



## Agriculture Industry Flash

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Monday, February 1<sup>st</sup>, 2016

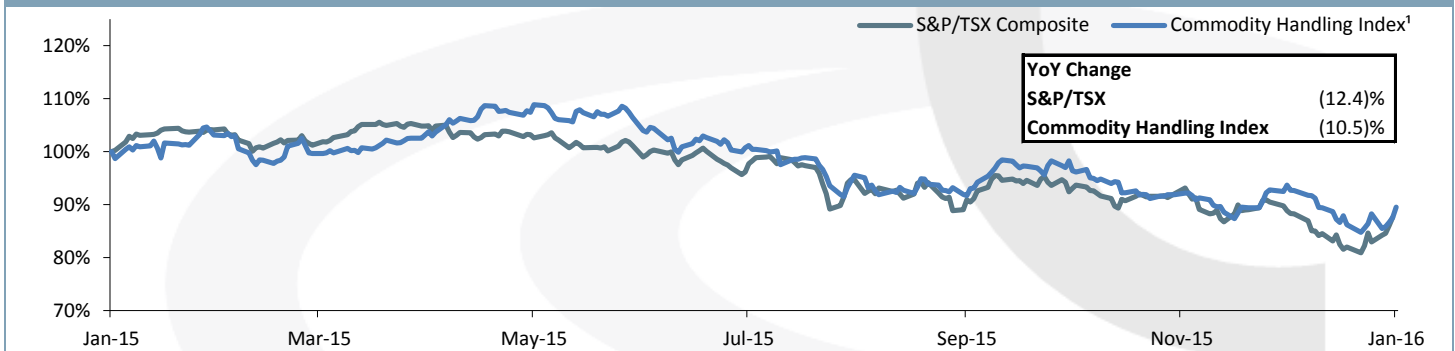


## COMMODITY HANDLING

### News Scan

- On Jan. 28<sup>th</sup>, Noble Group Ltd. announced that 90% of its shareholders approved the sale of its 49% stake in Noble Agri to COFCO. On completion, which is expected by the end of February, the transaction will generate an infusion of US\$750 million in cash and removes the group's contingent guarantee related to Noble Agri bank lines in excess of US\$3 billion
- On Jan. 21<sup>st</sup>, Cargill inaugurated a state-of-the-art wet corn milling plant in Karnataka, India. The US\$100 million investment is spread over 44.5 acres of land and has a capacity to mill 800 tonnes of corn daily. At the mill, corn will be processed to produce glucose and other derivatives which can be used as thickeners, sweeteners and for other purposes in the food and healthcare industries
  - In addition, on Jan. 21<sup>st</sup>, Cargill announced its intention to close the London, England office of its ocean transportation arm, as the company consolidates its freight activities into Geneva, Switzerland
- Louis Dreyfus Commodities BV, one of the world's largest agricultural trading houses, is seeking joint-venture partners for units deemed outside its core business as the 164-year-old firm pares down investment after a decade of rapid growth
  - On Jan. 29<sup>th</sup>, it was reported that the closely held firm is looking for strategic investors in business lines including metals, orange juice, dairy and fertilizer, as the company will shift its focus on higher-margin activities
- On Jan. 21<sup>st</sup>, Ardent Mills said its mill in Chester, Illinois, U.S., has resumed operations, ahead of schedule. The mill, along with a mill in Alton, Illinois were affected when flooding brought flour milling and elevators to a near halt in the St. Louis, Missouri, region during the last week of 2015 and into early 2016

