



## Agriculture Industry Flash

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Tuesday, October 23<sup>rd</sup>, 2018

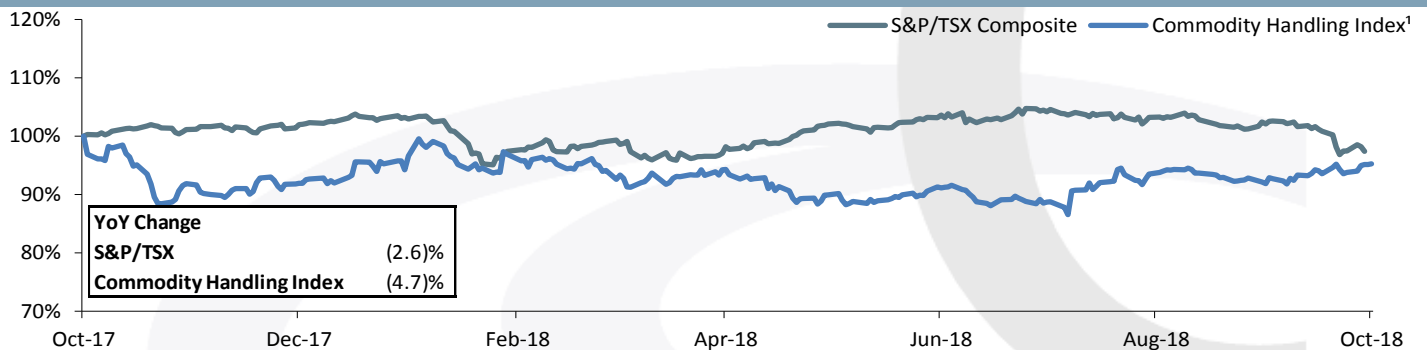


## COMMODITY HANDLING

### News Scan

- On October 15<sup>th</sup>, **The Andersons Inc** announced that it has entered into a merger agreement with **Lansing Trade Group**, its long-time affiliate, to acquire the 67.5% of Lansing equity that it does not already own for a total of US\$305 million. The Andersons will issue US\$130 million in equity and pay US\$175 million in cash for an implied purchase price of just under 9x EBITDA. The transaction will also result in the consolidation of **Thompsons Limited** of Ontario and related entities as they have been jointly owned by The Andersons and Lansing. Lansing will be integrated with The Andersons' Grain Group and the combined operation will be jointly led by Corey Jorgenson, President of The Andersons Grain Group, and Bill Krueger, President and CEO of Lansing
- On October 18<sup>th</sup>, **GrainCorp** announced a £51 million investment to expand its Scottish malting capacity. GrainCorp's UK-based business, **Bairds Malt**, will add 79,000 tonnes of annual malting capacity by upgrading its Arbroath facility and building a new state-of-the-art malting plant at its Inverness site. This will bring Bairds Malt's total annual capacity to over 300,000 tonnes
- On October 17<sup>th</sup>, **Bunge Limited** has announced that its venture capital arm, **Bunge Ventures**, has participated in a US\$10 million financing round for **SafeTraces**, a food traceability company. Other participants in the financing include **S2G Ventures**, **UL Ventures**, and **Spero Ventures**. SafeTrace produces invisible, edible, and flavourless barcodes that are applied directly to the food - allowing the products to be monitored throughout the entire supply chain

### 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	27,729	34,962	8.6x	8.2x	14.3x	13.6x	1.0 %	(4.8)%
Bunge Limited	9,445	17,516	8.7x	8.7x	12.6x	12.2x	(0.9)%	(19.0)%
Graincorp Limited	1,361	2,348	12.7x	12.2x	30.2x	38.0x	7.8 %	(7.5)%
The Andersons, Inc	1,016	1,645	9.1x	7.5x	19.7x	15.0x	5.5 %	(13.8)%
AGT Food and Ingredients	328	833	15.4x	10.7x	35.8x	16.1x	0.2 %	(25.8)%
Ceres Global Ag	122	143	na	na	na	na	(7.0)%	(15.5)%
<b>Mean</b>			<b>10.9x</b>	<b>9.5x</b>	<b>22.5x</b>	<b>19.0x</b>	<b>1.1 %</b>	<b>(14.4)%</b>

