



Expertise in the Agricultural Theme

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The longer term thematic is still very much upwards

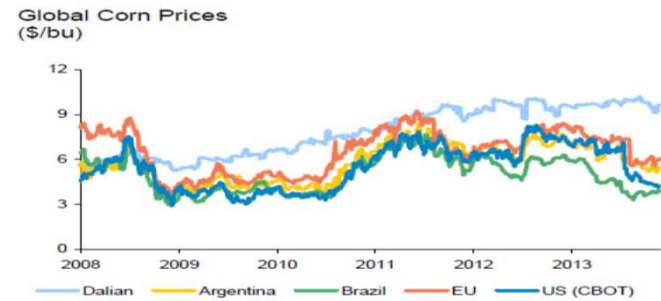
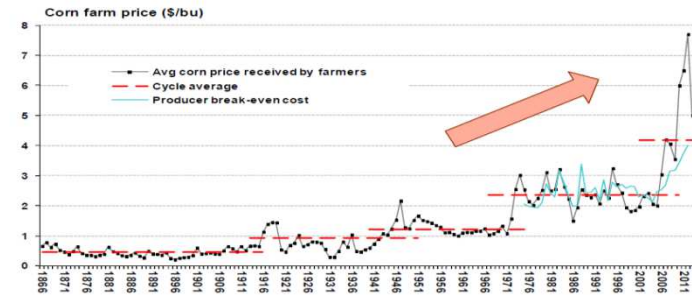
- **Grain prices have hit bottom:**
 - Higher production costs will take out supply of the market
 - Future prices are higher
 - Chinese grain prices are at a substantial premium
 - Palm oil prices have started to climb

- **Potash and phosphate prices are at 5yrs low, high cost producers are starting to lose money, urea prices have moved up**

- **China is embarking on substantial rural reforms, 'strategic' M&A should continue**

- **EM are trading at a substantial discount to DM, tapering fears should be discounted**

- **Often a good time to buy when sentiment is so poor**



Source: Bloomberg, Morgan Stanley Commodity Research

Big valuation gap between DM & EM



GaveKal Data - powered by Macrobond

- **Grain prices have started to move up**
 - Despite bearish USDA outlook provided by the USDA
 - Palm oil (+15% since oct2013) is the star performer helped by the biodiesel mandate in IDR
 - Weather events in Brazil and the situation in Ukraine could accelerate cutbacks in high cost regions

- **Phosphate prices are up by > 30%**

- **China is embarking on substantial rural reforms, 'strategic' M&A is emerging**
 - Cofco has bought into Nidera and talks underway with Noble

- **EM are trading at a substantial discount to DM, tapering fears should be discounted**
 - Not played out yet tough IDR has performed strongly ytd

- **Often a good time to buy when sentiment is so poor**
 - The Cofco news was ignored for >1month by media

Palm vs Palm Kernel Oil Prices

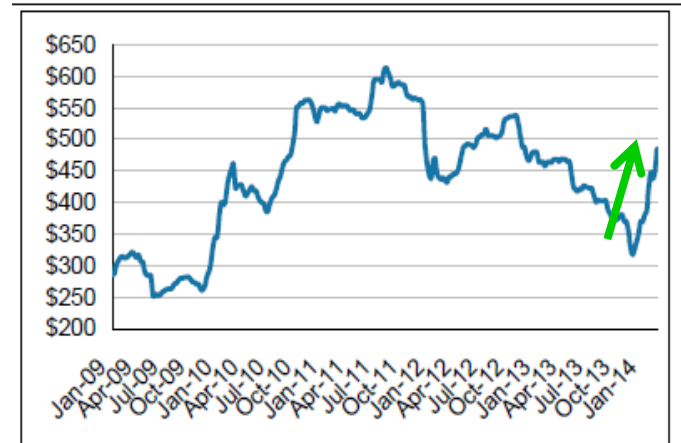
Figure 14: CPO vs PKO Prices, US\$/mT, 2008 to date



Source: Bloomberg

Exhibit 30

DAP (per ton)

