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Landcorp Farming makes steady progress in tough year

Landcorp Farming is making determined and steady progress in the current tough times for New Zealand agriculture, directors say in the company's 2009 annual report.

Landcorp financial results for the year ended 30 June 2009 were impacted by the sharp fall in annual payout to New Zealand dairy producers, high costs of some production inputs, the continuing impact of severe drought in the previous year and a slowdown in the section sales of property development subsidiary Landcorp Estates. Net operating profit before tax in 2008/09 was \$6.9 million, compared with \$11.0 million in the previous year.

The State-Owned Enterprise's total shareholder return for 2008/09 was a loss of \$76.0 million, due mainly to an unrealised decline in farm values of around 8 per cent (2007/08: 21 per cent increase in farm values, leading to a total shareholder return of \$275.7 million). Landcorp will pay a final dividend for 2008/09 of \$10.0 million.

"In 2009 and beyond, we will push ahead with strategies for profitable growth over the long term and for higher value to the State as owner of Landcorp," says Chairman Jim Sutton. "Our vision is to become, quite simply, the world's best agribusiness. In becoming so, we will make a substantial contribution to New Zealand agriculture by helping lead the way with technology and on-farm practices for livestock breeding, for pasture development and management, for energy efficiency and for environmental protection."

Mr Sutton says Landcorp has well-established strategies for productivity, profitability and sustainability. "We understand fully the shareholder's expectation of returns from Landcorp and other State-Owned Enterprises. At the same time, we are mindful that agriculture delivers its best economic returns over the long term, with short-term fluctuation always likely in cashflows, earnings and economic value."

Mr Sutton says the present is dominated by the effects of recession, financial market instability, cost pressures and the past drought, but he retains confidence in the long-term prospects of agriculture.

“New Zealand’s pastoral farmers remain efficient producers of food for international markets. And as the world returns to growth, we can expect higher returns from dairying, and sheep and beef farming,” he said.

For 2008/09, total revenues increased 6 per cent to \$174.1 million, with gains in sheepmeat and deer revenues offsetting declines in dairy and beef. The year’s sharp fall in milksolids payout saw a 24 per cent fall in Landcorp dairy revenues. Industry-wide recovery in lamb prices during 2008/09 helped Landcorp to a 73 per cent jump in sheepmeat revenues, although reduction in breeding flock sizes because of the previous year’s drought meant the company could not realise the full benefit of higher lamb prices.

Chief Executive Chris Kelly says dairy operations were subject to rigorous cost review during 2008/09, in recognition of the lower payout and of the importance of dairying to Landcorp. “The review emphasised the resilience of grass-based feeding and the need for strict cost control on every dairy unit,” says Mr Kelly. “Farm managers have responded well with budgetary discipline and a strong focus on productivity per cow, with lower stocking rates where appropriate.”

Landcorp’s total expenses for 2008/09 were up 11 per cent to \$154.5 million, including 17 per cent growth in farm working expenses due to further dairying expansion and a move from sharemilker arrangements to directly-managed dairy farms, and further costs from the 2007/08 drought. Higher farm working expenses also reflected general cost pressures in agriculture, especially prices for fertiliser, freight, grazing and other feed.

Mr Kelly says the strategy of diversification into dairying has largely been achieved, this sector contributing 34 per cent of all farm operational revenues for 2008/09. Landcorp will continue to invest in productivity growth in its dairy clusters, through pasture development and new technologies. Mr Kelly notes that venison and velvet contributed a further 15 per cent of farm operational revenues for the year, and that Landcorp remains a substantial sheep and beef farmer in most regions of New Zealand.

“Through 2009/10, farmers are likely to face weakness or uncertainty in product prices, stubbornly high input costs and an over-valued New Zealand dollar. Other pressures loom with the prospect of greenhouse gas emission liabilities, and ongoing trade protection in the form of subsidies and tariffs.” Mr Kelly says Landcorp has the strategies, technological capabilities and the determination to overcome challenges immediately ahead and long term.

Further information, see the Landcorp Farming 2009 Annual Report or contact Chief Executive Chris Kelly on tel 04 381 4050