Ag & Vet Weekly

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All the news on ASX-listed agriculture and veterinary companies

Dr Boreham’s Crucible: Elders

By TIM BOREHAM

ASX code: ELD

Share price: $8.28

Shares on issue: 155,368,814

Market cap: $1,293,642,854

Chief executive officer: Mark Allison

Board: Ian Wilton (chairman), Mr Allison, Robyn Clubb, Diana Eilert, Michael Carroll

Financials (year to September 30 2019): sales revenue $1.67 billion (up 4%), net profit after tax $68.9 million (down 3.7%), underlying profit $63.6 million (flat), full-year dividend per share 18 cents (steady), net debt $94.3 million (down 45%).

Major shareholders*: Yarra Funds Management 8.4%, HESTA 5%, Perpetual Funds management 7.3%

***** The listed Pendal Group held 6% but ceased to be a substantial holder in December.

In a parched landscape devastated by the biggest bushfires the nation has seen - indeed, some are still burning - the rural supplies and services group sees some perverse upside.

In a January 9 update, management admitted the company would be affected by both lower farm supply sales and livestock agency commissions.

“However, we expect this will be offset by increased demand for farm supplies including fencing and the need for rebuilding once the fires ease and the rebuild effort commences.”

Management reports that December quarter trading was in line with expectations and the company remains comfortable with the market's expectations about trading for the full year (more below).

Given Elders has a September 30 balance date, much can change. But it's nothing the legendary bucolic corporate name can't handle, having experienced 180 years of droughts and depressions.

Respect your Elders

In 1839, trader and ship owner George Elder set sail from the Scottish port of Kirkealdy in the schooner Minerva, bound for the new settlement of South Australia.
The canny Scot loaded the vessel with plenty of rum and whisky, as well as other goods likely to be in demand in the fledgling colony.

To cut a very long story short, Elders thrived, withstanding events such as the 1890s depression to become Australia's biggest agribusiness operator (the company remains the biggest listed rural services business).

In the 1980s, Elders fell under the control of John Elliott, who merged the company with jam maker Henry Jones before taking over Carlton and United Breweries. Elders IXL then bid for BHP, before 'white knight' Robert Holmes a Court and the 1987 share market crash put paid to Elliott's wheeling and dealing.

Elders pretty much stumbled along for the next two decades before a corporate clean-up saw the company refocus on its core rural operations.

For the record, the business includes merchandising (Elders stores), marketing, technical advice, real estate, cattle feedlots, Indonesian live exports and financial products (in cahoots with Rural Bank, owned by Bendigo and Adelaide Bank).

Elders also has a little-known research and development arm, under the auspices of the Thomas Elders Institute.

The body carries out its own research into improved farming practices. It also partners with other parties such as industry and education bodies "who have a like-minded vision of improving the agriculture landscape for Australian farmers".

Since May 2014 the company has been helmed by experienced agri-type Mark Allison, who has been on the Elders board since 2009.

That's the plan, comrades.

Elders has a penchant for multi-year plans that would put Mao Zedong (better known as Mao Tse Tung) to shame.

Currently the company is at the dag end of its second, three-year "eight-point plan" with another one to come.

The charter targeted earnings growth of five to 10 percent a year, with sustainable return on capital of 20 percent “over the full agricultural cycle” (adjusted for acquisitions, the target return is 15 to 18 percent).

The plan includes an equal weighting on earnings growth from organic activity (the existing business) and acquisitions.

The plan now includes adding 20 new branches to address geographic and sectoral weakness in the company’s coverage.

There will be plenty of former bank branches if they’re looking for cheap rent.

On the acquisitive trail

Having regained its mojo, Elders is doing the equivalent of buying the neighbor’s sheep station.

In November last year, Elders acquired Australian Independent Rural Retailers (AIRR) for $78 million cash, as well as 13 million Elders shares (a total consideration of $187 million).

A member-owned buying and marketing group, AIRR is a rural merchandiser with a presence in pet food and produce.

Operating across eight warehouses and five retails outlets, AIRR was expected to generate earnings before interest, taxation, depreciation and amortization (Ebitda) of $22 million in the year to September 30, 2019.

“AIRR is an excellent strategic fit, providing Elders with additional growth channels through entry into the wholesale rural services market and the produce and hobby farmer services market,” Mr Allison says.

Retail and institutional investors evidently agreed, because they flocked to last year’s $137 million raising - by way of a placement and rights issue - to fund the shebang.

In a trio of lesser deals in 2018, Elders acquired the crop protection group Titanag and the Victorian livestock company Kerr & Co. The company also divested its troublesome Indonesian feedlot assets.

Finances and performance

While the10-year price graph gives Elders holders little to smile about, the more recent performance suggests the remedial measures are working despite the ongoing impact of drought.

Depending on what profit measure one prefers, Elders full year earnings for the year to September 30 were flat, or crept up four percent.

The main negative influences were subdued summer cropping and lower wool sales. The result was also weighed down by costs associated with an "exclusive relationship" agreement with Rural Bank, which meant staff were transferred to the latter.

In the January 9 update, management said it was comfortable with market expectations for the current year, which is code for what the brokers have plugged into their models.

Mr Allison says the AIRR acquisition "has the potential" to increase Elders underlying earnings by 20 to 25 percent annually.

In the meantime, Elders' debt has dramatically reduced and dividends have been restored after a long drought.

Elders shares have gained 11 percent over the last 12 months, trading between a low of $5.38 (early June) and $7.46 (late July). They have run hard since the January 9 update.

But the 10-year graph shows Elders has not been a bounteous yield, with the shares losing close to half their value.

Dr Boreham's diagnosis:

At the peak of despair, Elders holders could be excused for uttering "we'll all be 'rooned".

But what the Hanrahans should remember is that the company has survived close to 200 years of vicissitudes, rather like the 196-year old listed rural counterpart, Australian Agricultural Co.

In reality, Elders can do little about exogenous forces such as droughts, floods, fires, soft commodity prices, currency movements, tariff policy and virus pandemics.

But management is doing a decent job at harnessing the factors it can control and upholding Elders lofty vision of being "Australia's leading agribusiness that creates value for all stakeholders in both Australian and international markets."

Disclosure: Dr Boreham is not a qualified agronomist. He can barely grow a pot plant and has never lassoed a steer. He owns a pair of RM Williams riding boots, but never gets them dirty.