Ag & Vet Weekly

Thursday April 9, 2020

All the news on ASX-listed agriculture and veterinary companies

Dr Boreham’s Crucible: Ridley Corp

By TIM BOREHAM

ASX code: RIC

Share price: 76 cents

Shares on issue: 311,256,221

Market cap: $311.26 million

Chief executive officer: Quinton Hildebrand

Board: Dr Gary Weiss (chairman)*****, Mr Hildebrand, David Lord, Patria Mann, Prof Robert van Barneveld, Ejnar Knudsen

***** Dr Weiss is expected to retire at the end of June 2020

Financials (first half to December 31, 2019): revenue $487.3m (down 6.9%), net profit $396,000 (down 97.5%), earnings before interest tax depreciation and amortization $30.7 million (up 0.3%), cash $39.8m (up 127%), debt $132.7 million (up 45%), interim dividend per share 1.5c (steady)

Major identifiable holders: Insitor Holdings LLC/AGR Partners LLC 19.73%, Lazard Asset Management 13.83%, Schroder Investment Management 9%, Dimensional Funds Advisers 5.18%, Massachusetts Financial 5.18%

Like the odiferous process of rendering - the breaking down of carcasses into useful components - Ridley chief Quinton Hildebrand’s job has been to pare the feedstock maker’s bloated cost base and management hierarchy back to the bare bones.

And who better than a straight-talking South African to perform the task?

“There were some tough decisions that needed to be made,” says Mr Hildebrand, in reference to the first phase of the efficiency drive that pared $5 million of costs with more to come.

Ridley is the country’s biggest provider of feedstock and supplements, through brands including Barastoc, Rumevite, Primo and Cobber (for working dogs). The company also has a strong presence in the aquaculture sector and - yes - rendering.

The trouble is, like many industry stalwarts, Ridley’s management became engorged and there wasn’t enough investment in modernizing the plants, which in some cases were more than a century old.

In his first six months, Mr Hildebrand has sold underused assets, notably a feedstock facility at Murray Bridge which became uneconomic after the client, Ingham’s poultry processor, built its own mill (after the chicken producer’s contract with Ridley expired in October 2018).

Mr Hildebrand said that given Ingham’s accounted for 70 percent of the mill’s volume, “it was a no-brainer to move quickly on that.”

He also oversaw settlement of a long-term dispute with another big customer, the chook producer Baiada which had alleged “misleading and deceptive” conduct.

The fowl mood has now lifted, with the feed contract extended by two years to November 2025. Ridley has also agreed to pay Baiada $1.9 million.

Ridley has a long history with Baiada, having acquired its rendering business BPL Melbourne for $77 million in 2012.

“It’s not good to have a barney with one of your major customers,” said Mr Hildebrand, who previously was responsible for Ingham’s feed business.

As a further harbinger of change, Ridley chairman Dr Gary Weiss will stand down in June, after a decade as a director (five of them as chairman).

Wielding the scythe

Overall, management has shed 44 positions and found $5 million of annualized savings, but at a cost of $2.9 million.

Mr Hildebrand says the exercise was not so much about saving money as simplifying the business models.

“We had way too many layers,” he said. The sales team was national in structure, but customers were only supplied form their designated region. As a rule of thumb, the client catchment area for a feedstock business is 100 kilometres.

Rather than having regional general managers, mill managers, account managers and a 'head of ruminants', one regional general manager is responsible for three to four mills in the region and is also accountable for sales.

Ridley has also been investing in its assets, having spent around $50 million on a new flagship mill at Wellsford near Bendigo in central Victoria.

The 350,000 tonnes a year facility is underpinned by a long-term supply contract with Hazeldene's Chickens.

Fishing for business

Ridley has a strong position in the aquaculture sector, especially at the premium end, focused on Tasmanian-based salmon producers as well as prawn, barramundi and yellowtail operations.

In the past, Ridley's strategy was to continue to raise prices (and lose market share) but this proved risky at a time when the best (and discerning) producers were getting bigger.

The company still has unused capacity and with high costs that means filling the mills as much as possible.

There's no shortage of competitors in the aqua pond, which means performance (reliable delivery) is paramount.

