bought four sheep and cattle farms in NSW for $40 million to help offset emissions from oil and gas projects.

Seasonal Conditions
The winter crops are off to a good start across the east coast however Vic, SA and WA crops are less assured at this point in time. Planting conditions cross NSW and SE QLD have been ideal and in some case too wet to finish seeding. Seeding has just finished in most part with chick peas being increased in the natural rotation given prices are over $1000 per ton. The outlook is varying with most having different probabilities between neural and La Nina wether patterns which does bode well for NSW and Qld east coast crops given the positive start...

Finance
We are seeing a large spread in rates and bank appetite. As we mention to many clients, interest is your biggest expense and you need the right Banking support in cost and function. Over this last last month we've been structuring agri finance debt deals from $1.5M to $35M. If you would like a confidential rates check, chat about the market, drop us an E-mail or text..

Changing Landscape
Like everything in life, things change however we are seeing a demand drivers across particular agri markets that continues to support investment. This continual change is one of the things we love about being involved in agri investment markets. Protein demand, carbon opportunities and increasing food demand are a few fundamentals that have supported the market to date. However, the food for fuel demand (which has been around for some time) has gone to another level as Governments and now markets push hard for renewable energy sources. The majority of Australia's canola exports end up in the biofuel market in the EU (which is probably years ahead of us). Domestic oil refineries are planned here and this will change the whole oilseed complex and effect all oilseeds. In effect a huge demand point will appear taking huge amounts of current product from the market. Potential outcomes like increased crush margins for all oilseeds, increased local crushing and greater focus on oilseed production is likely.

Finally
We would like to extend out heartfelt thoughts to the poultry operators mainly in the southern parts for the country who are dealing with the avian flu outbreak. No farmer wants to see the end of livestock lives earlier than normal. We are thinking of you.

Have a great weekend

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