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'\$4b' pie from floated Fonterra brands

By Owen Hembry

Fonterra's brands business could be worth more than \$4 billion if floated on the sharemarket and would be eagerly sought by investors, say analysts.

Fonterra's brands business - including Anchor, Mainland and Tip Top - had an operating revenue of \$4 billion and an operating surplus (earnings before interest and tax) of \$324 million in the year ending May 31.

Using other food companies, such as Goodman Fielder or National Foods, as a guide a listed brands division could have an earnings before interest and tax multiple of between 10 and 13 times. This would give it an enterprise value between \$3.2 billion and \$4.2 billion, analysts say.

Fonterra is reviewing its capital structure to take advantage of opportunities in the global dairy market and tackle a redemption risk of farmer-owners deciding to sell up. Chairman Henry van der Heyden has refused to comment on speculation this week that there are now just two options - both involving a partial listing.

While the brands business could potentially have an enterprise value - debt plus equity - of over \$4 billion, the market capitalisation of the company if floated could be lower.

This would depend on how much debt Fonterra ascribed to the brands business.

The dairy co-operative had total revenue of \$13.9 billion last year, with borrowings and capital notes of \$5.2 billion.

ABN Amro Craigs research analyst Mark Lister said "the size of the issue would be dependent on a number of factors - being how much debt they'd have in the business, how much of a stake they'd want to retain and whether there's any new money raised to fund any growth aspirations".

"To have a company of that size, that is that important to New Zealand's economy, would be wonderful."

"I suspect for them the stumbling block would not be ... [the] level of market interest, it would be can we convince our existing owners that's the right thing to do?"

Macquarie Equities investment director Arthur Lim said the brands division would be attractive to the market.

"Almost by implication the fact that milk fat and milk prices are increasing is suggesting very, very strong demand for the added-value products, because I guess people only drink so much milk, don't they?"

Fonterra's payout last season was \$4.46 per kilogram of milk solids, with a record forecast payout of \$6.40 this season.

But the value-added component was forecast to drop from 59c last year to 20c this season.

PRODUCT LINES

- * Division including Anchor and Mainland.
- * Ebit multiple could be between 10 and 13 times.
- * Enterprise value could top more than \$4 billion.
- * Share market would welcome a listing.



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