Mr Hildebrand says while it's a buyer's market, margins are okay. "We want to be competitive but we want to be rational. We would all be smarter to take our share of the industry and that's what's happening."

Ridley shareholder David Williams believes growth in salmon has been overstated, but sees good demand for other species such as barramundi.

"These markets are desperate for another species," says the prominent figure in both the ag and biotech sectors. "If you could offer them the volume, Coles would give you a 10-year contract at a price that would be profitable."

Meanwhile, Ridley pocketed a $3 million research and development grant from the Federal Government to prepare the salmon industry for climate change.

Trawling the prawn market

In league with the esteemed Commonwealth Scientific and Industrial Research Organisation (CSIRO), Ridley is perfecting a feed supplement to foster better-farmed prawns. Named Novacq, the product is in commercialization phase at the company's Yamba facility in New South Wales.

The Novacq division is also carrying out research and development at its facility at Chanthaburi, on the banks of the Chanthaburi River in eastern Thailand.

The company had been leasing 10 hectares of space for pondage, but last year spent $8.2 million to acquire the land outright. It also acquired the 51 percent of the accompanying Pen Ngem feed mill it did not already own.

“I think we got ahead of ourselves in promoting Novacq before we had got it to industrial scale,” Mr Hildebrand says. “But we really are at a phase where the efficacy is very clear. Our main focus is to scale it up and then penetrate the international market.”

Management expects the Novacq arm to be cash neutral in 12 months and then self-supporting after that.

Ultimately, the business could well be acquired by a bigger operator.

Finances and performance

Ridley reported a subdued $400,000 profit for the December half, although Mr Hildebrand was pleased that underlying earnings remained flat at $30.7 million.

The reported figure was dragged down by a $7.2 million one-off expense from the Murray Bridge closure, a $2.9 million redundancy charge and the $1.9 million cost of the Baiada settlement.

Of the Murray Bridge expense, $2.8 million was cash. The closure is expected to result in $1.5 million in annual cost savings, with no loss in volume because residual clients were relocated to other mills.

As at December 31, Ridley had debt of $172.5 million, up 45 percent on the previous year. This reflects the expenditure on the Wellsford mill and the Novacq facility in Thailand.

Management expects net debt of $132 million to peak at $150 million to $160 million before subsiding.

Ridley shares have traded as high as $1.58 (in December 2015) but are now sulking just above the March 30 record low of 66 cents.

Dr Boreham’s diagnosis:

It sounds like Ridley’s 700 or so remaining staff can’t afford to relax too much, because other economies are in the offing, including no salary reviews for folk on $180,000 or more.

“I am expecting it won’t be everyone’s cup of tea, but we need to get out there and be commercial,” Hildebrand says.

“Ridley is strong technically with a strong asset base and market reputation, but not very commercial and not very nimble and thinking through the supply chain and customers need.” Areas that we presume the change-agent will change.

At ground level, the company expects to gain from a round of salmon tenders and growth of the Novacq business. It also wants to avail itself of a distribution tie up with Australian Independent Rural Retailers (AIRR), which agricultural giant Elders acquired last November.

“We have been very strong with AIRR, but have not had much distribution through Elders,” Mr Hildebrand says. “We think we can leverage that across a bigger footprint.”

Post its nip-and-tuck, Ridley looks well placed to take advantage of a consolidating, regionalized industry.

But as with farmers, the weather is the prosperity X-factor. Ridley’s Queensland and New South Wales mills have been flat out, but with the rains arriving the need for feedstock will abate. This might not be the case in the cattle sector, where high prices will encourage more supplementary feeding.

As Mr Williams notes: “the single biggest problem with Ridley is demonstrating how it can grow”.

The answer lies in building export markets through ventures such as the prawn feed, rather than fighting off rivals here.

Disclosure: Dr Boreham is not an agronomist and does not possess a doctorate of any sort. But he realises that the stockfeed game isn’t chickenfeed.

Ag & Vet Weekly can be contacted at: PO Box 5000, Carlton, Victoria, Australia, 3053
email: editor@agvetweekly.com; www.agvetweekly.com; twitter: @AgVetWeekly