Ag & Vet Weekly

Monday July 6 – Friday July 10, 2020

All the news on ASX-listed agriculture and veterinary companies

*** JULY 10: ASX, AVW-44 DOWN: MEMPHASYS UP 34.5%**
- NANOLLOSE DOWN 12%

*** DR BOREHAM'S CRUCIBLE: COSTA GROUP**

*** RURAL BANK: POSITIVE OUTLOOK, WATCHING CHINA DIPLOMACY**

*** SELECT HARVESTS: 2020 CROP IN, WOOLWORTHS ADDS NUT PRODUCTS**

*** MEMPHASYS: CANADIAN FELIX APPROVAL VESTS 11.2m OPTIONS**

*** TASFOODS EX-CHAIR SHANE NOBLE LITIGATES AGAINST COMPANY**

*** ROOTS INSTALLS THIRD RZTO ORDER FOR HYDRO GROW**

*** CRESO: MERNOVA $901k ISRAELI MARIJUANA ORDER**

*** ALTHEA: CONCIERGE FOR ONLINE MARIJUANA SALES**

*** MGC GRANTED AUSTRALIAN MARIJUANA IMPORT LICENCE**

*** AMP TAKES 5% OF COSTA**

MARKET REPORT
The Australian stock market was down 0.61 percent on Friday July 10, 2020, with the ASX200 down 36.3 points to 5,919.2 points. Fifteen of the AVW-44 stocks were up, 20 fell, seven traded unchanged and two were untraded.

Memphasys was the best, up two cents or 34.5 percent to 7.8 cents, with 7.6 million shares traded. Cann Global rose 20 percent; Terragen was up 16.2 percent; Cannpal climbed 11.5 percent; Regeneus improved 8.2 percent; Creso was up 6.7 percent; Roots rose 5.6 percent; Seafarms was up four percent; Synlait climbed 3.9 percent, Pharmaust improved 2.4 percent; Bega, Cann Group and THC were up more than one percent; with A2 Milk and Ridley up by less than one percent.

Nanollose led the falls, down 0.5 cents or 11.9 percent to 3.7 cents, with 271,214 shares traded. Althea fell 8.75 percent; Opyl lost 7.1 percent; Bubs and Clean Seas fell more than five percent; Palla Pharma was down 3.2 percent; Costa, Ecofibre, Elixinol, Nufarm and Wide Open shed two percent or more; Apiam, Clover, Food Revolution, Next Science and Tasfoods lost one percent or more; with Elders, Fonterra, Select Harvests and Tassal down by less than one percent.

DR BOREHAM'S CRUCIBLE: COSTA GROUP

By TIM BOREHAM

ASX code: CGC

Share price: $2.96

Shares on issue: 400,830,387

Market cap: $1186.5 million

Chief executive officer: Harry Debney*

Board: Neil Chatfield (chairman), Mr Debney, Peter Margin, Janette Kendall, Dr Jane Wilson, Tim Goldsmith

* At the May AGM Mr Debney flagged his intention to retire within the next nine months.

Financials (calendar 2019)**: revenue $1030.8 million (down 6%), earnings before interest tax depreciation and amortization $151.3 million (up 27%), adjusted net profit $28.5 million*** (down 50%), reported net loss $35.4 million (previously $45 million profit), net debt $178.8 million (down 27%), full year dividend 5.5 cents per share, fully franked

Major identifiable holders**:** Perpetual Asset Management 12.99%, Lazard Asset Management 5.6%, Schroder Asset Management 5.5%, AMP Capital Investors 5.09%

** Given the company changed from a June to December full-year balance date, the 2018 comparison is based on proforma numbers.

*** Before the accounting rules for biological assets (SGARA) and the new rule requiring lease liabilities to be recognized on balance sheet

**** ECP Asset Management held 5.29% as of balance date but ceased to be a substantial shareholder in March 2020

Investors know June as the "confession season" given the propensity of companies to drop bad news when the magnitude of an earnings decline becomes apparent ahead of the June 30 balance date.

This year, relieved Costa shareholders avoided hearing about a profit downgrade, which must be (silent) music to their ears - given the horticultural giant's performance in recent years.

Last year, nothing went right for Costa, which is the country's biggest fresh food supplier, operating across 50 sites here, as well as facilities in Morocco and China.

The company is the biggest supplier of berries, mushrooms, citrus and glasshouse tomatoes and is also big in avocadoes.

