



## Agriculture Industry Flash

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Wednesday, July 4<sup>th</sup>, 2018

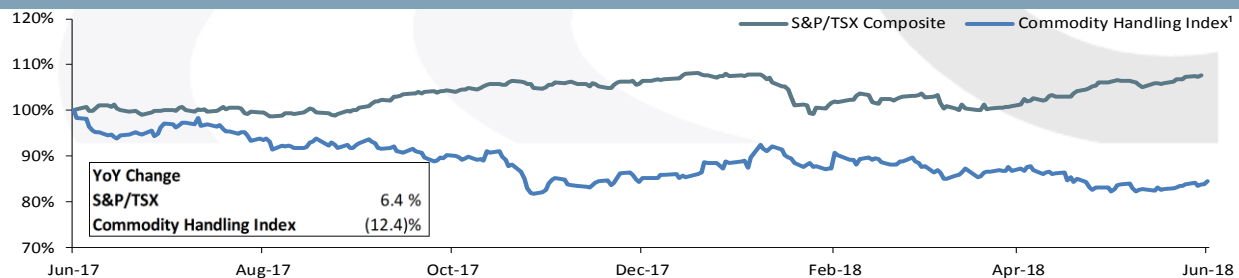


## COMMODITY HANDLING

### News Scan

- On July 3<sup>rd</sup>, **Archer Daniels Midland (ADM)** and Russia-based **Aston Foods and Food Ingredients** received regulatory approval to launch their joint venture to provide sweeteners and starches to customers in Russia. Both companies will partner to own and operate Aston subsidiary, **AKP**, which includes a corn wet mill in Inbred, as well as a sales office in Moscow
  - On July 2<sup>nd</sup>, **ADM** and **Cargill** announced that they have completed their joint venture and formally launched **SoyVen**, to provide soybean meal and oil for customers in Egypt. The JV owns and operates the **National Vegetable Oil Co.** soy crush facility in Borg Al-Arab, along with related commercial and functional activities, including a separate Switzerland-based entity supplying soybeans to the Egypt crush plant. Both companies hold a 50% interest
  - On July 2<sup>nd</sup>, **ADM** announced it is in discussions to purchase **Neovia**, a global provider of value-added animal nutrition solutions based in Brittany, France. Neovia currently operates 72 production facilities, and the all-cash deal has an approximate enterprise value of US\$1.79 billion. The acquisition would strengthen ADM's Animal Nutrition business, as well as its presence in France
  - On June 29<sup>th</sup>, **ADM** announced that it had acquired **Probiotics International Ltd**, a U.K.-based provider of probiotic supplements for human, pet and production animal use, for £185 million in an all cash transaction. ADM stated that it acquired Probiotics to add to its extensive portfolio of products that promote health and wellness
  - On June 22<sup>nd</sup>, **ADM** announced that it had partnered with **DuPont Industrial Biosciences**, a division of **DowDuPont Inc.**, to develop, produce and market cellulase enzymes for operators of grain-based ethanol plants. Initial product prototypes have proven successful in both laboratory and ethanol plant scale testing and more evaluations are planned. Enzyme-based tools boost yields and produce additional ethanol without significant capital investments
- On July 2<sup>nd</sup>, **Nebulon**, a Ukrainian grain trading company, announced plans to invest US\$2 billion in new grain silos and barges in Egypt's Nile Delta region. The silos would be built at two sites near the ports of Alexandria and Damietta. Twenty barges, each with a capacity of 2,000 tonnes, would be built to transport grain along the river
- On June 28<sup>th</sup>, **CHS Sunprairie** announced the opening of a new Wiley terminal in North Dakota that will shuttle wheat and soybeans, hold 900,000 bushels of grain, and handle a 120-car train. The facility costs about US\$18.5 million

### Relative Performance Index



### Key Indicators

All Figures in USD millions unless indicated

	Market	TEV/EBITDA		Price/Earnings		Week Δ	Δ Price	
		Cap	TEV	2018E	2019E			2018E
ADM	25,627	34,253	9.2x	8.8x	15.0x	14.2x	(2.2)%	(2.2)%
Bunge Limited	9,822	16,619	8.3x	8.1x	12.8x	12.4x	(2.7)%	(16.7)%
Graincorp Limited	1,331	2,356	12.3x	10.5x	30.7x	17.9x	(7.2)%	(25.0)%
The Andersons, Inc	966	1,457	7.6x	6.6x	17.9x	13.8x	(0.3)%	(9.1)%
AGT Food and Ingredients	282	783	13.6x	9.7x	24.2x	11.7x	1.7 %	(47.1)%
Ceres Global Ag	87	121	na	na	na	na	(4.5)%	(30.8)%
<b>Mean</b>			<b>10.2x</b>	<b>8.7x</b>	<b>20.1x</b>	<b>14.0x</b>	<b>(2.5)%</b>	<b>(21.8)%</b>