### Relative Performance Index



### Key Indicators

US\$ millions	Market		TEV/EBITDA		Price/Earnings		Week Δ	Δ Price
	Cap	TEV	2015E	2016E	2015E	2016E	Price	52Wk High
ADM	21,095	26,941	7.0x	6.5x	13.0x	11.5x	6.4 %	(33.7)%
Bunge Limited	8,920	12,660	6.6x	5.9x	12.1x	9.6x	3.5 %	(33.4)%
Graincorp Limited	1,376	1,904	10.1x	8.3x	38.3x	24.3x	2.2 %	(17.9)%
The Andersons, Inc	815	1,333	6.6x	5.5x	15.4x	10.8x	5.7 %	(40.3)%
AGT Food and Ingredients	594	870	12.7x	9.8x	19.4x	14.8x	(4.8)%	(3.5)%
Ceres Global Ag	109	166	na	na	na	na	1.8 %	(17.4)%
<b>Mean</b>			<b>8.6x</b>	<b>7.2x</b>	<b>19.6x</b>	<b>14.2x</b>	<b>2.4 %</b>	<b>(24.4)%</b>

1 "Commodity Handling Index" is composed of equally weighted market prices for: ADM, Bunge, Graincorp, The Andersons, AGT, and Ceres

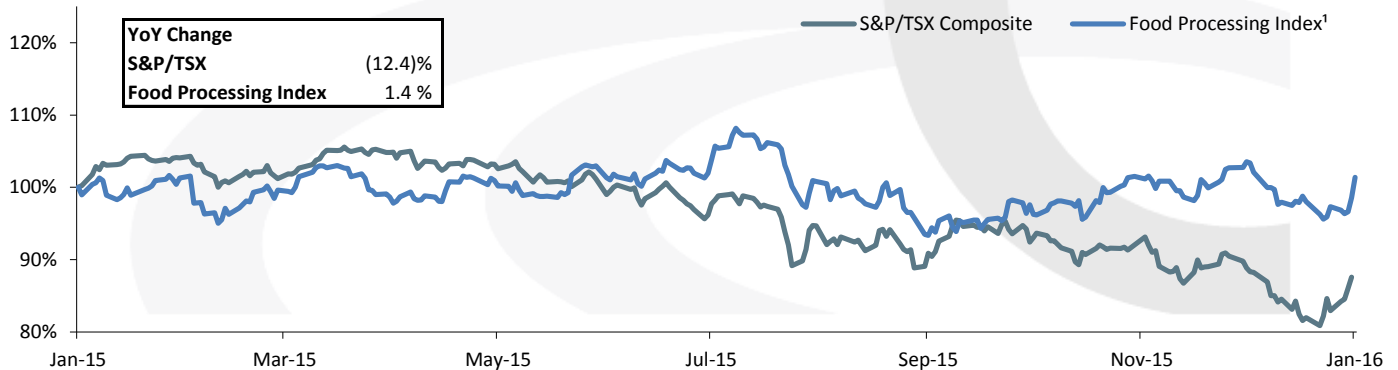


## FOOD PROCESSING

### News Scan

- On Jan. 28<sup>th</sup>, Ingredion Inc. reported FY2015 sales of US\$5.621 billion (1% decline from US\$5.668 billion FY2014), and net income of US\$411.7 million (13% increase from US\$363.3 million FY2014). The improved profit occurred despite unfavourable exchange rates and economic challenges in South America
  - The company attributed the increase in net income to organic volume growth in core and specialty ingredients (7% overall); acquisition-related volume growth; and margin expansion in North America. These positives were partially offset by the negative effect of foreign exchange
  - In addition, on Jan. 15<sup>th</sup>, Ingredion announced that it plans to invest approximately US\$30 million in Mexico to expand capacity at the company's San Juan del Rio corn processing facility. This facility has been increasing production to support the growth demands of its core and specialty products, such as starches, glucose, and high fructose corn syrup
- On Jan. 22<sup>nd</sup>, Hillshire Brands, a Tyson Foods subsidiary, has announced a \$28 million capital improvement project for its Tarboro, NC, plant. The plant expansion comes in response to increased demand for Hillshire products, including the Sara Lee baked goods manufactured at the plant, and includes adding lines to produce gluten-free and non-GMO waffles. The expansion is expected to add about 100 jobs to the 700 employees already working there
- On Jan. 22<sup>nd</sup>, Cobb-Vantress, a subsidiary of Tyson Foods Inc., announced plans to invest US\$22 million in a new feed mill in Laurens County, South Carolina to supply Cobb's grandparent breeder farms in the region. Construction of the feed mill is scheduled to begin this year with completion by mid-2017, and is expected to produce 1,200 tonnes of feed per week