The local coverage includes 4,500 planted hectares and 30 hectares of glasshouse operations.

In the last couple of years, crops were tempered by a lack of rain, while a single fruit fly was found at its Renmark citrus facility.

Furthermore, its Moroccan blueberry crop was delayed and some of its local produce succumbed to raspberry crumble, which sounds rather tasty but is not desirable at all.

And did we mention bushfire damage to its blueberry farm in Tumbarumba?

Now, the spring has returned to management’s steps in the wake of the coronavirus crisis. Rain is tumbling again and commodity prices are robust.

The company also operates in an essential service and the government even obliged by extending the visa period for itinerant workers, the lifeblood of the company.

Challenges remain for what CEO Harry Debney dubs the “finest horticultural and agronomic thinkers and practitioners in Australia, but also the world”.

One big issue is to find the right replacement for the hands-on Mr Debney, who is packing his bags after a decade at the helm.

Another is navigating a change to the ownership structure of its landlord, the listed property trust Vitalharvest.

Costa’s rich history

Costa Group’s lineage dates back to a Geelong fruit and veg shop called Covent Garden, founded by the Costa family in 1880.

Fast forward a few years and by the 1960s the company was a key supplier to those emerging outlets called supermarkets and in the 1980s it became a key exporter.

The company expanded in earnest from 2011, buying Adelaide Mushrooms in 2013, establishing a Moroccan blueberry joint venture (African Blue) and forming the Driscoll’s blueberry joint-venture to tackle the Chinese market.

Along the way, it expanded its local operations across the country, hedging its exposure to weather conditions. The company also exited the leafy vegetable category and also decided that spuds were a dud. And it has reduced its presence in the banana and table grape sectors.

The company is synonymous with current patriarch Frank Aloysius Costa, who has run the joint since 1959, but retired from the board last July.

Arguably, he is even better known for his beloved Geelong Football Club, of which he was president during the club's drought-breaking premierships in 2007 and 2009.

Costa Group listed on the ASX on July 24, 2015, in a sell-down that saw 244.7 million shares listed at $2.25 apiece.

The Costa family retained 32.8 million shares - around 10 percent - as did strategic buddies Paine + Partners (a US private equity firm).

The listing raised eyebrows by not including the underlying property which was retained by the family in a complex arrangement, before being hived off as Vitalharvest Freehold Trust in June 2018.

The property assets were acquired by Costa's 2007 takeover of banana purveyor Chiquita Brands, which was renamed Costa Exchange.

Breeding the master race … in fruit

There's more to growing stuff than sticking a seed in the ground and praying for rain.

A "breeding program" for blueberries involves sub-tropical and tropical species

"The [intellectual property] we continue to develop includes the leading premium Arana blueberry gives us the advantage of superior product genetics and positions us as the world's leading blueberry company," chairman Neil Chatfield told the AGM.

In the avocado sphere, Costa is tinkering with high density, trellised and protective cropping - as well as a pre-smashed variety to ease the workload of inner-city cafes.

Okay, part of that paragraph was an attempt at humor.

As for the rest, it's all about increasing crop yield and quality and reducing water consumption.

As for the citrus business, the company is introducing robotic carton consolidation and palletizing at its Renmark packing facility.

Its so-called Spectrum technology uses infra-red beams to grade the quality of the fruit.

"This is crucial for markets such as the US, Japan, Korea and China where the appearance and taste of the fruit is a key differentiator for consumer preference and being able to obtain premium pricing," Mr Chatfield said.

Costa is also on the renewables wagon, building a 5,000-panel solar farm at its Monarto mushroom facility.

So insofar as the fungi are left in the dark, they don't have to be.

Tenancy capers

In a surprise development, last month Vitalharvest (not Costa) told the ASX that the expansionary Perth property funds manager Primewest acquired the management rights to Vitalharvest from Gofarm for $10 million.

Primewest is a listed property manager co-founded and chaired by the John Bond, the son of the late Perth entrepreneur and goal-bird Alan Bond.

The fund also acquired an 11.8 percent Vitalharvest stake for $19.2 million, with dibs on a further 6.2 percent.

Gofarm is chaired by Frank Costa's brother Robert, with Costa Asset Management owning half of the management entity.

Costa Asset Management represents the family offices of Robert and the family of brother Anthony, who died in 2017.

Last year, Gofarm served a notice of dispute on Costa Group, in relation to the information required to ascertain its share of Costa Group's profits under the variable rent component of the deal.

