



**Australian Agricultural Company Limited**  
**ABN 15 010 892 270**

## **ASX RELEASE**

**Thursday, January 31, 2013**

### **Strong operational result in a challenging market**

- **Operational targets including weight gain and calving all met or exceeded**
- **Largest herd on record poised to sell into rising global beef prices**
- **Net operating cash flow marginally negative following strategic decision to retain heifers and maximise weight gain on trading herds – a \$63 million improvement on prior year**
- **2011 live export suspension and Indonesia's subsequent decision to reduce imports still pressuring cattle prices and distressing property valuations**

Australia's largest beef cattle producer, the Australian Agricultural Company Limited (AACo), today announced a full-year loss after tax of \$8.4 million.

Managing Director David Farley said AACo had achieved a \$63 million turnaround improvement in operating cash flow and at year end had a record herd poised to generate cash in 2013 and future years.

"AACo held back trading cattle to add weight to and sell into a market we predict will improve following recent rains, and align with the price gains seen on the global market," he said.

"This was a result of a strategic decision in the second half to increase AACo's breeding herd to 330,000 head and maximise calf production in coming years while good grass is available.

"AACo has grown its herd to a record size while global supply has shrunk, and is now in an excellent position to generate cash by selling into rising global beef prices.

"AACo has had a good operational performance, meeting or exceeding our targets in weight gain and calf branding."

Mr Farley said the effects of the Federal Government's 2011 suspension of live cattle exports to Indonesia and Indonesia's subsequent halving of cattle imports quotas continue to affect property and cattle valuations across northern Australia.

“AACo has written down \$41 million in the value of its northern Australian properties due to this suspension, of this \$8.1 went through the profit and loss statement as impairment costs,” he said.

“The suspension resulted in an oversupply of cattle to the domestic market. In combination, dry conditions also meant an increased supply of grass-fattened cattle. These factors depressed Australian cattle prices during the second half, directly affecting the final valuation of the herd on a mark-to-market basis at year end.

“With a much larger herd, under SGARA (Self Generating and Regenerating Assets) accounting rules, livestock values at year end have a significant impact on year-end results. For example, a 10c change in cattle price equates to a \$5.4 million impact to our profit result.<sup>1</sup>

“The development of AACo’s Darwin abattoir, which is now in the tendering stage, will go some way to insulating AACo from movements in domestic and live export pricing and open up another marketing channel to reduce market risk.

“The season resulted in a record result for AACo’s farming operations which more than doubled revenue, although flooding and poor cost control negated some of the benefits from the increased revenue.”

AACo completed several critical management initiatives during the year, including a rollout of radio frequency identification ear tags to the entire herd. This will enable market-leading herd management and allow us to further improve herd management in the future.

### Group financial results

		<b>Change</b>
<b>EBITDA</b>	\$32.2m	46.0 per cent decrease
<b>EBIT</b>	\$14.7m	71.3 per cent decrease
<b>NPAT</b>	(\$8.4m)	158.4 per cent decrease
<b>Gross margin</b>	\$109m	7.9 per cent decrease
<b>Finished and store cattle revenue</b>	\$161.6m	0.7 per cent decrease
<b>Wholesale beef revenue</b>	\$140.4m	3.9 per cent increase
<b>Farming revenue</b>	\$19.2m	134.8 per cent increase
<b>Operating cash flow</b>	(\$0.8m)	98.9 per cent increase
<b>Herd numbers at year end</b>	681.7k head	2.4 per cent increase
<b>Total kilograms produced</b>	94.6 million	17.2 per cent increase

Despite lower prices and thanks to strong weight growth and brandings AACo managed to keep its gross margin relatively stable in a difficult market, with a 7.9 per cent decrease.

The company finished the year with net tangible assets of \$2.04 per share, of which \$1.58 is directly attributable to livestock and \$1.93 to property, plant and equipment. A further \$0.23 is attributable to other assets such as debtors & inventories and are balanced by \$1.71 in liabilities.

The strategic decision to retain cattle from sale affected cash flow, with an operating cash outflow of \$0.8 million, slightly below the positive cash flow anticipated.

<sup>1</sup> See Appendix One for sensitivity analysis

Other factors affecting cash flow were lower cattle sale prices than estimated (\$7.1 million), debtors not settling in December as anticipated (\$4.0 million), increased costs as a consequence of the late start to the wet season and lower farming cash flow (\$5.8 million) due in part to a change in cropping programs.

The company now estimates total losses as a result of the suspension of live trade, and the related devaluation of our northern Australian properties, to have grown to a total of \$51.2 million (\$8.5 million in 2011). The company notes the Federal Government has said it may be liable to pay compensation for the suspension. Losses were also sustained from cattle falling out of specification and having to be delivered to other markets.

### Seasonal Conditions

Weather conditions in the first six months of the year were supportive with good rainfall. However the last six months of the year were drier than anticipated with the late onset of wet conditions to properties outside of the Queensland Gulf properties. These drier conditions have been a key contributing factor to the larger flows of grass prime cattle coming to market and depressing cattle prices at year end.

Several stations were also impacted by fires in second half. These fires led to increased labour, transport and feed costs while relocating cattle.

The recent deluge across Queensland and NSW has missed the majority of our pasture stock, but will have a beneficial effect on cattle markets.

### Cattle Operations

During the year the company delivered 249,000 (2011: 240,000) head of cattle for sale.

