

# Ag & Vet Weekly



Tuesday April 6 - Friday April 9, 2021

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

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## MARKET REPORT

The Australian stock market slipped 0.05 percent on Friday April 9, 2021, with the ASX200 down 3.6 points to 6,995.2 points. Twenty-one of the AVW-42 stocks were up, 11 fell, nine traded unchanged and one was untraded.

Avecho was the best, up 0.2 cents or 9.5 percent to 2.3 cents, with 16.1 million shares traded. AP Hemp climbed 7.3 percent; Cann Global was up 6.7 percent; Nanollose rose five percent; Tasfoods improved 4.2 percent; Huon was up 3.8 percent; Anatara, Creso, Epsilon and Wide Open rose more than two percent; Elders, Next Science, Nufarm, Seafarms and Tassal were up more than one percent; with Bega, Clover, Costa, Ecofibre, Ridley and Select up by less than one percent.

Pharmaust led the falls, down 0.7 cents or 6.7 percent to 9.8 cents, with 1.8 million shares traded. Terragen fell 5.4 percent; A2 and Palla lost more than three percent; Althea, Bubs, Elixinol, Fonterra, MGC and Synlait shed two percent or more; with Clean Seas down by 1.5 percent.

## DR BOREHAM'S CRUCIBLE: SELECT HARVESTS

**By TIM BOREHAM**

**ASX Code:** SHV

**Share price:** \$6.35; **Shares on issue:** 120,224,370; **Market cap:** \$763.4 million

**Chief executive officer:** Paul Thompson

**Board:** Michael Iwaniew (chair), Fred Grimwade, Nicki Anderson, Fiona Bennett, Guy Kingwill, Mr Thompson

**Financials (year to September 30, 2020):** revenue \$248.2m (down 17%), net profit after tax \$25m (down 53%), earnings before interest taxation depreciation and amortization \$57.8m (down 37%), earnings per share 26c (down 53.2%), net debt \$57.5m (previously net cash of \$7.9m).

**Major identifiable shareholders:** Paradise Investment Management 9.4%, Perpetual Funds Management 7.9%, Yarra Funds Management 7.7%, Vanguard Group 5.01%.

When a butterfly flaps its wings in the Amazon, it supposedly causes a tornado in Texas or a tremor in Tokyo.

Your columnist never quite grasped the science behind this lore – something to do with chaos theory - but what's more evident is that a looming drought in distant California bodes well for Select Harvests, Australia's biggest almond grower and processor.

The popular tree nut is grown in 11 countries but California accounts for 80 percent of global output. The industry is confined to the large expanse of the San Joaquin and Sacramento valleys, because as well as requiring a lot of irrigation, almond trees thrive in dry, desert-like climates.

The local bugle, the Sacramento Bee reports that water agencies in the relevant catchment, the Central Valley Project will get just five percent of their contracted supply, "a dismally low number". According to a scholarly treatise, one million acres may have to be left fallow in the San Joaquin valley within two to three decades, crimping farm output by \$US7.2 billion a year.

Select Harvests reports largely buoyant growing conditions across its almost 10,000 hectares of orchards spanning South Australia's Riverland region, Victoria's Mallee and the New South Wales Murrumbidgee irrigation system. With half the crop harvested and 10 percent processed, in late March the company affirmed expectations of at least 27,700 tonnes, 19 percent better than previously.

Meanwhile it's been pelting down in New South Wales, including the normally dry Murray-Darling Basin, easing the cost of water, which has been at record or near record levels. The main aspect holding back Select is financial reward. Given the subdued demand and decent growing conditions elsewhere, the almond price is around 10-year lows.

## **Select Harvests in a nutshell**

Then known as Defender Ltd, Select was founded in 1978 and listed in 1983. Originally the plantations were based in the Adelaide plains - as well as Kangaroo Island - but as the industry moved east, so too did Select.

In 2002, Select took up HQ in Thomastown - where it remains today. The Carina West plant in northwest Victoria was commissioned in 2008. The company owns 56 percent of its orchards and leases the remainder.

Late last year, the company acquired the Piangil orchard in Victoria's Sunraysia district from three unlisted parties, for \$129 million cash, adding 1,566 hectares, taking total land to 9,692 hectares. Piangil also held a handy 2,499 megalitres (ML) of water rights.

Select also produces packed consumer products at Carina West, as well as its HQ in the northern Melbourne industrial suburb of Thomastown. The food business is up for sale (see below).