The dispute was eventually resolved.

To be renamed the Primewest Agri-chain Fund, Vitalharvest has $275 million of assets, all leased to Costa Group.

The leases expire in 2026, but are renewable for a further 10 years at Costa's option.

As Primewest notes, the rents are also subject to an uncapped market-based rent review, which we understand would be favorable to the landlord (Vitalharvest).

If the parties can't reach agreement does Costa pluck up its trees and greenhouses and go elsewhere?

Finances and performance

The proliferation of woes sent Costa's bottom line to a reported $35.4 million in calendar 2019 on just over $1 billion of revenue, compared with a $45 million profit previously.

Overlooking some accounting flummery, net profit halved to $28.5 million.

Just to complicate things, the company last year changed to a December-end balance date.

Wisely, Costa plans to cease the practice of guidance using actual numbers – citing the "industry's inherent forecasting challenges".

Broker, Citi, plugs in earnings before interest tax depreciation and amortization (Ebitda) of $146 million for calendar 2020, 49 percent higher than previously.

The firm notes that in an “unusual operating environment”, domestic mushroom, berry and avo prices are all higher, while citrus prices are “encouraging” for the second half.

Avocado lovers will know that the fruit is in season, but despite their abundance, prices are up around 50 percent while mushie prices are up 40 percent.

Costa’s “prudent and disciplined” approach to capital allocation involves targeting a minimum return on capital of 20 percent on new investments over a three to five-year time span.

The company also targets a long-term average of one to two times net debt to Ebitda.

The company has cash of $36 million and net debt of $178.9 million.

Since listing, Costa shares have peaked at $7.74 (June 2018) and traded as low as $1.88 (August 2015).

As could be expected, the stock has performed relatively well during the corona-crisis, falling from $3.16 in late February to a March 23 low of $2.50, returning to $2.96 as we went to press.

Dr Boreham’s diagnosis:

In its listed life, Costa has proved an underwhelming - but far from disastrous - investor experience.

With some operational issues ironed-out the company looks in better shape, but with agri-business one can never forget the exogenous factors such as precipitation or lack thereof.

In Mr Debney’s words: “In agriculture we can never fully eliminate risk, only mitigate it.”

He adds management is focused on addressing climate change risks, improving water security and reducing waste from the growing and post-harvest stages.

Insofar as the company is not hostage to the weather gods and soft commodity prices, investors are keenly awaiting who will replace Mr Debney as grower-in-chief.

Disclosure: Dr Boreham is not an agronomist and does not possess a relevant - or irrelevant - doctorate of any sort. He loves avocados but would never pay more than $20 for the smashed variety with eggs - even in an inner-city café with milk crates as chairs and Vegemite jars as glasses.

RURAL BANK (A DIVISION OF THE BENDIGO AND ADELAIDE BANK)

The Rural Bank's 'Australian agriculture mid-year outlook 2020' is positive but with China responsible for 28 percent of agricultural exports, it is watching "closely".

The Bank said that China's increased tariffs on barley exports "effectively priced out Australian barley from this critical market … [but demand for beef was] expected to remain particularly strong from China as beef imports play a role in filling the 20 to 25 million tonne gap created by reduced pork production resulting from African Swine Fever".

"However, a 27 percent decline in export volumes is forecast in the second half of the year due to a fall in Australian beef production," the report said.

The full report is available at: https://bit.ly/2CiMLaw.

Asked whether the Rural Bank had concerns over Federal Government actions and commentary in regard to exports to China, a Bank spokesperson told Ag & Vet Weekly that "agriculture relies on free and reliable access to a range of global markets".

"Therefore, trade tensions with China are something to watch closely, particularly at present for broadacre croppers," the Rural Bank said. "The recent introduction of an 80.5 percent tariff on Australian feed barley has essentially priced producers out of this important market".

"However, the outlook for demand from China is high for a number of commodities including beef," the Bank said.

The mid-year outlook report said that farmland values had risen from just under $1,000 a hectare in 1992 to $5,271 per hectare in 2019, with the number of transactions falling from about 14,000 in 2003 to about 7,000 in 2019.

Asked for the detail of Australia's total agricultural exports and the percentage to China, the Rural Bank referred Ag & Vet weekly to last year's 'Australian Agricultural Trade 2018-'19' report, which is available at: https://bit.ly/320y46H.