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

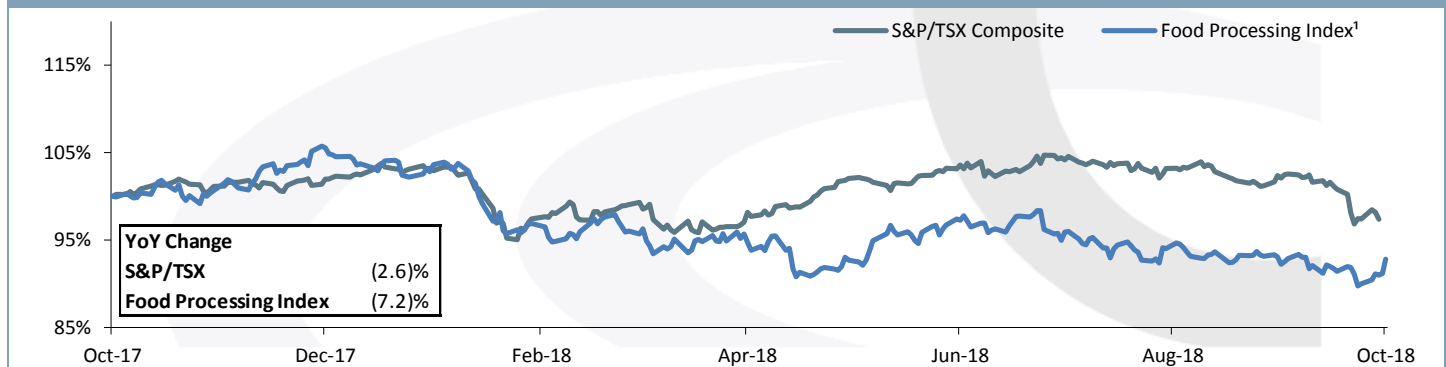


## FOOD PROCESSING

### News Scan

- On October 23<sup>rd</sup>, reports indicated that **Constellation Brands**, a global producer of beer, wine and spirits, was looking to sell part of its US-based wine brands. The wine portfolio is expected to be worth US\$3 billion. The company has gradually shifted its products into beer and cannabis products to target a younger demographic. Constellation has previously divested part of its wine portfolio, selling its Canadian wine business to **Ontario Teachers' Pension Plan** for C\$1.03 billion in 2016
- On October 23<sup>rd</sup>, reports suggested that **Biosev SA**, the Brazilian sugar and ethanol producer controlled by **Louis Dreyfus**, is in talks to sell additional mills in order to reduce debt. Biosev previously announced the sale of a sugar and ethanol mill in September
- On October 11<sup>th</sup>, **Glanbia plc**, an Ireland-based global nutrition group, announced that it has signed an agreement with **KSF Holdings** and **HNS Intermediate Corp.**, to acquire **SlimFast**, a leading weight management and health & wellness brand for US\$350 million. Glanbia believes the acquisition complements its existing portfolio and plays to global consumer trends
- On October 9<sup>th</sup>, **Conagra Brands** announced that it is offering to sell US\$575 million of its common stock through an underwritten public offering. Conagra plans on using the funds to finance its pending acquisition of **Pinnacle Foods**. The company announced that it will sell a total of 16,312,057 shares at an offering price of \$35.25
- On October 23<sup>rd</sup>, a subsidiary of **Lancaster Colony** announced that it has acquired frozen stuffed bagel producer, **Bantam Bagels** for US\$34 million. The acquisition complements Lancaster's existing portfolio of products and provides an entry into the large and growing frozen breakfast category

### 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	2019E	Price	52Wk High
George Weston Limited	8,943	25,285	7.6x	7.3x	13.5x	11.9x	1.3 %	(19.1)%
ConAgra Foods, Inc.	14,629	18,617	12.5x	12.3x	16.5x	15.5x	(0.6)%	(9.1)%
Ingredion Incorporated	7,287	8,695	8.2x	7.9x	13.7x	12.8x	1.8 %	(29.9)%
Tate & Lyle plc	4,021	4,552	7.8x	7.7x	12.9x	13.0x	4.8 %	(7.0)%
Premium Brands	2,387	2,985	13.8x	11.4x	22.8x	17.5x	7.5 %	(24.5)%
Maple Leaf Foods Inc.	3,158	3,234	11.5x	9.6x	24.0x	18.8x	3.7 %	(10.7)%
SunOpta Inc.	661	1,272	19.1x	13.4x	neg	nmf	7.9 %	(19.1)%
Rogers Sugar	437	599	7.9x	7.6x	13.7x	11.5x	1.1 %	(17.0)%
<b>Mean</b>			<b>11.5x</b>	<b>9.9x</b>	<b>17.2x</b>	<b>14.9x</b>	<b>3.8 %</b>	<b>(17.0)%</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.