The company is a picture of stability at the top: CEO John Bird presided for 14 years up to early 2012, when he was replaced by Mr Thompson. Mr Iwaniw has been chair since 2011 and Messrs Carroll and Grimwade have been directors since 2009 and 2010 respectively.

## **Almonds: the new 'super food'**

As a plant-based food, almonds enjoy super food status: they're high in vitamin E, fibre, protein and monosaturated fats (the good fats).

"Almonds are a remarkable product for its versatility and we are creating new uses for it," Mr Thompson says. "Ten years ago, who would have thought of almond milk or a protein ball or macaroons which are all almond meal."

Almond yoghurts and cheeses are also in the offing.

"The versatility of the ways your product turns up in your breakfast, lunch and dinner is remarkable."

Globally, China and India are the biggest nut consumers. Almonds are also synonymous with weddings: traditionally, betrothed Italians send out wedding invites with exactly five almonds, to signify fertility, longevity, happiness, health and wealth.

## **The mandatory Covid-19 bit**

The pandemic affected the sector, but more by way of port closures and shipping problems than reduced demand, per se. In July 2020, the Australian Almond Board reported exports were down 37 percent owing to Covid-19.

But Select cites December quarter exports of 309,502 tonnes, 23 percent higher than the pre-Covid December 2019 quarter.

“The Californian industry has sold more almonds year to date than they did last year. It’s just that their crops are bigger as well,” Mr Thompson says. “There have been lower prices but the California and Australia almond marketing boards have done a good job.”

### **Place your bids ...**

With the consumer business producing substandard returns, the board undertook a strategic review of options including upgrading Thomastown, merging Thomastown with Carina West, or outsourcing the whole shebang.

But in the end the board opted to appoint Kidder Williams - the firm of adviser and agri and biotech investor David Williams - to rustle up a buyer.

The food business includes Lucky, Sunsol, Nuvitality, Allinga Farms and Renshaw.

“We have good interest in the business. It’s a strategic decision we want to focus on our almond assets and we thought that with consumer food ... someone else’s skills are greater than ours.”

Management hopes to be able to update the markets at its May half-year results.

While Select has been unable to make a decent fist of the division, there’s little doubt the business would appeal to a food multinational with the ability to drive economies of scale and marketing spend. Or how about the acquisitive Arnott’s or Pepsi or even a private equity firm.

### **Financials and performance**

With a September 30 balance date, last year, Select generated a net profit of \$25 million and an underlying profit (Ebitda) of \$57.8 million. This was struck on revenue of \$248 million, down 17 percent.

At its late March update, management said pricing would be between \$5.50 and \$6.00 per kilogram. Select also reports it has pre-sold less than 20 percent of its crop, at \$6.60/kg.

On the consensus expectations of the brokers who cover the stock, Select is expected to report another subdued profit of \$16 million in 2021.

As of February, the Almond Board of California reported robust 2020 crop receipts of 3.1 billion pounds (1.4 billion kilograms or 1.4 million tonnes), but with blooming patterns to date suggesting a more subdued current-year crop.

Assuming a full-blown California drought takes hold in 2022, Select’s earnings improve to \$37 million.

The Piangil purchase was funded by a \$120 million capital raising: \$81.3 million from institutions and \$38.7 million from retail punters. Given the issue was struck at \$5.20 a share, participants still have something to smile about, with a circa 20 percent profit.

Select Harvests shares have defied the usual Covid-era trends: in mid-May last year they hit a 12-month high of \$7.84, but by mid-January this year the stock had declined to \$4.96. Over time, the shares have traded as low as \$1.17 (October 2012) and as high as \$14.10 (November 2005).

## **The rights and wrongs of water rights**

As with most orcharding, Select's business is intrinsically linked with the cost of water. While a farmer can choose not to grow a crop in dry times, the trees require consistent irrigation.

Murray-Darling Basin water rights are a sensitive topic politically, with users (growers) bemoaning the entry into the market of financial parties who have never tilled the soil. The Federal Government has also spent billions on controversial buyback schemes to improve environmental flows.

Water rights are also highly complex, with various permanent and temporary entitlements across multiple catchments.

In a dry year, the amount to which you are 'entitled' might not be the amount you actually get. In theory, lots of rain diminishes the value of temporary rights, as there are fewer growers desperate for last-minute top-up water to save their crops.

But more rain can bolster the value of permanent rights, because annual allocations tend to be higher and/or more reliable.

While the price of permanent right has barely moved, Mr Thompson says Select is paying around \$85 per megalitre (ML) compared with \$700ML in drought-ridden times.