The July 1, 2019 report said that Australian agricultural exports increased in value for the ninth consecutive year to a record high of $50.7 billion, with China the largest customer taking $14.0 billion or 27.6 percent of all agricultural exports.

The 2019 report said that beef and cattle exports earned $12.45 billion, with China the second largest market at $2.37 billion, with Japan taking $2.58 billion.

China accounted for $1.05 billion of the $7.47 billion in crop exports, Australia's single largest crop destination, accounting for 14.0 percent of all crop exports.

Sheep exports rose by 10 percent to $4.33 billion, with China overtaking the Middle East and North Africa as the largest destination, taking $1.18 billion or 27.2 percent of the total, with wool exports down 4.1 percent to $3.80 billion, of which China was the largest customer taking 74.9 percent or $2.86 billion.

The 2019 report said that wine exports increased 4.6 percent to $2.98 billion, with China buying 36.5 percent or $1.08 billion, while cotton was up 19.6 percent to $2.55 billion, with China taking 35.0 percent or $891 million.

Dairy was up 4.6 percent to $2.50 billion, with China taking 24.0 percent or $599 million, sugar accounted for $1.58 billion in exports, but country data was unavailable “due to confidentiality provisions”.

The Rural Bank 2019 report said that the export value of Seafood fell 4.2 percent to $1.39 billion, with China buying 64.1 percent or a symbolic $888 million.

Horticulture fruit, nuts, vegetables and “other” exports amounted to $11.9 billion with China responsible for at least $2.93 billion.

The 2020 Outlook report said there was a rainfall driven switch to cattle herd rebuilding to tighten supply and support high cattle prices.

The Outlook said that following the best start to the winter cropping season in several years, an increase in production and lower prices were expected.

The Bank said that with a lower cost of dairy production would promote supply growth and profitability, while horticulture faced challenges to the foodservices industry and a period of softer prices.

The Rural Bank said sheep producers would benefit from favorable seasonal conditions and high prices and the Australian wool industry would face “significant challenges over the next six months”.

The Bank said that the first half of 2020 was one of the most disruptive in a generation - from the devastating summer bushfires to the upheaval caused by Covid-19.

“Despite this, for many regions 2020 has been one of the best starts on record,” the Bank said.

“Strong competition from countries such as Brazil and the United States is likely to increasingly affect demand for Australian proteins, particularly in late 2020 and into 2021.” The Bank said.

“As an agricultural specialist lender, Rural Bank understands that issues impacting farm business’ performance can evolve quickly and farmers are operating in a sometimes-unpredictable environment - which is why we want to support them with a regular forecast for their industry,” the Bank said.

The Rural Bank said it was founded in 2000 as a partnership between Bendigo Bank and Elders and was originally known as Elders Rural Bank.

The Bank said that in 2009, it changed its name to Rural Bank Limited and in December 2010, became a fully owned subsidiary of the Bendigo and Adelaide Bank Group.

SELECT HARVESTS

Select Harvests says it has completed its 2020 harvest and that the Woolworths supermarket chain will sell six more of its Lucky branded nut products.
Select Harvests said its 2020 crop was about 23,000 megatonnes (Mt), compared to 22,690Mt last year, and had been delivered to its Victorian processing facility.
The company said overall crop quality was good but that a portion had been impacted by late harvest rains and wet storage conditions.
Select Harvests said wetter conditions have helped reduce water prices but have also negatively impacted demand for almond hull from the stockfeed industry.
The company said the Australian Almond Board's position report indicated that between March and April 2020, Australian almond exports were down 29 percent, with shipments delayed due to low demand due to the Covid-19 pandemic, but that its own export customers had begun taking almond shipments "at near normal levels".
Select Harvests said it had begun its 2021 horticultural programs, and that chill hours and forecast rainfall were "delivering the best conditions we have seen in the last three years".
The company said it expected Woolworths would stock its Lucky nut products by September, 2020.
Select Harvests fell two cents or 0.35 percent to $5.69 with 577,497 shares traded.

MEMPHASYS

Memphasys says Canadian approval for its Felix sperm separation device for in-vitro fertilization has triggered the vesting of 11,200,000 performance options.
Memphasys said Health Canada would not classify the Felix device as a medical device "on the basis that medical devices must directly interface with the patient" and it would not be subjected to the regulatory rigors required for medical devices.
The company said commercial sales were expected to begin by the end of 2020, following the completion of the verification and validation tests on the final manufactured product.
Memphasys said the Canadian approval was a milestone achievement and the board had agreed to vest 11,200,000 performance options to staff and consultants, with 8,000,000 of the options granted to executive chairman Alison Coutts.
The company said the options were exercisable at 11.42 cents each by October 21, 2021.
Memphasys was up two cents or 34.5 percent to 7.8 cents with 7.6 million shares traded.

