

# Ag & Vet Weekly



Monday August 3 – Friday August 7, 2020

*All the news on ASX-listed agriculture and veterinary companies*

- \* **AUGUST 7: ASX DOWN, AVW-44 UP: CANN GLOBAL UP 20%  
- OCEAN GROWN ABALONE DOWN 9%**
- \* **DR BOREHAM'S CRUCIBLE: NUFARM**
- \* **RIDLEY OPENS \$47m WELLSFORD FEED MILL**
- \* **CLEAN SEAS RECEIPTS DOWN 6.8% TO \$42.7m**
- \* **THC H1 RECEIPTS UP 122.9% TO \$3.2m**
- \* **CRESO H1 RECEIPTS UP 314% TO \$2.9m**
- \* **REGENEUS RECEIPTS OF \$1.6m**
- \* **CANN GLOBAL RECEIPTS UP 54.4% TO \$1.3m**
- \* **ALLAN GRAY TAKES 9% OF NUFARM**
- \* **ONE FUNDS MANAGEMENT TAKES 8% OF TERRAGEN**
- \* **AUSCANN APPOINTS NICK WOOLF CEO**
- \* **REGENEUS REQUESTS 'JAPANESE LICENCING DEAL' TRADING HALT**
- \* **MGC: 'IN-VITRO STUDY BACKS ARTEMIC FOR COVID-19'**

## MARKET REPORT

The Australian stock market was down 0.6 percent on Friday August 7, 2020, with the ASX200 down 37.4 points to 6,004.8 points. Twenty of the AVW-44 stocks were up, 11 fell, nine traded unchanged and four were untraded.

Cann Global was the best, up 0.1 cents or 20 percent to 0.6 cents, with 2.8 million shares traded. Avecho rose 14.3 percent; MGC was up 13.6 percent; Tasfoods and Wide Open Agriculture climbed nine percent or more; Ecofibre and Memphasys improved more than eight percent; Apiam was up 6.5 percent; Roots rose 5.6 percent; Nanollose climbed four percent; Althea, Auscann and Creso were up three percent or more; Huon, Palla Pharma and Pharmaust improved more than two percent; Cann Group, Clover and Seafarms rose more than one percent; with Fonterra up 0.6 percent.

Ocean Grown Abalone led the falls, down 0.8 cents or 9.4 percent to 7.7 cents, with 73,900 shares traded. Clean Seas lost 3.5 percent; Costa, Elixinol and Synlait fell more than two percent; A2 Milk and Bega shed more than one percent; with Elders, Next Science, Nufarm and Select Harvests down by less than one percent.

## DR BOREHAM'S CRUCIBLE: NUFARM

**By TIM BOREHAM**

**ASX code:** NUF

**Share price:** \$4.14; **Shares on issue:** 379,694,706; **Market cap:** \$1,571.9 million

**Chief executive officer:** Greg Hunt

**Board:** Donald McGauchie (chair) John Gillam\*, Mr Hunt, Anne Brennan\*\*, Gordon Davis, Frank Ford, Peter Margin, Marie McDonald, Toshikazu Takasaki (Sumitomo representative).

\* Mr Gillam replaces Mr McGauchie as chairman from September 24. Mr McGauchie retires from the board on September 23. \*\* Ms Brennan will step down on December 3

**Financials\* (half year to January 31 2020):** revenue \$1,476.9 million (down 6%), loss of \$121.7 million (previously \$13.58 million profit), underlying loss before interest tax depreciation and amortization \$5.64 million (previously \$48.5 million profit), cash of \$489 million\*\*, net debt of \$538 million\*\*

Continuing operations (excluding divested South American operations): revenue \$901.1m (down 12%). \* To align with its clients and industry peers, the company has changed its balance date from July 31 to September 30. \*\* Credit Suisse estimates for the year to July 31, 2020

**Major identifiable holders:** Sumitomo Chemical Co 14.88%, Ellerston Capital 8.07%, Sumitomo Mitsui Trust Holdings 8.05%, Allan Gray Australia 8.65%, Firetrail Investments 6.69%, Schroder Investment Management 5.25%, United Super Pty Ltd 5.07%.

Is something fishy going on at one of the world's leading crop protection groups?

We're not talking about the industry-wide controversy over glyphosate - and we'll come back to that later - but Nufarm's low profile Nuseed arm, which is doing some interesting things with its plant breeding technology.

In liaison with the esteemed CSIRO, Nuseed is developing a canola seed with long-chain omega-3 fatty acids - the world's first plant-based source of the coveted nutrient.

Omega-3 is usually obtained from fish oil, so Nuseed is striving to relieve the pressure on the world's fish stocks. The omega-3 fat docosahexaenoic acid (DHA) is a mandatory component of infant formula, given it is said to benefit brain development among other benefits.