	Grass Finished	Shortfed Grain Finished	Wagyu	Breeder and Feeder	Live Export	Total sales
<b>FY12</b>	50,184	20,492	36,674	59,107	82,409	<b>248,865</b>
<b>FY11</b>	47,166	33,422	28,536	50,470	80,177	<b>239,771</b>

Sales revenue was comparable with 2011, with a gross margin 13 per cent lower due to the lower prices per head and fair-value adjustments. These effects were partly offset by a 16 per cent increase in the value of the herd due to increased weight and brandings.

Total weight produced increased 17.2 per cent, to 94.6 million kgs. During the year AACo branded 174,300 calves, 80 per cent of all joined cows and an 11.5 per cent increase on 2011. This was AACo's best branding result ever, due to tight breeder herd management, a 100 per cent pregnancy testing program and segregation management improving productivity.

AACo inducted approximately 547,000 head into its Individual Animal Recognition (IAR) system. This now enables 100 per cent traceability of cattle to enhance overall herd performance monitoring and management.

AACo now has a more balanced exposure to grass-finished cattle, Wagyu long grain fed, shortfed finished, breeder cattle and live exports.

## **Wholesale Beef Group Operations**

The Wholesale Beef Group sold 16.9 million kgs (2011 - 17.0 million kgs) of boxed beef during the year. Wholesale beef continues to face pressure from the high Australian Dollar. Wagyu products have faced competition from domestic Korean Hanwoo and US imports into Korea. Non-wagyu may not be competitive until AACo can control abattoir production.

Wagyu gross margins are similar to 2011 while non-wagyu margins are poor. There has been some increased cost of operations during 2012 as a result of the decision to consolidate AACo's cold store activity.

## **Farming Operations**

Farming operations improved with good crop yields and a 134.8 per cent improvement in revenue to \$19.2 million. The farming gross margin improved 440 per cent to \$7.8 million.

Winter wheat at Goonoo finished better than budgeted, while wheat and chickpeas in Southern Queensland had a dry finish. The chickpeas were planted to cotton country when the cropping program changed during 2012.

Summer cotton and sorghum suffered flooding at Goonoo, which impacted yield and caused some crop loss.

## **Property portfolio**

The drop in cattle prices caused by the suspension of live trade has flowed through to revaluations of our northern Australia property holdings based on independent valuations. This has resulted in an approximate \$41 million write down (2011: increment \$9.5 million) on the balance sheet of which \$8 million flowed through to the profit and loss account as a pre-tax impairment.

The major valuation decreases occurred in the Victoria River Group (35.3 per cent decrement) and the Barkly Group (6.8 per cent decrement). Both these areas were impacted by the live cattle suspension.

AACo completed a full water analysis of all its sub-artesian bores in 2012.

## **Darwin Abattoir update**

An external project manager has been appointed and preparatory ground works are now underway. Major elements of the plant are now in the process of going out to tender.

The \$85 million Darwin abattoir will be the first major beef processing facility in northern Australia and will allow cattle to be processed locally, reducing transport and freight costs for northern producers who currently truck live cattle across large distances to southern processing plants.

AACo is in advanced discussions with potential equity partners looking to invest in the project.

AACo cattle are being aligned to ensure sufficient supply for the plant once operational and discussions have begun with other pastoralists in the plant's catchment area. Discussions are also underway with several potential off-take customers.

## **Strategic plan update**

The company's three-year turnaround plan focused on improving the management and productivity of cattle and land assets has come to a successful end with the delivery of an invigorated herd and physical outcomes.

The herd has been expanded to record levels and its genetics significantly improved.

AACo's plan to vertically integrate and capture more value from the herd is well advanced with the Darwin abattoir project.

The strategic plan for the next stage of growth sees AACo leverage its logistical advantage to increase exposure to, and integration with, high-growth economies in South East Asia.

AACo will continue to integrate and develop a Northern Australia based supply chain to ensure we are optimising the value for every animal, and focus on cost reduction.

AACo has developed a significant amount of corporate intelligence, powerful management systems such as IAR and genetic capability and will leverage these to maximise returns on our assets.

## **Dividend and outlook**

The Board has determined that no dividend will be declared for the 2012 financial year.

The current outlook is that during 2013, the selling off of carried forward trading stock into improved global beef prices should see AACo group generate an operating cash surplus.

## **Reporting date change**

The company has announced that it will be changing its financial year-end from 31 December to 31 March, effective 31 March 2013. This change more closely aligns the company's reporting period with its sale cycles, assisting with forecasting, cash flow management and investment decisions.

The company will report on a three-month accounting period from 1 January 2013 to 31 March 2013. It is expected that the results will be published by the end of April 2013. Normal half and full-year reporting periods will follow.

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A briefing for analysts will be held at 9am Queensland time (10am Sydney/Melbourne daylight saving time).

Dial in details: 1800 809 971

## Appendix One

This table shows the effect on AACo's increased herd of any change in beef prices, based on the 80.7 million kg weight of the held-back trading herd in December 2012.

<b>Change in beef price/kg</b>	<b>Change in EBITDA \$000's</b>
\$0.20 /kg	16,145
\$0.15 /kg	12,109
\$0.10 /kg	8,072
\$0.05 /kg	4,036
\$0.00 /kg	0
(\$0.05) /kg	(4,036)
(\$0.10) /kg	(8,072)
(\$0.15) /kg	(12,109)
(\$0.20) /kg	(16,145)