



Tasty profits on offer in agriculture and food

A rising world population will see food producers become the new darlings of the stock market.
Nick Gardner reports.

You may well be aware that your grocery bill has risen over the past year. Wheat is up a staggering 68 per cent. Milk is up 10 per cent, bread up 8.8 per cent, chicken up 8.6 per cent. And so it goes on.

Unfortunately, this may not be just a blip caused by Australia's drought.

According to some of the world's leading authorities, this is a new global trend that will last 20 years, perhaps longer, with food producers becoming the new BHPs and Rio Tintos of the world.

Bill Barbour, manager of the DWS Global Agribusiness Fund, says four key trends indicate food will continue rising in price, with companies that help increase production becoming the next darlings of the stock market.

First, there's the rising world population.

Currently at 6.6 billion, it is forecast to rise to eight billion in the next 12 years; that's a 21 per cent increase in the number of mouths to feed.

Secondly, there's global growth in income.

An estimated three billion people in the world are seeing their annual earnings rise from about \$US1000 a year to between \$US5000 and

\$US6000 a year.

"This is crucial, because if you're only earning \$1000 a year, all of that is spent on food and supporting children," Barbour says. "As incomes increase, more of that money is spent on more food and, crucially, better quality food, such as meat instead of just rice or other cereals."

This has a big impact because, as meat production rises, cereal production must rise even faster to provide animal feed. It requires 7kg of cereals to produce 1kg of beef, and the same for pork.

The third key trend concerns the finite amount of farming land on the planet, with vast tracts of it disappearing at an alarming rate.

Urbanisation is encroaching on some of the world's most fertile areas, where many cities sprang up because it was easy to grow crops nearby.

This trend can be seen all over the world, and is particularly pronounced in Europe, Japan and China.

Increasing numbers of farmers are also switching to producing corn and other cereals to produce ethanol for biofuel, which obviously cuts down on food production and pushes up food prices.

The fourth key trend, climate change and global warming, is linked back to land supply because it is causing deserts to expand, while the booming biofuel industry is eating up an increasing proportion of farming capacity.

Consider this: In 1950, when the world population was 2.5 billion, there was half a hectare of land for food production for every person on the planet. Today, with the population having almost tripled, the amount of farming land has fallen to 0.3 hectares per person and by 2020 it is forecast to be less than 0.2 hectares.

Despite this, the World Bank estimates global grain production will have to climb by nearly 50 per cent and meat output by 85 per cent between 2000 and 2030 to meet the global demand for food.

"Expenditure on food as a percentage of income has been falling for 200 years, but we think this is changing today," Barbour says.

"And that's where investment opportunities lie."

Thomas Malthus, the 18th century demographer and



political economist, forecast that the world would starve if populations continued to grow at their current rate because food production could never keep up.

The global population when he was born was around 800 million. Two hundred years later, in 1950, it had quadrupled to 2.5 billion.

And it has more than doubled in the 58 years since.

Yet the world isn't starving.

Innovation in farming techniques and higher-yielding crops have meant that the population has increased while comfortably producing enough food.

Today, however, for the reasons set out above, many believe that we are at the cusp of an age of food inflation unlike anything we've seen.

Current food stocks are already running very low.

According to the UN Food and Agricultural Organisation, in the agricultural year that ends with the harvest season in 2008, the world will again have consumed more grain than it has harvested.

And prospects for adding to the world's arable land stocks are not encouraging.

China currently feeds the equivalent of 22 per cent of the world's population on just seven per cent of its farmland, but has almost no way of expanding the area devoted to agriculture.

Instead, the country is fighting to keep the farmland it has. Pollution, the rapid growth of China's cities and the country's growing deserts — a result of attempts to farm marginal land — are all reducing available farmland.

In India, the states of Punjab and Haryana, which produce about 40 per cent of India's wheat, are facing big declines in soil fertility and a sharply dropping water table.

Riccardo Briganti, head of research at Macquarie Private Wealth, says he believes food prices are breaking out of cyclical behaviour and will head upwards for some time.

"There've been some short-term supply and demand issues with the drought and weather conditions elsewhere in the world, but there's a bigger trend emerging here [with] higher demand, land shortages and biofuel issues all contributing," he says.

So, it follows that there could be money to be made through investing in those companies that will increase crop yields from the available land and help bring about efficiencies in the food industry — from farms to machinery to chemicals to transport and infrastructure.

In Australia, the universe of listed companies is fairly limited, although Greg

Canavan, of Fat Prophets, the stock market newsletter, is a fan of some firms.

He likes Nufarm, a company involved in "crop-protection" (industry jargon for pesticides).

"As more land gets converted away from agricultural use, then companies that can maximise yields from the available space should do well," he says.

Mr Canavan also likes Incitec Pivot, which produces raw materials for crop-protection companies. This is the only Australian stock currently recommended by Macquarie, although it doesn't cover all stocks in this area, so other companies

could be worth investigating.

"The Australian Agricultural Company owns a lot of cattle stations so has a lot of land on its balance sheet and, as cattle prices go up, the land that houses them is likely to go up too," Canavan says.

Savvy investors may be well advised to invest in the DWS fund, which offers immediate diversification among the world's leading agribusiness stocks.

Since launch in 2006 it has out-performed the MSCI Global Index. It has a minimum investment of \$25,000, so smaller investors, or those who prefer direct shareholdings, may be interested in the fund's 10 biggest stock holdings, right.

TOP 10 DWS STOCKS

1 THE DWS fund's biggest investment is in Archer Daniels Midland, which is a "vertically integrated" company, meaning it controls all aspects of the food process from production and manufacturing to distribution.

It takes crops and processes them to make food ingredients, animal feed ingredients, renewable fuels and naturally derived alternatives to industrial chemicals.

2 SYNGENTA is a Swiss-based company specialising once again in crop protection and also in seeds and seed technology, with the aim of producing higher-yielding crops.

3 K & S, a German fertiliser producer specialising in potash.

4 Monsanto, which Barbour describes as the "900lb gorilla" in the world of agribusiness, providing almost every aspect of modern agriculture, from seed technology to crop protection.

5 Tate & Lyle, the UK sugar company that took over Bundaberg Sugar in Australia.

6 Fresh Del Monte Produce, another US stock distributing fruit and vegetables.

7 Potash Corporation of Saskatchewan — a US fertiliser company.

8 Corn Products International, another US firm specialising in everything related to corn, right through to ethanol.

9 Bunge — a so-called vertically integrated food company with large holdings in Latin America — are involved in all aspects of food production, technology and distribution.

10 Makhteshim Agam — Israeli-listed fertiliser and agricultural chemical company, operating in 90 countries around the world.



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Page 3 of 3



...sing demand for meat and biofuels is stretching suppliers to the limit, so companies that increase crop yields are set to benefit