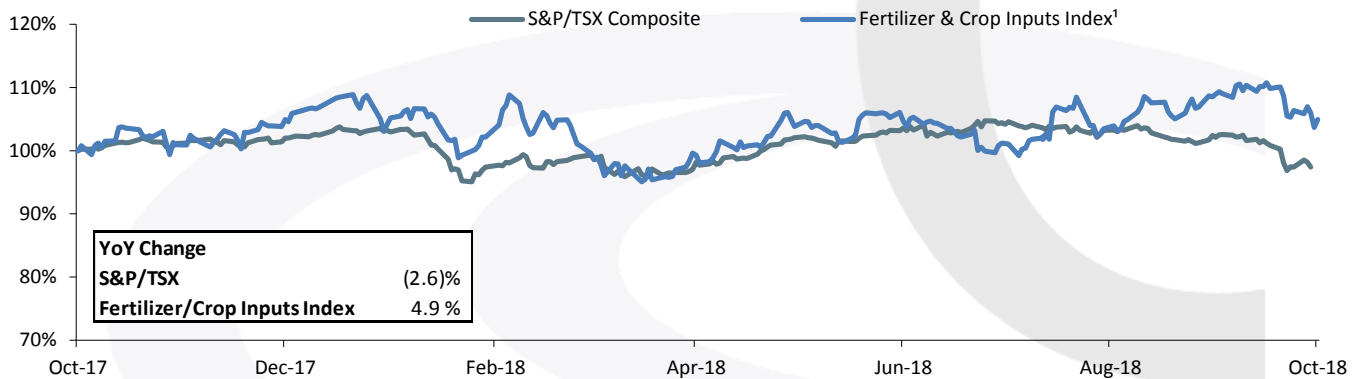


## FERTILIZERS & CROP INPUTS

### News Scan

- On October 12<sup>th</sup>, **EuroChem Group** announced that it has opened a new fertilizer plant in Lithuania for the production of highly efficient, water soluble fertilizers. The €14 million facility will produce 25,000 metric tonnes of crystalline urea phosphate per year. Test production began in September and the plant will ramp up to full production by year end
- On October 10<sup>th</sup>, the **Acron Group** announced that it has signed an agreement with **REP Holdings** to form a strategic partnership. The agreement will serve to develop strategic cooperation between the companies in several areas, including to develop priority innovation projects and lay the groundwork for introduction of new products. Specifically, the companies will focus their joint efforts on designing, manufacturing, assembling, and commissioning turbine power plants for nitric acid operations at Acron's Veliky Novgorod-based facility
  - On October 10<sup>th</sup>, the **Acron Group** announced that it has signed an agreement to supply fertilizers to Russian farmers in 2019. Under the terms of the agreement, Acron will supply over 100,000 tonnes of ammonium nitrate and NPK to the Bryansk and Novgorod regional departments of agriculture
- On October 18<sup>th</sup>, **Integer Research**, a global provider of market intelligence to the fertilizer and industrial chemicals industries, announced that it has been purchased by **Argus Media**, a leading energy and commodity price reporting agency, for an undisclosed amount. The combined company will have a global reach and will build on complementary strengths in the commodity reporting market

### Relative Performance Index



### Key Indicators

All Figures in USD millions unless indicated

Market	Market		TEV/EBITDA		Price/Earnings		Week Δ Price	Δ Price 52Wk High
	Cap	TEV	2018E	2019E	2018E	2019E		
Nutrien Ltd.	34,341	44,898	11.3x	9.6x	20.8x	16.3x	3.9%	(3.9)%
CF Industries Holdings, Inc.	11,823	18,661	12.1x	10.3x	33.1x	20.7x	(3.4)%	(10.4)%
Yara International ASA	12,448	16,101	9.7x	7.0x	3.2x	1.8x	(3.3)%	(8.0)%
The Mosaic Company	12,782	17,067	8.3x	7.3x	18.9x	14.4x	0.8%	(2.5)%
Nufarm Ltd.	1,521	2,505	7.9x	6.6x	17.4x	12.5x	(3.4)%	(41.1)%
Input Capital Corp.	57	53	6.8x	3.4x	7.1x	4.3x	(8.2)%	(47.1)%
<b>Mean</b>			<b>9.3x</b>	<b>7.4x</b>	<b>16.8x</b>	<b>11.6x</b>	<b>(2.3)%</b>	<b>(18.8)%</b>