With water (and associated energy costs for pumping) accounting for 10 to 20 percent of Select's costs, Mr Thompson says the company doesn't exactly go out of its way to waste water.

The company has invested heavily in initiatives such as low friction drip lines and clearing pipes

"There are always campaigns about saving water," he says. "The main thing is maximizing the financial return."

He describes almond trees as "sooky".

"They can be drowned with too much water.

"If you don't give them enough water it doesn't go yellow [show up] for 17 days, so you really need to monitor them."

The March deluges did not affect Select's South Australia and Victorian orchards, while in New South Wales the disruption related to harvesting late blooming closed-shell crops (but not enough to alter the guidance of 27,700 tonnes).

“We were lucky,” Mr Thompson says.

“Certain varieties are more exposed than others and we had harvested the vulnerable variety by then.”

### **Dr Boreham’s diagnosis:**

Select Harvests has been a hard nut for investors to crack over the years, with the benefit of decent harvests often offset by poor pricing and elevated costs (especially for water).

As mentioned at the outset, the key variable is the size of the Californian crop, not so much this year as in 2022.

During the “exceptional” drought of 2014-’16, the almond price spiked to \$11.45/kg, delivering a bumper earnings before interest and tax (Ebit) to Select of \$89 million.

Meanwhile, Select ascribes a \$170 million book value to its owned orchards and the Carinya West facility, compared with “assessed market value” of \$250 million.

Similarly, the water rights have a book value of \$38 million, compared with market value of \$98 million.

Throw in a decent price for the food assets and there’s a kernel of truth in the notion that Select shares are undervalued as the company pursues its ambition of becoming a 30,000-tonnes to 35,000-tonnes per annum producer, within the next five years.

But as with any agriculture play, Select is subject to numerous exogenous factors that influence supply, demand and pricing.

We also haven’t mentioned currency: with almonds denominated in \$US, an appreciating Aussie dollar is unhelpful.

Another is the availability of bees to pollinate the crops.

But the most salient rule of thumb, every 50 cents per kilogram price improvement lifts Ebit by \$14 million.

Mr Thompson notes the long-term average price of \$7.50/kg to \$8.00/kg, compared with around \$6/kg today.

“It’s not easy to tell when prices will recover,” Mr Thompson says.

“But the one thing we know is that prices will recover.”

***Disclosure: Dr Boreham is not an agronomist and does not possess a relevant – or irrelevant - doctorate of any sort. But there’s a sliver of truth in the rumor he eats an awful lot of almonds.***

### PHARMAUST

Pharmaust says it has received \$755,595 from the Australian Tax Office under the Federal Government Research and Development Tax Incentive program.

Pharmaust said the rebate related to expenditure for the year to June 30, 2020.

Pharmaust fell 0.7 cents or 6.7 percent to 9.8 cents with 1.8 million shares traded.

### CANN GLOBAL

Cann Global says that Western Sydney University will trial the efficacy of marijuana for multiple sclerosis.

Cann Global said that the Western Sydney University trial followed the “successful research” by Dr Dedi Meiri at the Haifa, Israel-based Technion which showed that one strain of marijuana “stopped the progression” of multiple sclerosis in mice “and in some cases reversed the damage caused”.

Cann Global was up 0.05 cents or 6.7 percent to 0.8 cents with 25.2 million shares traded.

### PHARMAUST

Pharmaust says that Leiden University Medical Centre research shows that monepantel has anti-viral activity against Sars-Cov-2, in-vitro.

Last year, Pharmaust said that the Netherlands’ Leiden University Medical Centre would use cultured cell infection models of severe acute respiratory syndrome-coronavirus-2 (Sars-Cov-2) to test monepantel and monepantel sulfone, originally developed as sheep roundworm drench, and later tested for cancer in humans and dogs (AVW: Sep 25, 2020).

Today, Leiden University’s Prof Martijn van Hemert said the in-vitro tests has shown “indications for an anti-viral effect in these assays, but solubility issues under the conditions required for cell-based screening complicate analysis”.

“Additional experiments will now be performed on Sars-Cov-2 infected human lung cell lines,” Prof van Hemert said.

### NEXT SCIENCE

Next Science says it will release 72,847,807 shares from ASX escrow on April 18, 2021.

According to Next Science’s most recent Appendix 2A new share issue, following the release from escrow, the company will have 194,201,409 shares available for trade on the ASX, with no further shares in ASX escrow.

