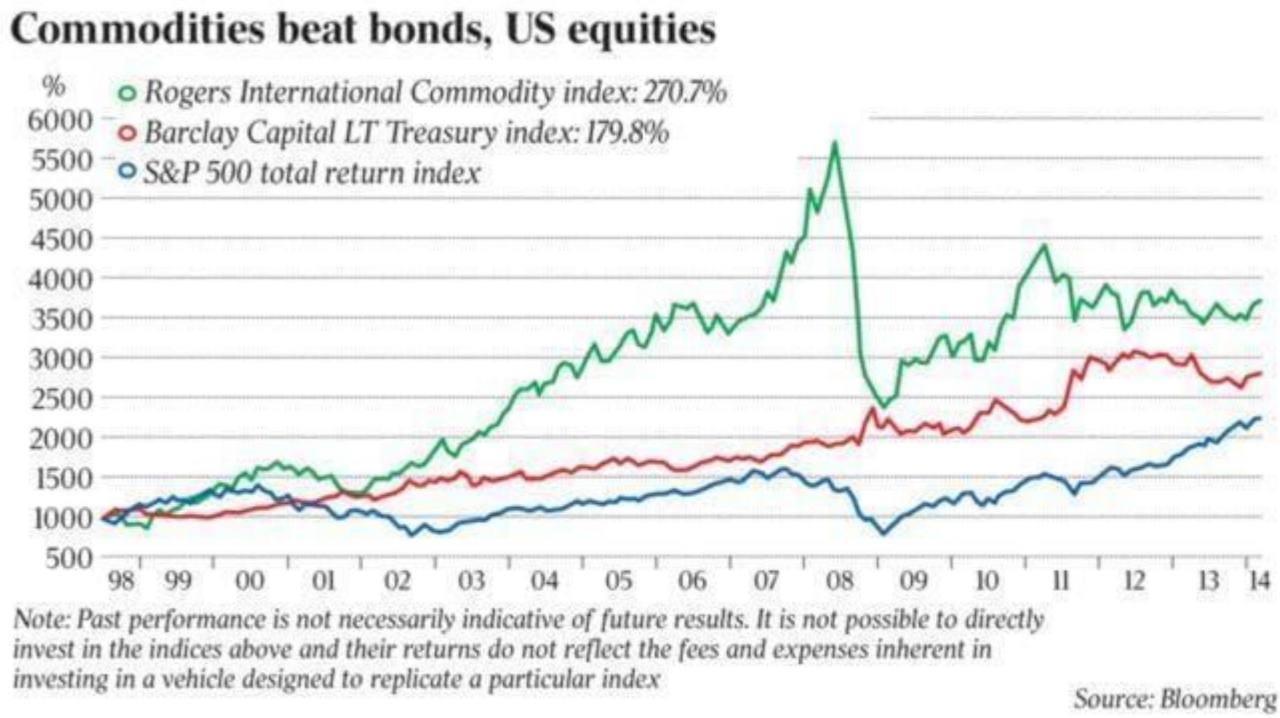
Timing mining of Asia food boom



As the developed world runs out of farmers, 'prices need to rise'.

By **Stirling Larkin**

THE so-called “mining to dining’’ boom is expected to be a significant driver of deal flow in the Asia-Pacific not only for the next decade, but also quite possibly through to 2030 at least.

Such changes as a move from minerals to food take a while for many commentators and investors to get used to, as the evidence of previous changes shows.

For instance, some of the most successful international investments made around 2004 spotted how important massive capital expenditure in China was going to be to mining and energy companies in Australia and Canada.

The sectors had underperformed in the 1990s and in 2004 commentators were looking the wrong way, failing most particularly to recognise this sea change and the imminent correlation between Australian and Canadian supply, and Chinese demand.

Those who did see this opportunity yielded strong returns in those following years.

The Australia in China’s Century conference, hosted by The Australian, will discuss how important these investments were for the economy and how they have advantageously positioned us for future Chinese and regional opportunities.

The best returning investments have been those that not only position us to meet the needs of today, but have also placed us in prime position to supply the demands of tomorrow.