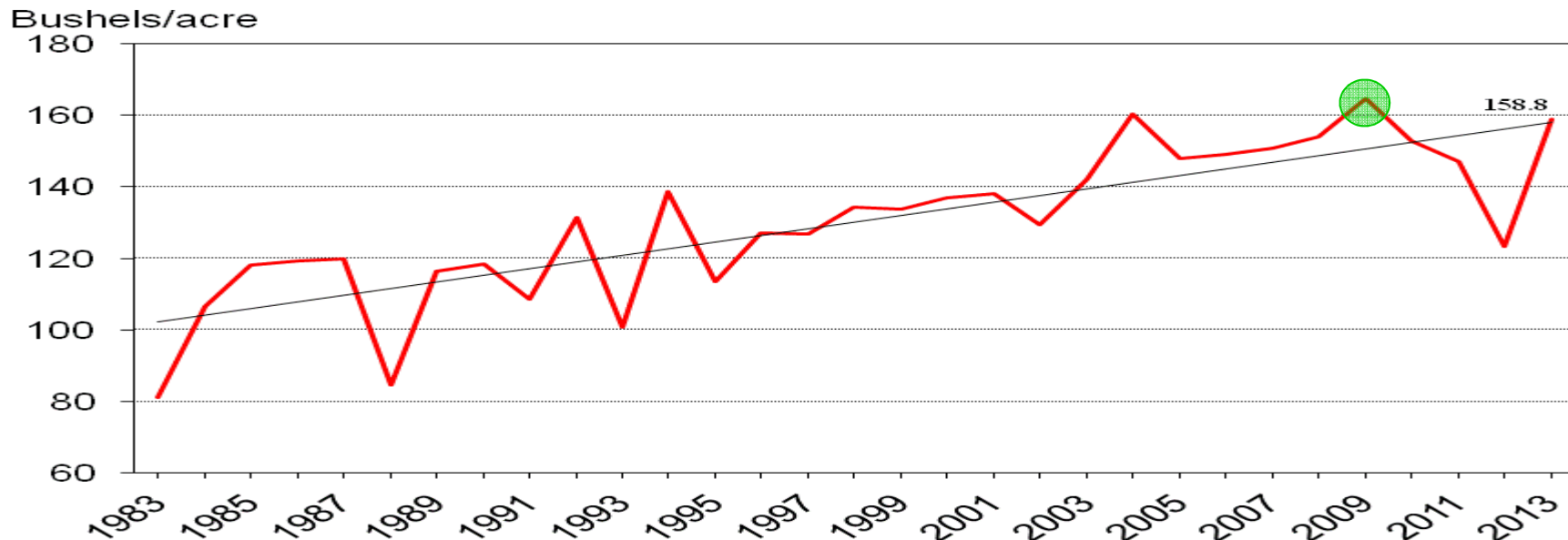


Source: Green Markets, Morgan Stanley Research

- The USDA is using a linear corn yield model to 'predict' US corn production
- Only in 2009/10, have actual corn yields been above trend !
- Technological yield improvement are harder to come by
- No corn planting yet in the Northern hemisphere !