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



## FOOD PROCESSING

### News Scan

- On June 27<sup>th</sup>, **Conagra Brands Inc.** announced that it had agreed to buy **Pinnacle Foods Inc** in a cash and stock deal, valued at approximately US\$10.9 billion. Pinnacle Foods' shareholders will receive \$43.11 per share in cash and 0.6494 Conagra shares per Pinnacle share, an implied price of \$68.00 per Pinnacle share. The transaction will strengthen Conagra's frozen foods and snacks portfolio with the addition of Pinnacle Foods' leading brands including, Birds Eye, Duncan Hines, Hungry-Man, and Tim's Cascade Snacks. On a pro forma basis, Pinnacle Foods shareholders are expected to own 16% of the combined company
- On July 2<sup>nd</sup>, **Gillco Ingredients** entered into a distribution agreement with **Cargill**, in which Cargill's Food Ingredients & Bioindustrial business in the US will provide Gillco with starches, sweeteners, texturizing systems and edible oils products. Currently, Gillco is the primary national distributor of Cargill's chocolate, cocoa, chicory root fiber, erythritol, isomalt, and stevia products. This partnership will further extend Gillco's product offerings and capabilities
- On June 28<sup>th</sup>, **Maple Leaf Foods** signed an agreement to acquire two organic poultry plants and associated supply from privately held **Cericola Farms** for an undisclosed amount. Cericola specializes in air-chilled processing of antibiotic free and animal by-product free and organic poultry products, with plants located in Ontario and Quebec that collectively process 32M kg of chicken a year. Maple Leaf also agreed to secure all of the processed chicken volume from Cericola's primary processing plant
- On June 26<sup>th</sup>, **Hola Nola Foods** acquired the assets of Illinois-based **NatureStar Foods**, maker of the Plocky's brand of hummus chips and tortilla chips, for an undisclosed amount. The company plans to maintain NatureStar's Chicagoland area distribution facility to supply to customers throughout the Midwest
- On June 21<sup>st</sup>, **301 Inc.**, the venture capital arm of **General Mills**, invested in **NextFoods**, the Colorado-based maker of Goodbelly Probiotics foods. NextFoods raised US\$12 million in a new funding round led by 301, with additional capital coming from existing investors. Both General Mills and GoodBelly have previously partnered to bring GoodBelly bars to market. For General Mills, the deal furthers its presence in the probiotics space

### Relative Performance Index



### Key Indicators

All Figures in USD millions unless indicated

Market	Cap	TEV	TEV/EBITDA		Price/Earnings		Week Δ Price	Δ Price 52Wk High
			2018E	2019E	2018E	2019E		
George Weston Limited	10,435	24,335	6.4x	6.3x	14.9x	13.6x	1.1 %	(10.5)%
ConAgra Foods, Inc.	14,060	17,820	11.7x	11.7x	15.9x	15.0x	(10.0)%	(10.7)%
Ingredion Incorporated	7,997	9,412	8.6x	8.1x	13.9x	12.9x	(0.4)%	(25.4)%
Tate & Lyle plc	3,958	4,493	7.7x	7.6x	13.6x	12.7x	4.3 %	(12.3)%
Premium Brands	2,832	3,487	16.3x	13.7x	27.3x	21.6x	(1.5)%	(7.7)%
Maple Leaf Foods Inc.	3,201	3,138	10.5x	9.4x	22.0x	19.0x	3.4 %	(10.4)%
SunOpta Inc.	729	1,298	16.9x	12.1x	neg	49.5x	0.5 %	(17.5)%
Rogers Sugar	426	681	8.7x	8.4x	11.8x	10.8x	(2.6)%	(23.6)%
<b>Mean</b>			<b>11.1x</b>	<b>9.9x</b>	<b>17.9x</b>	<b>20.6x</b>	<b>(0.4)%</b>	<b>(13.5)%</b>