The ultra-high-net-worth investment community, highly conscious of this, has been questioning where these future demands lay and how Australian or regional businesses could service these demands, and invest accordingly.

The common wisdom, no less wise for being common, is that, both in demand and supply, regional agribusiness is the answer.

In light of the fact Australia lacks the scale of other Pacific Rim nations (namely the US) and cannot yet become the “food bowl” of Asia, it could nevertheless discover its competitive edges and meet many future demands.

The UHNW community knows that individual investors can both drive these initiatives and capitalise on market shifts regardless of whether the Australian dollar is high or low.

They believe Australia can find this edge via deeper virtual integrations in what is an extremely fragmented and at times dislocated international agricultural demand-and-supply chain.

This community knows it is imperative to forge forward and not reflect backwards — a mistake others made in 2004.

Khan Horne, the general manager of NAB Agribusiness, the country's largest lender to this sector, says investors are seeing significant opportunities for Australian producers and exporters to Asia. He believes that "with growth in the Asian middle class set to explode from 500 million people today to 3.2 billion by 2030, consumption patterns are shifting to high-quality, safe and nutritious food which Australian agribusiness is perfectly positioned to supply".

In particular, he expects demand for high-quality Australian meat, dairy, eggs, sugar and wine will only continue to increase.

It is said that about 20 per cent of the world's calories cross international borders and that this is set to increase as deeper integrations are found.

As Australian businesses pioneer newer paddock-to-plate solutions, related industries such as transport, logistics and linked technologies can also present attractive investment opportunities for global investors. A recent success story was Linfox, which pioneered warehouse management solutions for Thai clients devastated by floods in 2011. These will help mitigate natural- disaster risks and ensure the safe transport of food across borders.

The Australian meat and dairy sectors have exemplified the gains to be made from investing in technology and infrastructure and have reconfigured their supply chains to drive export growth.

As well as direct farmgate opportunities, many Australian and regional UHNW investors have also sought direct investments in food fortification technologies, which seek to address Southeast Asian micronutrient malnutrition (MNM) food security concerns. These technologies endeavour to enrich maize crops with proteins, wheats with zincs and pearl millets with iron.

Jim Rogers, the co-founder of the Quantum Fund and creator of the Rogers International Commodities Index, says the world has consumed more food than it has produced for more than a decade and this is reflected in low inventories.

He believes “consumers and producers need to prepare for higher prices over the next few years” and, as the developed world is running out of farmers, “prices in agriculture need to rise or we won’t have food in the future at any price”.

As we continue to see a commoditisation of the agricultural supply chain across the region, global investors can look to a wider gamut of investment vehicles and asset classes to partake in this expansion.

Domestic and regional commercial credit and debt-financing markets present greater investment opportunities than previously seen. Balancing concerns that foreigners may under-utilise agricultural assets for “land banking” in Australia, these new investment vehicles add broad value to our market.

Notwithstanding, global economic forces continue to influence the volatility across asset classes.

Stephen Diggle, founder of the Singapore-based Vulpes Investment Management, believes “quantitative easing is forcing many managers of wealth, both private and institutional, to look outside the traditional capital markets for reliable streams of sustainable income” and says agricultural land should be one of these streams and that this is now where their business is focused.

UHNW investors seek advice on how to invest in agribusiness and also which investments place them at the front of the curve. But many remember how loudly they were sold on the Brazil-Russia-India-China theme around 2004; how investments were linked to the increasing demands for better quality food security in the emerging economies.

These investments did not deliver the yields promised and were not even well correlated to this opportunity set.

Between 2003 and 2012, the value of food and livestock exports from Australia rose by a compound annual growth rate of 9 per cent, reaching $US26 billion in 2012. At the same time, global food and livestock exports to China grew 19 per cent.

Australian agribusiness has plenty of room for expansion and the opportunity to integrate itself deeper into the regional agricultural demand-and-supply chains.

The best investments found in our portfolios of 2024 could very well be set today.

Stirling Larkin is chief investment officer of Australian Standfirst
www.australianstandfirst.com