TASFOODS

Tasfoods says former chairman Shane Noble has lodged an application with the Fair Work Commission against the company for an unspecified amount in compensation.
Tasfoods said Mr Noble alleged that contraventions of the Fair Work Act and adverse action was taken against him by the company and specifically by directors Alexander Beard, Roger McBain and Jane Bennett, when they determined he should cease to be the company's chairman on June 4, 2020.
The company said it and the named directors "strenuously deny the claims, and are defending the proceedings".
In June, the company said it had appointed Craig Treasure chairman but did not disclose a reason for Mr Noble's resignation (AVW: June 5, 2020).
This week, Tasfoods said Mr Noble had resigned from his position as non-executive director effective from July 8, 2020 and thanked him for his contribution of the last 2.5 years and in particular for his role in "managing the acquisition of Betta Milk".
Tasfoods fell 0.1 cents or one percent to 9.8 cents.

ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES

Roots says it has installed the root zone temperature optimization system for the Bnei Atarot, Israel-based vegetable supplier Hydro Grow.
Last month, Roots said Hydro Grow had paid $17,000 for its third order of the technology (AVW: Jun 19, 2020).
Roots was up 0.1 cents or 5.6 percent to 1.9 cents.

CRESO PHARMA

Creso says its subsidiary Mernova Medicinal Inc has a $US625,690 ($A901,255) purchase order for dried medicinal marijuana flowers from Univo Pharmaceuticals.
Creso said the Nova Scotia, Canada-based Mernova would provide four strains of its "cured and hand-trimmed dried medicinal cannabis flower" to the Tel Aviv, Israel-based Univo within two weeks of the grant of an export permit by Health Canada.
The company said the order could not be terminated by Univo, but Univo had the right to reject the product and receive a partial refund if any material defects were identified within 21 business days of delivery.
Creso chief executive officer Dr Miri Halperin Wernli said that "following our initial entry into the Israeli market in April this year, we are delighted to have received another significant purchase order from Univo which further strengthens our penetration into this growing market".
"Univo has an impressive distribution network, including significant connections to pharmacies and patients in Israel, so this truly is a tremendous growth opportunity for Creso," Dr Halperin Wernli said.
"Israel is widely recognized as one of the more progressive and active cannabis markets globally and Univo's acceptance and continued demand for our cannabis is a major testament to the quality of our product and the expertise of the Mernova team," Dr Halperin Wernli said.
"As wholesale demand for our products continues to solidify, we are also preparing for Mernova's launch into the Canadian retail market which is another exciting near-term opportunity," Dr Halperin Wernli said.
Creso was up 0.2 cents or 6.7 percent to 3.2 cents with 28.5 million shares traded.

ALTHEA GROUP

Althea says Australian patients will be able to order medical marijuana online through its Althea Concierge platform, eliminating the need for a doctor or pharmacy visit.
Althea said online sales through Althea Concierge would be used in conjunction with video telemedicine and would enable doctors to prescribe its medical marijuana, patients to pay for the prescription online and for products to be delivered directly to patients' doors.
The company said Concierge included a customizable interactive treatment plan, issued by doctors directly to patients and an assessment tool to collect real world evidence.
Althea said it planned to add online sales functionality to Althea Concierge in the UK.
Althea fell 3.5 cents or 8.75 percent to 36.5 cents.

MGC PHARMACEUTICALS

MGC says the Australian Office of Drug Control has granted it an import licence for schedule 4 prescription only and schedule 8 controlled drugs for medical marijuana.
MGC was unchanged at 2.3 cents with 8.8 million shares traded.

COSTA GROUP HOLDINGS

The Sydney-based AMP says it has become a substantial shareholder in Costa with 20,387,887 shares or 5.09 percent of the company.

AMP said that between March 20 and July 3, 2020 it bought and sold shares in more than 180 trades, with the single largest purchase 639,387 shares for $2,037,568 or $3.19 a share on May 20, 2020 and a single largest sale of 1,407,569 shares for $3,780,740 or $2.69 a share on March 30, 2020.

Costa fell six cents or two percent to $2.96 with 1.3 million shares traded.