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

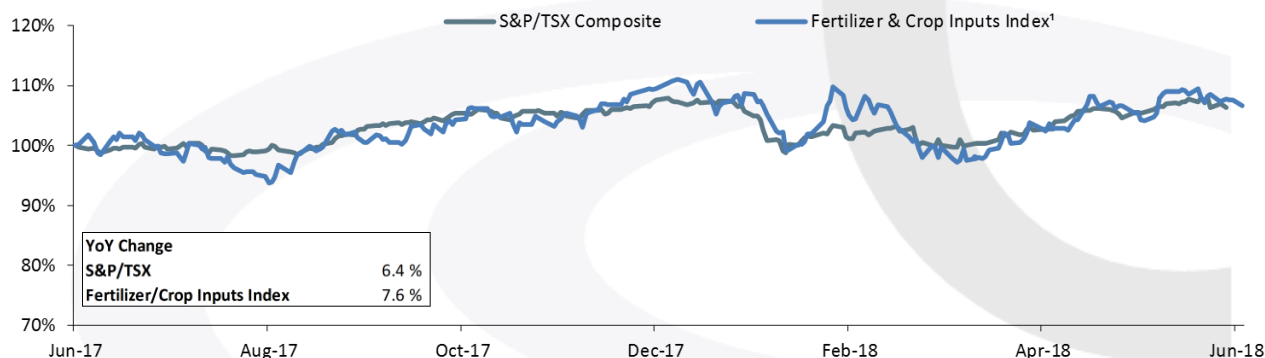


## FERTILIZERS & CROP INPUTS

### News Scan

- On June 27<sup>th</sup>, **Nufarm Limited** announced that it had entered into a strategic alliance with **Farmers Edge**, a global leader in decision agriculture. Under the alliance Nufarm will channel partners in Australia and distribute the Farmers Edge suite of precision digital solutions and Farmers Edge will utilise Nufarm's leading position in production and distribution of crop protection products to drive grower engagement
- On June 27<sup>th</sup>, **International Finance Corporation (IFC)** announced a US\$1 billion debt financing for **Indorama Eleme Fertilizer & Chemicals** for the construction of a new fertilizer line that will expand its capacity of urea fertilizer to more than 2.8 million tonnes. IFC will directly lend US\$100 million, while securing an additional US\$850 million of loans from other financial institutions, and IFC's managed co-lending portfolio program will finance the remaining US\$50 million
- On June 27<sup>th</sup>, it was reported that **Orion Resource Partners**, a US-based mining-focused private equity group, is raising up to US\$500 million in a fund financing potash, tungsten and iron ore mines. Orion will provide royalties and streams, and expects to close the fund within the next few months
- On June 22<sup>nd</sup>, Toronto-based **Organic Potash Corp. (OPC)**, a producer of potash from the ash of agricultural waste, announced an amendment to its private placement financing to increase gross proceeds of up to C\$100,000 to gross proceeds of up to C\$110,000. OPC intends to use proceeds to maintain its annual administrative expenses and other ongoing corporate matters

### Relative Performance Index



### Key Indicators

All Figures in USD millions unless indicated

	Market	TEV		TEV/EBITDA		Price/Earnings		Δ Price	
		Cap	TEV	2018E	2019E	2018E	2019E	Week Δ Price	52Wk High
Nutrien Ltd.		26,220	34,217	12.2x	10.6x	23.2x	18.1x	0.4 %	(2.6)%
CF Industries Holdings, Inc.		10,361	17,357	12.7x	10.7x	43.6x	26.9x	(4.2)%	(3.7)%
Yara International ASA		11,331	14,490	8.0x	6.1x	2.1x	1.4x	(0.1)%	(15.8)%
The Mosaic Company		10,811	15,593	8.2x	7.5x	19.3x	16.2x	(3.8)%	(7.2)%
Nufarm Ltd.		2,167	2,759	7.6x	6.6x	16.0x	14.5x	(0.6)%	(12.6)%
Input Capital Corp.		74	52	7.3x	3.2x	nmf	11.8x	0.0 %	(44.2)%
<b>Mean</b>				<b>9.3x</b>	<b>7.4x</b>	<b>20.9x</b>	<b>14.8x</b>	<b>(1.4)%</b>	<b>(14.4)%</b>