As for Nufarm's traditional pest and weed zapping game, the improving outlook for the tillers of the soil is yet to rub off on the company, which rates among the world's top 10 herbicide and pesticide suppliers.

On June 30 this year, Nufarm announced that it would close one of its three Australian factories, in the western Melbourne industrial enclave of Laverton, as well as curtailing operations of a plant at Linz in Austria.

Nufarm is also quitting insecticide and fungicide manufacturing, which is less reliable than the market for herbicides (which have to be used at the outset of every crop). The Linz facility will no longer produce 2,4-dichlorophenoxyacetic acid or 2,4-D - one of the world's most popular defoliants and beloved of manufacturers because its patent has long expired.

Nufarm's core problem is import competition which has eroded margins in some key categories, as well as Chinese supply disruptions which have affected its European operations. In the US, the problem has been "unprecedented floods" rather than drought.

The confluence of woes means Nufarm shares are trading at close to record lows, but chief executive Greg Hunt is not using the "proverbial perfect storm" as an excuse.

"Capital markets can have a low tolerance for delayed performance and, frankly, we're not always good at setting those expectations clearly enough either," he told a recent online investor confab.

## **Nufarm's Kiwi roots**

As with Russell Crowe 'our' Nufarm originated across the Tasman, as the New Zealand Farmers Fertiliser Co-op registered in 1916. A chap called Max Fremder founded the Melbourne-based Australian operations in the 1950s, selling herbicides door to door.

Four more than four decades Nufarm was synonymous with its chief executive officer and then major shareholder Doug Rathbone, who built the company from a \$20 million tiddler to a weed conquering giant selling in 100 countries.

A former science teacher, Mr Rathbone was hired by Mr Fremder in 1973. In February 2015 Mr Rathbone handed over the tiller to Greg Hunt, former Elders exec and not to be confused with the current Federal Health Minister.

Under Mr Hunt, the company has embarked on a number of get-fit initiatives, including a more singular focus on core crops: corn, soybean cotton and cereals. Last year Nufarm sold its profitable Brazilian operations to its biggest shareholder, Sumitomo for just under \$1.2 billion.

## **Seed capital**

Nufarm's Nuseed arm has been germinating since 2011 - but is only just sprouting into a commercial business.

Co-developed with the CSIRO and the Grains Research and Development Corporation, Nuseed's omega-3 rich canola is being marketed as a fish feed (Aquaterra) and for human nutrition (Nutriterra). Other potential markets include food additives and pharmaceuticals.

Canadian regulators in late July approved Nuseed omega-3 canola for both human consumption and a feedstock for aquaculture and livestock.

“The Canadian market is particularly important because it is the world’s largest market for canola cultivation and also the third largest producer of farmed salmon,” Mr Hunt says.

Nuseed’s canola is also approved for food and feed locally and for cultivation in the US, and the company’s second-tier product is its genetically modified version of carinata, a canola-like plant that can be used as a feedstock to produce biodiesel. Carinata grows like a weed - ironically - and doesn’t require fertilizer.

The idea is that farmers grow carinata between their rows of crops, typically soy. Thus, carinata does not replace land for food crops and is useful for carbon credits.

Saipol, Europe’s biggest biofuels producer has signed on as Nuseed’s first commercial client. Qantas and United Airlines have also dabbled in carinata fuels - or at least back in the days when they actually flew aeroplanes.

More broadly, Nufarm takes a cautious approach to research and development and avoids the early stage stuff. Mr Hunt says research-focused crop protection companies generated strong returns from their own brand products up to the mid-Noughties. But after that, generic products gained the upper hand and the “research companies” pivoted to generics, spurring a round of consolidation.

At the same time the generic providers moved to differentiate their products and the generic-branded delineation became blurred. The repercussions are clear though: with apologies to Coles, prices are down, down, down.

## **Europe’s war on pesticides**

One of Nufarm’s longer term challenges is to counter consumer trends to chemical-free produce - or perhaps go with the flow. A recent European Commission strategy paper, Farm to Fork, outlines a “clearly stated political ambition” of halving the use of chemical pesticides by 2030.

Mr Hunt notes the targets are not yet binding, with legislation not expected before 2024 at the earliest. Still, to hedge its bets, Nufarm recently acquired a biological seed treatment product from German chemical giant BASF, “which may be suitable for commercialization in Europe”. Nufarm is also willing to invest “small amounts” into alternatives such as electrical weeding. Also known as digital herbiciding, digital weeding involves zapping weeds with a shot of high voltage energy.