### Relative Performance Index



### Key Indicators

US\$ millions	Market Cap	TEV	TEV/EBITDA		Price/Earnings		Week Δ Price	Δ Price 52Wk High
			2015E	2016E	2015E	2016E		
ConAgra Foods, Inc.	18,026	26,661	12.6x	13.0x	18.8x	17.7x	3.5 %	(8.5)%
George Weston Limited	9,812	22,842	8.6x	7.9x	19.0x	16.5x	2.1 %	(6.0)%
Ingredion Incorporated	7,837	9,420	10.5x	9.8x	17.2x	15.8x	14.4 %	1.1 %
Tate & Lyle plc	4,134	4,908	10.8x	10.4x	16.7x	17.0x	6.0 %	(8.4)%
Maple Leaf Foods Inc.	2,196	1,986	13.0x	8.8x	41.2x	20.7x	0.6 %	(5.9)%
SunOpta Inc.	503	784	12.6x	8.8x	28.5x	19.8x	(3.9)%	(44.9)%
<b>Mean</b>			<b>11.4x</b>	<b>9.8x</b>	<b>23.6x</b>	<b>17.9x</b>	<b>3.8 %</b>	<b>(12.1)%</b>

<sup>1</sup> "Food Processing Index" is composed of equally weighted market prices for: George Weston, ConAgra, Ingredion, Tate&Lyle, Maple Leaf Foods, and SunOpta.