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

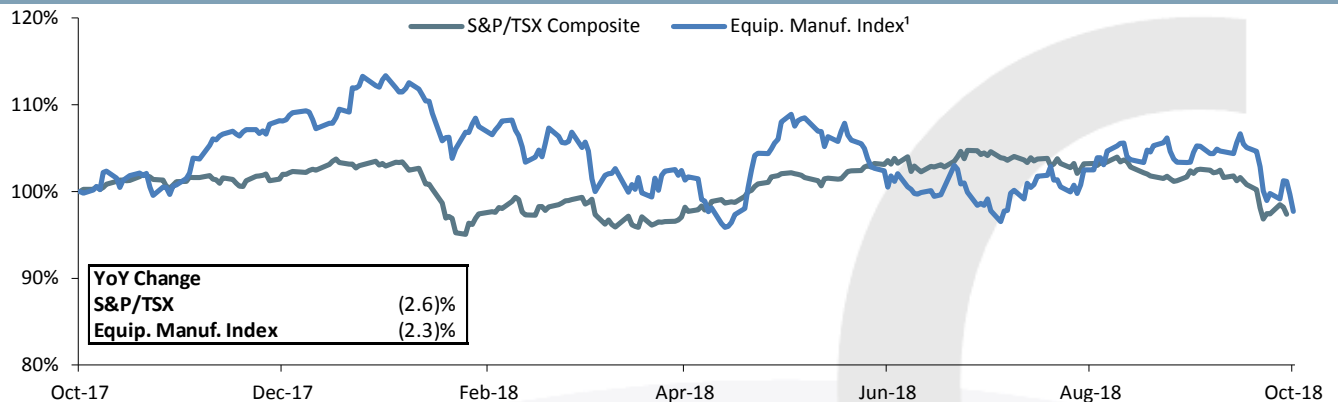


## EQUIPMENT MANUFACTURERS AND SERVICES

### News Scan

- On October 18<sup>th</sup>, **Royal Reesink B.V.**, a Netherlands-based distributor of agriculture equipment, announced that it has acquired a majority ownership position in Tingley's Harvest Center, a full-service Claas dealership with locations in Saskatchewan and Alberta, for an undisclosed amount. The acquisition will help Royal Reesink capitalize on its strategy of growth in new markets

### Relative Performance Index



### Key Indicators

All Figures in USD millions unless indicated

	Market	TEV/EBITDA		Price/Earnings		Week Δ Price	Δ Price 52Wk High	
		Cap	TEV	2018E	2019E			2018E
Deere & Company	46,935	51,390	10.0x	8.6x	19.0x	12.7x	2.3 %	(12.2)%
AGCO Corp	4,303	6,103	7.3x	6.5x	14.4x	11.4x	(0.2)%	(20.1)%
Ag Growth International Inc.	748	1,127	9.8x	8.8x	17.3x	16.0x	(2.6)%	(5.3)%
Rocky Mountain Dealerships	149	453	14.1x	13.0x	8.0x	7.3x	(1.3)%	(29.4)%
Cervus Equipment Corporation	148	337	7.5x	7.1x	7.9x	7.0x	0.8 %	(13.2)%
<b>Mean</b>			<b>9.7x</b>	<b>8.8x</b>	<b>13.3x</b>	<b>10.9x</b>	<b>(0.2)%</b>	<b>(16.1)%</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