## **Rounding Up the lawyers**

Nufarm’s valuation is likely to remain under pressure given a rash of US-based litigation alleging that glyphosate - one of the most widely used herbicide ingredients - is carcinogenic. Glyphosate is popularized in suburbia by the off-the-shelf product Roundup.

Nufarm does not manufacture glyphosate but uses it in other product formulations. The heat is on agri-chemical giant Bayer, which acquired Roundup maker Monsanto.

In the US, three jury cases have ruled against Bayer with the first plaintiff, a school groundskeeper, awarded \$US289 million (\$A400 million). Bayer is appealing the decision.

Locally, a Melbourne landscape gardener has launched an action against Monsanto (Bayer) alleging his non-Hodgkin's lymphoma (cancer) resulted from glyphosate exposure over two decades.

Mr Hunt says glyphosate has been used for 40 years, "with a large body of scientific studies [supporting] this safe product when used in accordance with label recommendations".

His protestations are backed by the Australian Pesticides and Veterinary Medicines Authority, which registered glyphosate products as "safe and effective if used according to the label directions".

The US environmental regulator also decreed glyphosate as safe - but the Germans have declared it verboten from 2023.

Suffice to say, the issue won't go away in a hurry.

### **Where have all the flowers gone?**

The corona-crisis has affected Nufarm in an unexpected way: wilting demand in the North American 'turf and ornamental' sector.

Nufarm is ranked number three in this market, which includes turf growers, golf courses and cut flower producers. "Many farmers are not able to access the seasonal labor required to harvest the crops," Mr Hunt says. "They are not investing to maximize the yields of crops they may not harvest."

Mr Hunt says Nufarm likes the sector because it taps the same inputs as the agricultural products. "It's higher margin and generally less seasonal than the other markets."

### **Finances and performance**

Nufarm had a weak first half, under-performing across all its operations except the (since divested) South American operation.

Nufarm's operating loss came in at \$85.2 million, compared with an \$11.5 million loss previously. Seasonally, the company's second half is more important.

Allowing for the South American divestment, Nufarm gleaned 43 percent of its revenue from North America, with Europe accounting for 25 percent and Australia and Kiwibubbleland 19 percent.

Nuseed chipped in five percent of turnover, with crop protection accounting for the remainder.

On a brighter note, third (April) quarter sales and earnings rebounded. But the company was constrained by reduced inventory as it sought to manage working capital during the drought.

Broker Credit Suisse forecasts a current-year loss of \$66 million on revenue of \$2,544 million, a 33 percent decline.

The closure of the Laverton (Raymond Road) site is expected to cost \$50 million, but management has also guided to a \$15 million annual profit boost from the efficiency drive, as measured by earnings before interest tax depreciation and amortization (ebitda).

The \$50 million figure includes a \$25 million cash impost, but this will be offset partially by the sale of the Laverton site (and property values out that way are holding up well).

Over the last year Nufarm shares have traded between \$6.76 (mid-October 2019) and \$3.94 (mid-July). Over the last 10 years they have wandered between \$9.57 (May 2017) and \$3.63 (September 2010).

### **Dr Boreham's diagnosis:**

As with its farming clients, Nufarm always needs a dose of good luck - and we're mainly talking about the weather - to perform at its peak.

Nature's cycles aside, Nufarm also needs to control its own destiny and it's doing so with its cost cutting program and a more singular approach.

"We focus our activities and resources on five core crops and the key geographies we've chosen because of their size, growth potential and their ability to leverage our strengths," Mr Hunt says.

"We believe this focus - deeper rather than broader - will allow us to generate better returns for shareholders over time."

Mr Hunt expects the performance improvement program to affect every part of the business, with a further update due at the company's full year results on September 23.

In the longer term, Nuseed appears to be sowing a promising business and is one to watch.

From acorns, oak trees grow.

***Disclosure: Dr Boreham is not an agronomist and does not possess a relevant - or irrelevant - doctorate of any sort. Roundup has been banned in the Crucible household ever since your author killed the neighbor's nature strip on a gusty day.***

### RIDLEY CORPORATION

Ridley says it has opened its \$47 million Wellsford, East Bendigo-based feed mill facility to supply poultry and pig customers in central and northern Victoria.

Ridley said the facility had an annual production capacity of 350,000 tonnes.

The company said employees and production had transitioned from the existing Bendigo feed mill, which had been closed and would be prepared for divestment, and production at the Mooroopna feed mill would be absorbed by the new facility over the next nine months.

Ridley was unchanged at 74.5 cents.

### CLEAN SEAS SEAFOOD

Clean Seas says receipts from customers for the year to June 30, 2020 were down 6.8 percent to \$42,657,000 compared to the previous corresponding period.

Clean Seas said receipts were primarily from sales of fish in non-restaurant channels.