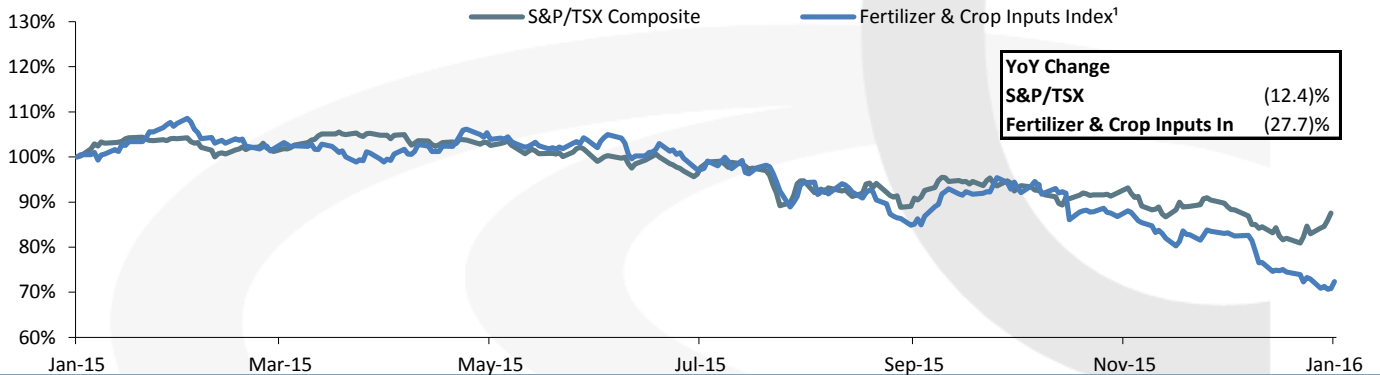


## FERTILIZERS & CROP INPUTS

### News Scan

- On Jan. 28<sup>th</sup>, Potash Corp. reported FY2015 net earnings of US\$1.3 billion (13% decline from US\$1.5 billion FY2014), and gross margin of US\$2.3 billion (12% increase from US\$2.6 billion FY2014).
  - Challenging conditions, including currency weakness relative to the US dollar in emerging markets, continued to weigh on fertilizer markets. Cautious buying patterns resulted in deteriorating prices across all three nutrients as the year ended
  - Nitrogen markets continued to feel the effects of falling energy prices. Lower production costs in key producing regions increased competitive supply, which - combined with a weaker-than-normal fall application season in the US and slower demand in Brazil - caused prices for nearly all nitrogen products to trend lower during the year
- On Jan. 19<sup>th</sup>, Potash Corp. closed its US\$2.2 billion Picadilly mine in New Brunswick that was in production for little more than a year – which is expected to put 420-430 employees out of work – due to plummeting potash prices. The crop nutrient began its swoon four years ago as weak crop prices and currency declines pinched demand
- On Jan. 29<sup>th</sup>, Yara International indicated that its fourth-quarter results will be hit by asset impairment charges of around 1.15 billion Norwegian kroner (US\$133.6 million) as well as lower sales and production volumes. The impairments relate to its Montoir fertilizer plant in France, which has seen profits weighed by lower grain prices as well as lower phosphate and potash demand, while its Trinidad ammonia plant has experienced frequent gas supply curtailments and low energy efficiency

### Relative Performance Index



### Key Indicators

US\$ millions	Market		TEV/EBITDA		Price/Earnings		Δ Price	
	Cap	TEV	2015E	2016E	2015E	2016E	Week Δ Price	52Wk High
Potash Corp.	13,572	16,509	8.2x	10.2x	14.2x	14.4x	0.3 %	(51.5)%
Agrium Inc.	16,901	22,626	10.4x	10.5x	17.1x	16.1x	(1.6)%	(16.5)%
Yara International ASA	12,037	13,072	5.2x	5.2x	10.5x	10.7x	(5.2)%	(26.5)%
CF Industries Holdings, Inc.	6,992	11,997	6.0x	5.3x	7.7x	7.0x	0.1 %	(57.3)%
The Mosaic Company	8,496	11,058	4.9x	5.1x	8.4x	8.3x	1.0 %	(55.2)%
Nufarm Ltd.	1,283	1,857	8.2x	7.1x	19.4x	13.7x	(0.3)%	(23.0)%
Input Capital Corp.	94	76	4.9x	4.6x	nmf	24.6x	2.4 %	(50.1)%
<b>Mean</b>			<b>6.9x</b>	<b>6.9x</b>	<b>12.9x</b>	<b>13.5x</b>	<b>(0.5)%</b>	<b>(40.0)%</b>

1 "Fertilizers and Crop Inputs Index" is composed of equally weighted market prices for: Potash, Mosaic, Agrium, Yara, CF Industries , Nufarm and Input Capital