- In its Oct. 11 Crop Production report, the **U.S. Department of Agriculture** lowered its forecast for 2018 U.S. corn production to 14.778 billion bushels from 14.827 billion bushels, a decrease of 0.3%. Soybean production was forecast at a record 4.690 billion bushels, up 6.3% from the 4.411 billion bushels a year ago
- Unfavourable weather conditions have contributed to a significant drop in Russia's grain harvest from a record setting 2017, though this year's production is still above the 10-year average. The **Russian Ministry of Agriculture** is estimating a total grain harvest of 105 million tonnes for the current market year, down 22.5% from last year's record setting 135.4 tonne harvest. Wheat yields are also down 12% to an average of 2.89 tonnes per hectare with total production estimated at 68.5 million tonnes
- On October 17<sup>th</sup>, Argentina's **Federation of Argentine Transporters (FETRA)** announced its intent to go on strike the week of October 22<sup>nd</sup>, a move that can disrupt the nation's grain shipments. Over 80% of Argentina's agriculture production is shipped by trucks to ports. The length of the strike was not indicated, but FETRA stated that it wants to see an increase in hauling rates. FETRA believes that regulation is needed to trigger a clause that automatically updates tariffs during times of hyperinflation
- **US soybean storage costs are expected to increase** as the commodity will have to fight for available storage space with corn and wheat crops in the 2018-19 marketing year. Significant pressure is expected on storage systems in states that have the most grain, leading to higher utilization rates. Due to ongoing trade tensions with China, the Pacific Northwest region has been left without bids or offers for more than 60 days, forcing the redirection of cargoes and a turn to temporary storage solutions
- **Myanmar's animal feed industry is steadily expanding**, as demand has increased by 15% since 2016, reaching an estimated 3 million tonnes. The rise in demand is driven primarily by the livestock industry which is entirely operated by the private sector. About 70% of the demand comes from the poultry sector and 25% from swine. Myanmar's industry is mainly led by foreign companies who hold a 60% share of the domestic feed sales in the country
- In October 2018, Canada's **Agriculture and Agri-food Minister**, Lawrence MacAulay, concluded his agricultural outreach mission to Europe. Throughout his trip, the minister met with officials in Spain, Belgium, and Italy to highlight Canada's agricultural sector to strengthen trade relationships. Through the **Canada-European Union Comprehensive Trade Agreement (CETA)**, Canadian farmers have the opportunity to diversify trade and meet Canada's goal of C\$75 billion in annual agri-food exports by 2025. Since the implementation of CETA in 2017, trade between Canada and the EU has increased by nearly 10%
- Unfavourable weather conditions over the past month have left **millions of acres unharvested in the Prairie Provinces**. Fields in northern and central Alberta, northern Saskatchewan, and western Manitoba remained unharvested. A significant portion of the wheat crop is expected to be downgraded to feed, resulting in losses of up to C\$240 million from milling quality in Alberta. Improvements in weather are expected for the remainder of the month which could improve the harvest
- Hot temperatures and a lack of rain this summer throughout Europe has caused an **estimated 8% drop in EU cereal production**. The expected total cereal production for 2018 is 284.3 million tonnes, a 5% decline compared to 2017, and 8% lower than the last five-year average. The drought conditions negatively impacted sectors including wheat, dairy, and sugar

### Commodities Futures as of October 19<sup>th</sup>, 2018

Commodities Futures	Price Unit	Latest Price (US\$)	Month to Date	Year to Date
Corn (CBOT)	\$ per bu.	\$3.67	0.34 %	3.89 %
Wheat (CBOT)	\$ per bu.	\$5.15	1.03 %	18.74 %
Oats (CBOT)	\$ per bu.	\$2.95	9.45 %	21.75 %
Rough Rice (CBOT)	\$ per cwt.	\$11.23	10.80 %	(4.63)%
Rapeseed (Canola) (ICE)	CAD per T	\$502.50	1.60 %	2.38 %
Ethanol (CBOT)	\$ per gal.	\$1.28	(2.36)%	(6.01)%



## Recent Earnings News

Company	EPS YoY Change	Comments	Analyst Consensus	Premium to Current
<b>Fertilizers &amp; Crop Inputs</b>				
Yara International ASA	8.9%	Q3 results show improved operations and profitability - EBITDA up 16% YoY. Results were positively impacted by higher market prices that were partially offset by higher gas costs due to a tight LNG market. The company expects operating cash flow to improve and boost earnings in 2019	NOK 385.97	4.9%
<b>Equipment Manufacturers &amp; Services</b>				
Canadian Pacific Railway Limited	24.3%	Revenues increased by 19% to C\$1.9 billion with growth across all major segments. CP reported an operating ratio of 58.3%, a 2.7% improvement over last year driven by higher volumes and asset utilization. Due to a record setting quarter, CP has increased its 2018 full-year guidance, expects EPS growth over 20%, increased from its earlier guidance of low-double digit growth	C\$312.30	19.6%

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