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

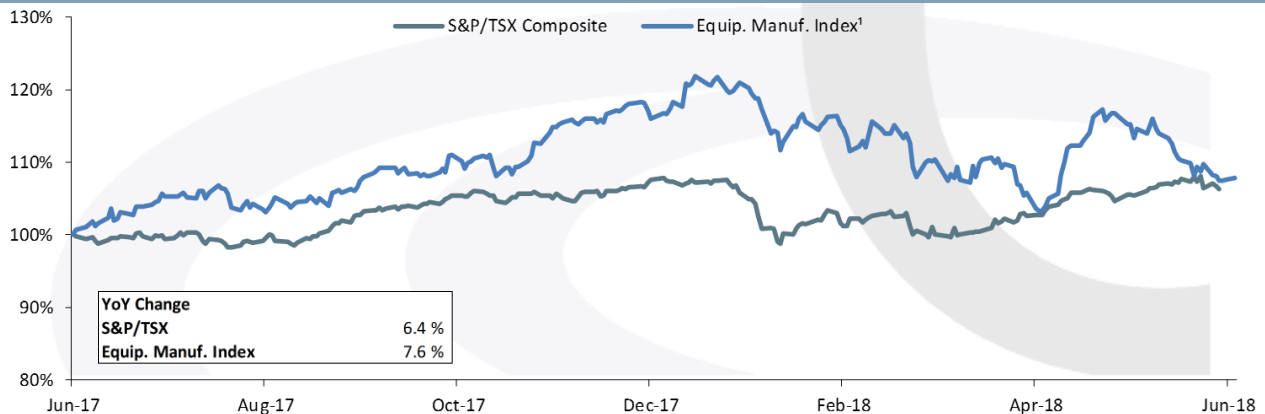


## EQUIPMENT MANUFACTURERS AND SERVICES

### News Scan

- On June 22<sup>nd</sup>, **Canadian National Railway (CN)** announced that it had committed to a C\$30 million rail investment in New Brunswick and a C\$10 million rail investment in Nova Scotia. Plans for New Brunswick involves the installation of about 20 miles of new rail and over 50,000 railroad ties, while works in Nova Scotia includes the installation of 6 miles of new rail and over 2,100 railroad ties. CN's announced investments come as part of the company's overall C3.4 billion capital program for the fiscal year, which focus on the replacement, upgrade and maintenance of key track infrastructure
  - On June 20<sup>th</sup>, CN announced that it had committed to a C\$210 million investment to help expand and strengthen the company's rail network across Saskatchewan. The infrastructure investments will improve delivery efficiencies and increase shipment volume as the rail network connects agricultural customers across the Prairies to Canadian markets
- On June 21<sup>st</sup>, **LandPro Equipment**, the largest **John Deere** dealership in northeast U.S., acquired three retail locations of **Elder Sales and Services** in Stoneboro and Fairmount City, Pennsylvania, and East Palestine, Ohio, for an undisclosed amount
- On June 21<sup>st</sup>, **AGCO Parts**, a division of **AGCO Corporation**, opened a 25,000 square feet expansion to the existing parts distribution centre (PDC) in Regina, Saskatchewan, representing a significant investment in Western Canada by AGCO. The Regina PDC is one of seven North American PDC, and with the expansion, AGCO is targeting to fulfill 90% of order lines out of the PDC for Regina-facing dealers

### Relative Performance Index



### Key Indicators

All Figures in USD millions unless indicated

Market	Market		TEV/EBITDA		Price/Earnings		Δ Price	
	Cap	TEV	2018E	2019E	2018E	2019E	Week Δ Price	52Wk High
Deere & Company	45,335	49,428	15.4x	14.4x	24.3x	22.8x	(1.4)%	(19.5)%
AGCO Corp	4,830	6,391	7.5x	6.7x	15.9x	12.8x	(0.2)%	(20.2)%
Ag Growth International Inc.	721	1,170	10.6x	9.5x	18.5x	15.9x	(4.5)%	(8.7)%
Rocky Mountain Dealerships	166	452	13.5x	12.2x	8.6x	7.5x	0.3 %	(23.2)%
Cervus Equipment Corporation	170	367	8.8x	8.1x	9.7x	8.5x	(1.1)%	(10.2)%
<b>Mean</b>			<b>11.2x</b>	<b>10.2x</b>	<b>15.4x</b>	<b>13.5x</b>	<b>(1.4)%</b>	<b>(16.4)%</b>