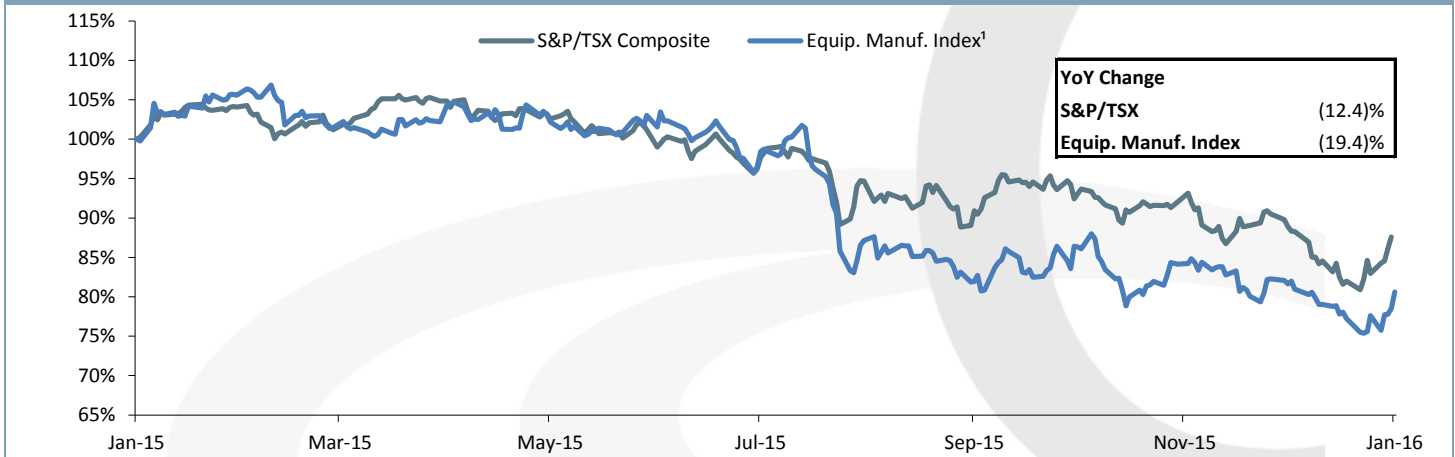


## EQUIPMENT MANUFACTURERS AND SERVICES

### News Scan

- On Jan. 26<sup>th</sup>, Deere & Co. warned investors to expect sales declines by 7% in 2016. The company's sales remain tethered to the ever-changing agriculture industry, which faces a number of problems including yearly demand for agricultural products, soil conditions, weather conditions and the non-food uses for some crops
  - The finance subsidiary that assists farmers with loans needed to buy Deere equipment, may also face trouble in the upcoming year. As dips in the agricultural industry occur, more loan defaults as well as rising interest rates could impair the company's net income
- A legal protest by Canadian Pacific Railway (CP) over a meeting among big U.S. railroads about mergers in their industry has highlighted manoeuvring in the sector to cope with a rapid downturn and possible consolidation. CP accused U.S. railroads of adopting an "anticompetitive" strategy, which shed light on chances for further consolidation with eyes on No. 3 U.S. railroad CSX Corp. as a future target

### Relative Performance Index



### Key Indicators

US\$ millions	Market		TEV/EBITDA		Price/Earnings		Δ Price	
	Cap	TEV	2015E	2016E	2015E	2016E	Week Δ Price	52Wk High
Deere & Company	24,389	27,559	11.0x	11.9x	24.4x	26.5x	3.2 %	(21.6)%
AGCO Corp	4,171	5,344	7.3x	7.1x	15.2x	20.4x	6.1 %	(15.8)%
Ag Growth International Inc.	339	576	10.3x	8.9x	16.9x	12.3x	(3.7)%	(50.8)%
Cervus Equipment Corporation	144	264	8.0x	6.7x	16.5x	10.3x	7.4 %	(37.0)%
Rocky Mountain Dealerships	89	113	4.9x	4.5x	8.3x	7.2x	10.0 %	(32.5)%
<b>Mean</b>			<b>8.3x</b>	<b>7.8x</b>	<b>16.3x</b>	<b>15.3x</b>	<b>4.6 %</b>	<b>(31.5)%</b>

1 "Equip. Manuf. Index" is composed of equally weighted market prices for: Deere & Co., AGCO, Ag Growth International and Cervus.