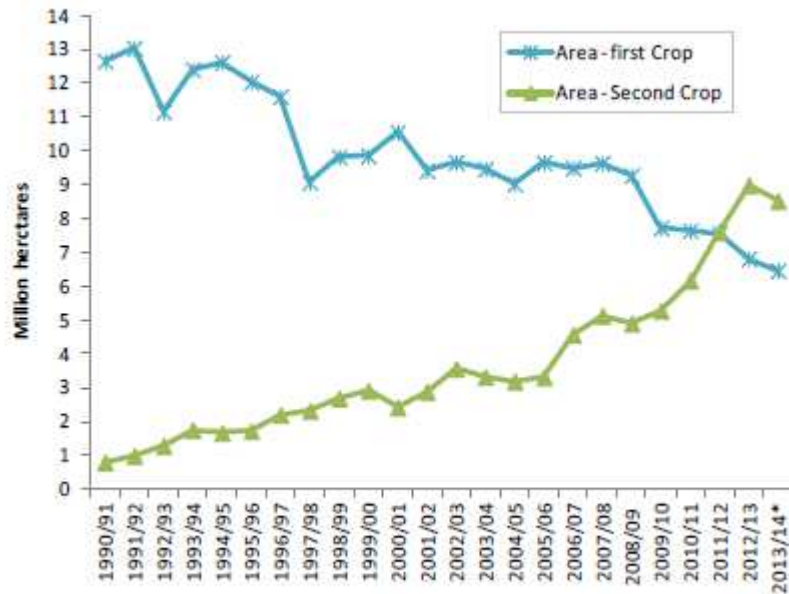
U.S. Corn Yield



USDA-NASS
01-10-14

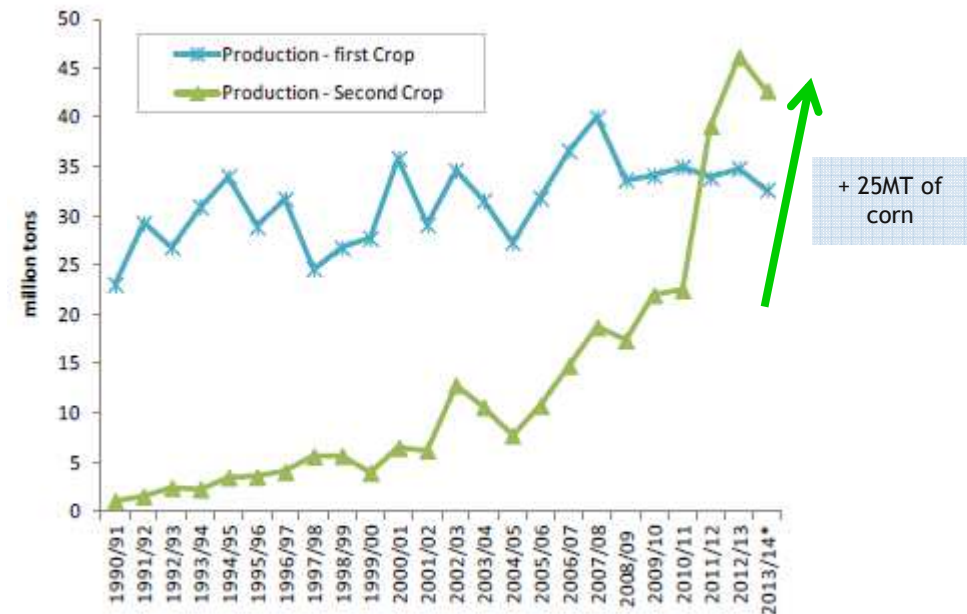
- Severe weather events in Brazil will impact the second corn crop
- In 2-3 years time, the second corn crop (green line) added 25mt of corn, 50% of US corn exports in 2009/10 (when corn yields were above trend)

Figure 5. Brazilian Corn Area (million hectares)



Source: Conab

Figure 6. Brazilian Corn Production

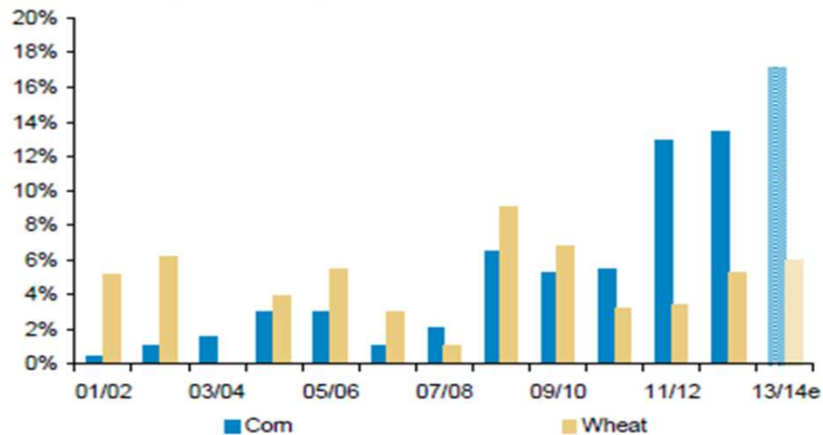


Source: Conab

- Political developments and hryvnia weakness will impact Ukrainian corn production
- Ukraine became the third biggest corn exporter in just a couple of years

Exhibit 5
Ukraine Playing an Increasingly Larger Role in Global Grain Markets

(Ukraine exports, % of global)



Source: USDA, Morgan Stanley Commodity Research estimates

Exhibit 1: Ukrainian production and exports are significant to the corn, sunflower and wheat markets
 2013/14, in thousand metric tonnes