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



## ADDITIONAL NEWS AND AGRICULTURE COMMODITIES UPDATE

### News Scan

- Trade uncertainties between the United States and major trading partners continued over the past two weeks:
  - After the US imposed a 25% tariff on US\$50 billion Chinese agricultural goods, China responded with import duties on US\$34 billion worth of American goods, including soybeans, electric cars and whiskey. In response, the US stated if China enforced the announced duties, the US will introduce additional tariffs on US\$200 billion of Chinese goods
  - The Chinese finance minister said China will remove tariffs of 3% on soybeans, 5% on soybean cake and 2% on fishmeal for imports originating from Bangladesh, India, Laos, South Korea and Sri Lanka as of July 1<sup>st</sup> to boost foreign supplies of the commodities as the trade dispute with the U.S. escalates. Correspondingly, Chinese companies are expected to cancel most of the remaining soybeans they have committed to buy from the US, once the extra tariffs take effect
  - The European Union will also begin charging import duties of 25% on a range of US products, including farm produce, after the US imposed tariffs on EU steel and aluminum earlier this month. The EU agreed to remove the duties if Trump removes its metal tariffs, worth a total of US\$7.4 billion
- As the rising tariff trend continues, farmers in Australia, the world's biggest exporter of chickpeas, have halved their planting after the nation's top customer, India, hiked tariffs on imported chickpeas. In retaliation to the US imposing higher levies on some products, India increased import tariffs on chickpeas for all trade partners. Initially, India imposed a 30% import tariff on chickpeas in December, which then climbed to 40% in February, up again to 60% in March, and finally to 70% as of this week. This is not the first agricultural tariff introduced by India in recent months, the government also imposed 50% import tax on yellow peas back in November
- On June 27<sup>th</sup>, South Korea announced that it had lifted the import ban on Canadian wheat after the country halted sales last week. During the week, South Korea's food ministry conducted tests on Canadian imports and no unapproved genetically-modified strains were found. Meanwhile, sale of Canadian wheat remained under suspension by Japan pending further testing
- A class-action lawsuit filed June 28 alleges that some of the largest US pork producers, including **Hormel Foods**, **Tyson Foods** and **Smithfield Foods**, have colluded since 2009 to keep prices high on bacon, ham, hot dogs, and other pork products. The companies allegedly did this by coordinating output, limiting production and exchanging private information on price, capacity, sales volume and demand, with the help of **Agri Stats**, an agricultural research company that produces customized data reports for clients. In response, **Hormel** released a statement claiming that all allegations of price fixing are "completely without merit"

### Commodities Futures as of June 29<sup>th</sup>, 2018

Commodities Futures	Price Unit	Latest Price (US\$)	Month to Date	Year to Date
Corn (CBOT)	\$ per bu.	\$3.71	(5.17)%	5.10 %
Wheat (CBOT)	\$ per bu.	\$5.01	(4.20)%	15.63 %
Oats (CBOT)	\$ per bu.	\$2.45	(0.41)%	1.03 %
Rough Rice (CBOT)	\$ per cwt.	\$11.23	(1.92)%	(4.67)%
Rapeseed (Canola) (ICE)	CAD per T	\$509.40	(3.94)%	3.79 %
Ethanol (CBOT)	\$ per gal.	\$1.44	(2.91)%	5.13 %



## Recent Earnings News

Company	EPS YoY Change	Comments	Analyst Consensus	Premium to Current
<b>Food Processing</b>				
Conagra Brands, Inc.	(49.6%)	In the quarter, net sales increased by 5.6% due to recent acquisitions and foreign exchange adding 3.30% and 0.30% to the net sales growth rate, respectively. Organic net sales increased by 2.0% in the quarter due to solid growth in both domestic retail segments. Gross profit increased 8.8% to \$575 million in the quarter, primarily due to favorable price/mix, strong supply chain realized productivity, and the contribution of recent acquisitions.	US\$41.83	19.4%

### Origin Merchant Partners

220 Bay Street, Suite 1500  
P.O. Box 23  
Toronto, Ontario  
M5J 2W4

### OMP Agri-food Team:

#### Andrew Muirhead

Principal

T: 416-800-0697

andrew.muirhead@originmerchant.com

#### Jim Osler

Principal

T: 416-800-0784

jim.osler@originmerchant.com

#### Rob Penteliuk

Principal

T: 416-800-1780

rob.penteliuk@originmerchant.com