## ADDITIONAL NEWS AND AGRICULTURE COMMODITIES UPDATE

### News Scan

- Hamilton, Ont., is gaining attention as an export hub. Money is flowing into the port as companies peg Hamilton as a good location to base trade in crop and food products from Western Canada going to markets in eastern North America and overseas. By 2017 more than \$200 million in new investment will have been made in agriculture and food related facilities in Hamilton in a decade, according to Hamilton's port communications manager
  - G3 is building a 50,000 tonne grain export terminal in Hamilton, reportedly costing more than \$50 million. Parrish and Heimbecker announced in December that it was building a \$45 million flour mill beside its grain terminal at the port
- On Jan. 21<sup>st</sup>, Ardent Mills said its mill in Chester, Illinois, U.S., has resumed operations, ahead of schedule. The mill, along with a mill in Alton, Illinois were affected when flooding brought flour milling and elevators to a near halt in the St. Louis, Missouri region during the last week of 2015 and into early 2016
- The forecast for world total grains (wheat and coarse grains) production in 2015-16 is 1.9 billion, down 2% from last season's record. Mainly because of poorer harvests in South Africa and India, the global maize crop is cut by 8 million tonnes, to 959 million, a 5% year-on-year fall
- Compound feed production in the E.U. in 2015 reached an estimated level of 156.1 million tonnes, 0.2% more than in 2014. In addition, poultry feed production continued to increase by almost 2% in 2015, boosted by an increasing per capita consumption of meat (+2.0%), which benefited primarily to poultry meat (+2.5%)
- The U.S. Consumer Price Index for baked foods and cereal products posted its fifth consecutive year of year-over-year gains in 2015, rising 1.1%, which followed gains of 0.2% in 2014, 1.0% in 2013, 2.8% in 2012 and 3.9% in 2011
- As of Jan. 29<sup>th</sup>, canola futures ended a down week and posted a two-month low, pressured by commercial hedging. March canola fell \$2.50 to close at \$475.40 per tonne, down 0.52%, touching its lowest price since Nov. 30<sup>th</sup>, 2014
- U.S. soybean futures over the week rose 0.6%, soy oil was up 1.4% and soy meal was 1.3% higher. Corn edged up 1.75 cents or 0.5%. March wheat settled 8-1/4 cents lower at \$4.76-1/2 per bushel, a day after hitting \$4.88-1/2, its highest since Dec. 21
  - Wheat gains were held in check by the weak U.S. export picture and news that Russia's agriculture minister has rejected proposals to increase the tax on wheat exports

### Commodities Futures as of January 29<sup>th</sup>, 2016

Commodities Futures	Ticker	Price Unit	Latest Price (US\$)	Month to Date	Year to Date
Corn (CBOT)	CBOT:^C	\$ per bu.	\$3.72	5.91 %	5.91 %
Wheat (CBOT)	CBOT:^W	\$ per bu.	\$4.79	4.58 %	4.58 %
Oats (CBOT)	CBOT:^O	\$ per bu.	\$2.00	(4.70)%	(4.70)%
Rough Rice (CBOT)	CBOT:^RR	\$ per cwt.	\$11.35	(3.57)%	(3.57)%
Barley (USDA)	USDA:^24	\$ per bu.	\$4.95	0.00 %	0.00 %
Rapeseed (Canola) (ICE)	ICE:^RS	CAD per T	\$475.40	(1.35)%	(1.35)%
Ethanol (CBOT)	CBOT:^ET	\$ per gal.	\$1.44	4.05 %	4.05 %



## In other news...

- Provoking spontaneous applause from a group of farmers is not an easy task, but Matt Reimer pulled it off Jan. 20 during a speech at Manitoba Ag Days
  - Last year, Reimer used basic knowledge of computer programming to build a robotic tractor on his farm near Killarney, Manitoba
  - He told a crowd of about 200 at Ag Days that he's keeping the technology open source rather than patenting his wireless-operated tractor and making millions of dollars from farmers. As well, he wants other producers to use his design and improve upon the technology
  - Reimer began working on a robotic tractor that is controlled with a laptop computer about a year ago. He was intrigued by the idea of using robotics on his farm and used Christmas money to get started
  - He bought a small device used to auto-pilot drones and then taught himself how to write the necessary computer code to adapt the technology for a tractor
  - Reimer hopes other producers will use the open source technology and build their own robotic tractor, but that isn't happening. Instead, farmers want to pay Reimer for his expertise. Reimer doesn't sound like a hard-nosed businessperson. He seems more comfortable with sharing and collaboration

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