	Production			Exports		
	Level	Share of global	Rank	Level	Share of global	Rank
Corn	30,900	3.2%	5	18,500	16.2%	3
Wheat	22,278	3.1%	9	10,000	6.3%	6
Oilseed	17,616	4.4%		4,430	3.5%	
Soy	2,763	1.0%	9	1,900	1.7%	7
Rape	2,353	3.4%	6	2,230	16.4%	3
Sunflower	12,500	28.9%	1	300	14.3%	2
Oilseed oil	4,847	5.6%		4,175	20.6%	
Soy oil	129	0.3%	19	70	0.8%	12
Rape oil	48	0.2%	16	45	1.1%	8
Sunflower oil	4,670	29.8%	1	4,060	57.7%	1
Oilseed meal	5,266	2.2%		4,150	5.7%	
Soy meal	553	0.3%	19	40	0.1%	15
Rape meal	73	0.2%	16	50	0.9%	10
Sunflower meal	4,640	28.2%	1	4,060	63.9%	1

Source: USDA.

World Corn Production, Consumption, and Stocks Local Marketing Years, Thousand Metric Tons

	2009/10	2010/11	2011/12	2012/13	2013/14 Jan	2013/14 Feb
Production						
Argentina	25,000	25,200	21,000	26,500	25,000	24,000
Brazil	56,100	57,400	73,000	81,000	70,000	70,000
Canada	9,796	12,043	11,359	13,060	14,200	14,200
China	163,974	177,245	192,780	205,614	217,000	217,000
Egypt	6,280	6,500	5,500	5,800	5,600	5,600
European Union	59,147	58,265	68,118	58,855	64,685	64,685
India	16,720	21,730	21,760	22,230	23,000	23,000
Indonesia	6,900	6,800	8,850	8,000	9,200	9,200
Mexico	20,374	21,058	18,726	21,591	21,700	21,700
Nigeria	8,950	8,800	9,250	7,630	7,700	7,700
Philippines	6,231	7,271	7,130	7,261	7,315	7,315
Russia	3,963	3,075	6,962	8,213	11,000	10,682
Serbia	6,400	6,800	6,400	3,500	6,000	6,000
South Africa	13,420	10,924	12,759	12,365	13,000	13,000
Ukraine	10,486	11,919	22,838	20,922	30,000	30,900
Others	79,159	83,015	85,606	86,472	87,802	87,934
Subtotal	492,900	518,045	572,038	589,013	613,202	612,916
United States	332,549	316,165	313,949	273,832	353,715	353,715
World Total	825,449	834,210	885,987	862,845	966,917	966,631

World Corn Trade

October/September Year, Thousand Metric Tons

	2009/10	2010/11	2011/12	2012/13	2013/14 Jan	2013/14 Feb
TY Exports						
Argentina	16,973	15,198	16,501	22,786	14,000	13,000
Brazil	8,623	11,583	12,674	26,044	21,000	21,000
Canada	186	1,658	494	1,813	1,500	1,500
European Union	1,569	1,096	3,287	2,193	3,000	2,500
India	1,917	3,376	4,674	4,768	3,500	3,000
Paraguay	1,359	1,201	2,188	2,858	1,800	1,800
Russia	427	37	2,027	1,917	2,500	3,000
Serbia	1,343	2,004	2,331	601	1,600	1,600
South Africa	1,586	2,839	1,831	2,398	1,900	1,700
Ukraine	5,072	5,008	15,157	12,726	18,000	18,500
Others	3,972	2,543	4,161	3,706	3,575	3,875
Subtotal	43,027	46,543	65,325	81,810	72,375	71,475
United States	49,696	45,135	38,428	18,275	37,000	41,000
World Total	92,723	91,678	103,753	100,085	109,375	112,475



China's Cofco takes on global trading houses

News analysis

The group is opening its \$10bn war chest, write Lucy Hornby and Gregory Meyer

Two years ago China's state-owned grains trader announced a \$10bn war chest for foreign mergers and acquisitions. It has now shown the will to act.

China National Cereals, Oil and Foodstuffs Corp last week charged into South American markets with a deal to buy a controlling stake in Nidera, a 94-year-old trading house.

The company known as Cofco is now in talks with Hong Kong-based Noble Group, one of Asia's leading commodities traders, to establish a joint venture in sugar, soyabean and wheat.

The deals will put China's top grains importer directly in competition with global agricultural trading houses such as Archer Daniels Midland, Bunge, Cargill, Louis Dreyfus Commodities - long known as the "ABCD" companies - and commodities powerhouse Glencore Xstrata.