Next Science was up 1.5 cents or 1.1 percent to \$1.375.

### MGC PHARMACEUTICALS

MGC says it has received an order from Swiss Pharmacan AG for \$425,000 of its Artemic Rescue food supplement for Covid-19.

MGC said Swiss Pharmacan would distribute Artemic Rescue, focussing “on countries currently reporting high numbers of Covid-19 patients”.

MGC fell 0.2 cents or 2.9 percent to 6.8 cents with 5.5 million shares traded.

### MGC PHARMACEUTICALS

MGC says Nadine Barry will replace joint company secretary Narelle Warren and it plans to issue 70,000,000 performance rights to directors and management.

MGC said Ms Warren had resigned effective from April 7, 2021, and Ms Barry would be joint company secretary with Rachel Kerr.

The company said Ms Barry had three years' experience as a corporate secretary for Chieftain Securities.

MGC said it planned to issue 57,000,000 performance rights to directors and 13,000,000 to key management staff, subject to shareholder approval.

The company said the performance rights would have a share price hurdles of 125 percent (8.75 cents) and 150 percent (10.5 cents) of the 10-day volume-weighted average price and a tenure of service of between 12 and 24 months from April 1, 2021.

### NUFARM

Sumitomo Mitsui Trust Holdings and subsidiaries say they have reduced their substantial holding in Nufarm from 30,577,548 shares (8.05%) to 25,032,160 shares (6.59%).

The Tokyo-based Sumitomo Mitsui said that between June 20, 2020 and March 31, 2021 it bought, sold and transferred shares, with the single largest sale 7,909,973 shares for \$36,744,091 or \$4.65a share.

Nufarm was up 10 cents or 1.9 percent to \$5.41 with 1.3 million shares traded.

### FEDERAL GOVERNMENT

The Department of Agriculture, Water and Environment says Dr Robyn Cleland has been appointed chief environmental biosecurity officer.

In a media release, the Department's biosecurity and compliance deputy secretary Andrew Tongue said Dr Cleland had held "senior leadership roles" in the Australian Public Service for more than a decade, in the Departments of Agriculture and Health and Environment working in policy, compliance, and regulation.

"Her scientific expertise spans biosecurity, plant health, biotechnology, food, ecology and agriculture," Mr Tongue said.

"Before she joined the [Australian Public Service], Dr Cleland was a research scientist at the University of Cambridge, the University of Sheffield, and the Australian National University," Mr Tongue said.

### BEGA CHEESE

Bega says it has appointed Harper Kilpatrick as a director.

Bega said Mr Kilpatrick and his wife Oonagh Kilpatrick operated two Koroit, Western Victoria-based dairy farms which milked about 1,200 cows.

The company said Mr Kilpatrick was currently a non-executive finance director at Australian Dairy Conference Pty Ltd and had previously held executive roles at Glenfarm Holdings, was deputy chief financial officer with Almarai Co and was a non-executive director at Murray Goulburn Co-operative.

According to his LinkedIn page, Mr Kilpatrick holds a Bachelor of Applied Science from England's University of Reading and a Master of Business Administration from the Coleraine, Northern Ireland-based University of Ulster.

Bega was up one cent or 0.2 percent to \$6.40 with 634,311 shares traded.



### COSTA GROUP HOLDINGS

Costa says Harry Debney has resigned as director and Sean Hallahan has become a director, effective from March 31, 2021.

The company did not file a separate announcement, instead filing an Appendix 3Z final director's interest notice for Mr Debney and an Appendix 3X initial director's interest notice for Mr Hallahan.

Last year, Costa said its chief executive officer Harry Debney intended to retire within the next nine months having been with the company for 10 years (AVW: May 29, 2020).

In November, the company said it had appointed chief operating officer Sean Hallahan as chief executive officer, effective from March 31, 2021 and starting on a salary of \$850,000 a year (AVW: Nov 13, 2020).

Costa was up one cent or 0.2 percent to \$4.66 with 1.6 million shares traded.

### CRESO PHARMA

Creso says it has appointed John Griesse as US business development director.

Creso said Mr Griesse had about 30 years of experience in sales, consumer package goods operations and supply chain management.

The company said Mr Griesse was formerly the chief operating officer at Supreme Cannabis Company and Bloom Farms and previously was employed by Nestle and Pepsico.

Creso said Mr Griesse would pursue revenue generating opportunities in North America ahead of "potential legislation of recreational cannabis".

Creso was up half a cent or 2.4 percent to 21 cents with 18.6 million shares traded.