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Co-operative 'should stay' if Fonterra gains listing

By Owen Hembry

Fonterra's co-operative nature is unlikely to be threatened, even if the directors push for a public listing, says Dairy Farmers of New Zealand chairman Frank Brenmuhl.

"The directors have repeatedly said that the core of the co-operative will always be there so I would think that that worry is a little bit unfounded," Brenmuhl said.

Fonterra has said it is reviewing the capital structure to take advantage of growth opportunities in the global dairy market, protect against a redemption risk of farmers selling up and to give its owners greater investment choice.

Chairman Henry van der Heyden refused to comment last week on speculation that Fonterra was down to just two options - both of which involved a partial listing.

Brenmuhl said the board had acted responsibly by raising the capital structure issue, although the proper debate was yet to happen and if the reasons for a change were not compelling then farmers would tend to vote for the status quo.

"There'll be some directors who are not happy that I say that but that's the reality," Brenmuhl said.

Fonterra plans to present the capital structure options considered and a preference at a special shareholder meeting in November.

The review was about future proofing Fonterra, although currently there was no redemption problem, Brenmuhl said.

"There's never a problem with redemption if you're getting enough payout for milk," he said.

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

The co-operative's fair value share was bought by the 99 per cent of farmers that supply Fonterra on the basis of one share for each kilogram of milk solids.

"It doesn't appear to me with something like 100 to 120 conversions [to dairying] coming in that people are actually looking to leave Fonterra," Brenmuhl said.

However, when farmers did choose to leave, the company had to pay them back within a few months, compared with up to 30 years at some US co-operatives, he said.

"It's definitely a reasonable argument to put up, providing it's made clear why we're doing it."

Some farmers were yet to be convinced that investing overseas was a well for producing wealth and few people were talking about wanting to trade shares, Brenmuhl said.

"They're currently looking at some of the investments that we've got now ... and they're saying, 'Are we getting a good return on those investments and if we invest more in similar sorts of arrangements will we make more money given the fact that currently we don't appear to be making much'," he said.

"What they [farmers] want to do is to be able to buy in and supply a company who's going to give them a good solid return on the investment and they're going to get that return year-in year-out so that farmers can concentrate on doing what they do best, which is running their farms."

The company's annual report said that standing still was not an option, indicating a do-nothing preference was unlikely to be put forward.



Frank Brenmuhl, Dairy Farmers of NZ chairman