"This is a big deal. It transforms them into a major player, and gives them a diversified footprint that they don't have now," says Philippe de Lapereuse, managing director at consultancy HighQuest Partners and a former Bunge executive.

Cofco has the budget to assemble a formidable international presence. But with 106,000 employees and a long history as a state monopoly, it is more likely to buy for China than arbitrage between markets. Cofco's revenue rose 13 per cent last year to \$31.7bn, but profits fell 20 per cent to \$85m. By contrast, Cargill earned \$2.31bn, on revenues of \$136.7bn.

The move to build a global supply chain is in line with a shift in priorities for China. Rising incomes and richer diets have collided with a shortage of arable land and clean water, leaving the world's second-largest economy to abandon its traditional reluctance to look abroad for feed grains.

"We will encourage agriculture to go global, and actively use foreign resources," the Ministry of Finance said in its annual

budget released yesterday. China is already the world's top importer of soyabean, snapping up the lion's share of that harvest from the US, Brazil and Argentina. Demand from Chinese dairy farms has driven up North American alfalfa hay prices. Rice from Thailand, barley from Australia and cocoa from west Africa all find their way to China.

This year's annual rural policy document specifically called for more corn imports. "The trade volume thus far is still small relative to the overall corn market, but it's growing and the potential is very large," says Joseph Glauber, chief economist at the US Department of Agriculture. The US is the world's top corn exporter.

Recent agribusiness deals have invoked Asian demand as a rationale. Glencore's \$6.1bn purchase of Toronto-listed Viterra gave it access to wheat exports from Canada and Australia. Marubeni of Japan last year closed on Gavilon of the US for \$2.7bn, excluding debt - a move that gave it access to grains infrastructure in the US and positioned it for a rise in Chinese demand. A similar strategy motivated

number of packaged food brands among its products; and is on the lookout for more.

A deal with Noble would strengthen Cofco's hand in sugar and grain, a beachhead in the US grain market. China Investment Corp, the sovereign wealth fund, is already Noble's biggest outside shareholder.

"Noble Group has a very deep background in China and enjoys a close relationship with the government," says Ma Wenfang of Beijing Orient Agribusiness Consultant Co.

Niderra - an acronym formed from Netherlands, India, Germany (Deutschland), England, Russia and Argentina, the countries where it started trading in the 1920s - has been in need of working capital, bankers and agricultural investors say. Cofco invested almost \$1.2bn for a 51 per cent stake.

Frank Ning, the US-educated chairman of Cofco, deemed the transaction "in line with Cofco's strategy to become a global player in the agricultural industry." "With Cofco's Niderra move and with Noble, you're almost creating another credible competitor to the ABCDs now," says one banker who advises agribusiness companies.

China's bureaucrats have an uneasy relationship with international grain traders, with some harbouring fears they wield too much pricing power.

China's ministry of commerce required that Marubeni and Gavilon keep soy sales channels to China firewalled as a condition of approving that deal. Companies including ADM and Dreyfus have seen corn shipments turned away at Chinese ports in recent months over concerns they contained unapproved genetically modified seeds.

Not everyone is cheering Cofco's transformation into China's international agricultural trading arm. Private feed producers such as New Hope Group, China's largest private agricultural business, have lobbied for many years to open China's corn imports but still have limited access to imported grain.

"There must be an enterprise to take the lead when it comes to China's overseas agricultural business. Right now, Cofco is doing it but I hope more private enterprises in China will be able to participate as well," adds analyst Ma Wenfang.

New battlefield



Photo:AFP

Growing appetite

2011 Gavilon buys DeBruce Companies (grain handler, US)

Cargill acquires AWB for \$677m (grain business only, Australia)

2012 Glencore acquires Viterra for \$6.1bn

(grain handler/agri products, Canada)

2013 Marubeni purchases Gavilon for \$2.7bn (agriculture business only, US)

Shuanghui Int'l acquires Smithfield Foods for \$4.7bn (pork producer, US)

2014 Cofco buys a majority stake in Niderra for \$1.3bn (grains trader, Netherlands)

Cofco in talks to set up joint venture with Singapore's Noble group (agriculture)

Global agricultural trade flows

Net exports*, million tonnes (2011-12)



FT graphic

* Exports minus imports

Commodity traders

Revenues, latest reported full year (\$bn)



Source: GlencoreXstrata, Bloomberg, companies, FT research

Petercam



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