The company said it had cash and cash equivalents of \$22,169,000 at June 30, 2020 compared to \$6,271,000 at June 30, 2019.

Clean Seas fell two cents or 3.5 percent to 55 cents.

### THC (THE HYDROPONICS CO) GLOBAL GROUP

THC says receipts from customers for the six months to June 30, 2020 were up 122.9 percent to \$3,168,000 compared to the previous corresponding period.

THC said that revenue was primarily from its Canadian hydroponics equipment and cultivation business, but also from sales of its Canndeo medical marijuana and from manufacturer agreements for Cannatrek and Medleaf Therapeutics.

The company said it had cash and cash equivalents of \$9,039,000 at June 30, 2020 compared to \$5,689,000 at June 30, 2019.

THC was unchanged at 26 cents.

### CRESO PHARMA

Creso says receipts from customers for the six months to June 30, 2020 were up 314.0 percent to \$2,948,000 compared to the previous corresponding period.

Creso said receipts from customers for its Cannqix food additives, Mernova medical marijuana and its anibidiol animal health products for the three months to June 30, 2020 rose 154.7 percent to \$1,505,000.

The company said it had cash and cash equivalents of \$3,281,000 at June 30, 2020 compared to \$3,580,000 at June 30, 2019.

Creso was up 0.1 cents or 3.2 percent to 3.2 cents.

### REGENEUS

Regeneus says receipts from customers for the year to June 30, 2020 was \$1,639,000. Regeneus said receipts were from a non-refundable milestone payment from Japan's Kyocera Corp, following its stem cell Progenza for knee osteoarthritis passing due diligence.

The company said it had cash and cash equivalents of \$982,000 at June 30, 2020 compared to \$255,000 at June 30, 2019.

Regeneus was in a trading halt and last traded at 11 cents.

### CANN GLOBAL

Cann Global says receipts from customers for the year to June 30, 2020 were up 54.4 percent to \$1,346,000 compared to the previous corresponding period.

Cann Global said receipts were from sales of its hemp seed products.

The company said it had cash and cash equivalents of \$7,417,000 at June 30, 2020 compared to \$5,188,000 at June 30, 2019.

Cann Global was up 0.1 cents or 20 percent to 0.6 cents with 2.8 million shares traded.

### NUFARM

Allan Gray Australia says it has increased its substantial shareholding in Nufarm from 28,760,651 shares (7.58%) to 32,827,083 shares (8.65%).

The Sydney-based Allan Gray said that it bought and sold shares between December 10, 2019 and August 3, 2020.

Nufarm fell three cents or 0.7 percent to \$4.14 with 707,458 shares traded.

### TERRAGEN HOLDINGS

Sydney's One Funds Management says it has increased its substantial shareholding in Terragen from 12,566,000 shares (6.73%) to 14,449,668 shares (7.73%).

One Funds said it bought the shares between November 26, 2019 and August 4, 2020, with the single largest purchase on November 26, 2019 of 8,000,000 shares for \$2,000,000 or 25 cents a share, with the most recent purchase 199,668 shares for 42,069 or 21.1 cents a share.

Terragen was unchanged at 24 cents.

### AUSCANN GROUP HOLDINGS

Auscann says it has appointed Nick Woolf as its chief executive officer, effective immediately.

Auscann said the current chief executive officer Ido Kanyon would leave the company at the end of August 2020, following a handover period (BD: May 7, 2020).

The company said Mr Woolf had more than 25 years' experience in investment banking and life sciences, including as the chief executive officer of Proteolytics, the chief business officer of Suda Pharmaceuticals and the chief financial officer of PYC Therapeutics (then Phylogica).

Auscann said Mr Woolf held a Bachelor of Arts and a Master of Arts in Chemistry from Oxford University.

Auscann was up 0.5 cents or 3.3 percent to \$15.50.

### REGENEUS

Regeneus has requested a trading halt "pending an announcement ... in relation to a licencing agreement in Japan".

Trading will resume on August 11, 2020 or on an earlier announcement.



### MGC PHARMACEUTICALS

MGC says pre-clinical in-vitro laboratory tests has shown that its Artemic could be used “as an immune-modulatory agent for the treatment of Covid-19”.

MGC said in-vitro studies at Israel’s Myplant Bio research laboratory “were designed to test the effect of Artemic and its ingredients, consisting of artemisinin, vitamin-C, curcumin [and] Boswellia serrata, on responses of human peripheral blood mononuclear cells to inflammatory stimuli”.

Last week, the company said its mouse study of Artemic for severe acute respiratory syndrome coronavirus-2 (Sars-Cov-2) showed no adverse results in standard toxicity measures (AVW: Jul 31, 2020).

MGC was up 0.3 cents or 13.6 percent to 2.5 cents with 107.3 million shares traded.