



Australian Agricultural Company Limited
ABN 15 010 892 270

ASX RELEASE

Friday, May 24, 2013

AACo March 2013 quarter profits affected by cattle price slump

- **Cattle sales and wholesale beef revenues up**
- **Profit adversely affected by non-cash \$43.2 million mark-to-market herd revaluation due to low domestic prices**
- **Operating cashflow result broadly in line with prior corresponding period**
- **Darwin abattoir a priority for capturing higher global cattle prices**

Australia's largest beef cattle producer, the Australian Agricultural Company Limited (AACo), today announced a net loss after tax of \$46.5 million for the three months to 31 March 2013.

Under Australian accounting standards the result was significantly adversely affected by a non-cash \$43.2 million pre-tax writedown of the market value of the company's 676,000-head herd, due to the slump in domestic cattle prices. Domestic cattle prices have been significantly depressed due to the ongoing effects of the Federal Government's June 2011 suspension of live cattle exports to Indonesia and below-average seasonal rainfall in northern Australia.

The majority (\$35.3 million) of cattle written down in value are long life-cycle breeding cows and young grower cattle. Most of the cattle are not intended for immediate or near-term sale and accordingly this write-down is a non-cash valuation adjustment not expected to be realised in the short term.

Managing Director David Farley said AACo had increased both cattle sales and wholesale beef revenue in the three months, however domestic prices continued to be depressed.

"AACo sold 41,186 head for the quarter, up from 29,646 head in the first quarter of last year to drive operating cash flows which were in line with the prior corresponding period," he said.

"The drought and the continued impact of the Federal Government's 2011 suspension of live cattle exports to Indonesia continue to be felt in domestic cattle markets.

"With the biggest herd in Australia, livestock values have a significant impact. A 10c change in live-weight-per-kg trading cattle prices equates to an \$8.7 million impact on AACo's pre-tax profit.

“The local oversupply and depressed cattle prices is at odds with continuing high global beef prices. This disparity validates AACo’s vertical integration strategy and the decision to build a Darwin abattoir to capture these global prices.

“This state-of-the-art facility will open up new channels to market as well as reducing freight costs currently incurred by moving cattle from the north to eastern Australian abattoirs.”

As previously announced, AACo has moved to a new financial year-end of 31 March. These three-month results align the company’s reporting from a 31 December year-end to the new financial year. The three-month result is not representative of results for a full 12-month period as the bulk of cattle sales and profit are generated outside of this three-month period.

Group Financial Results

Herd numbers	676k head at 31 March 2013	682k head at 31 Dec 2012
	3 Months to 31 March 2013	3 Months to 31 March 2012
Total kilograms produced	8.5m	11.1m
Revenue		
• Finished and store cattle	\$22.1m	\$19.5m
• Wholesale beef	\$38.1m	\$23.7m
• Farming	\$0.9m	nil
Total Revenue	\$61.1m	\$43.2
Gross margin	\$(40.4m)	\$16.3m
EBITDA¹	\$(64.6m)	\$(1.2m)
EBIT¹	\$(67.3m)	\$(3.4m)
NPAT	\$(46.5m)	\$(5.1m)
Operating cash flow	\$(18.6m)	\$(16.6m)

Note:

1. EBITDA represents net profit + tax expense + finance costs (EBIT) + depreciation, amortisation and impairment

The company finished the March quarter with net tangible assets of \$1.90 per share, down from \$2.04 per share at 31 December 2012. The decline is principally attributable to the non-cash herd valuation write down.

Seasonal Conditions

Rainfall was well below average for AACo’s Northern Australia properties in the March quarter. The 2012/13 wet season rainfall was lower than in the 2007 drought.

The drier conditions have given rise to increased feed and other costs, including water and transport, during the three-month period.

Cattle Operations

During the March quarter AACo delivered 41,186 head of cattle (March quarter 2012 - 29,646 head), at significantly lower prices than the prior corresponding period.

	Grass Finished	Shortfed Grain Finished		Wagyu		Breeder and Feeder	Live Export	Total sales	Average \$/head
	Head	Internal Head	External Head	Internal Head	External Head	Head	Head	Head	
Q1 2013	9,248	1,111	2,115	7,129	1,022	11,968	8,593	41,186	980
Q1 2012	2,860	179	4,063	6,972	1,986	1,082	12,504	29,646	1,255

The unseasonably dry weather is continuing to affect domestic cattle prices, with the benchmark Eastern Young Cattle Indicator (EYCI) tracking well below 2012 prices due mainly to a decline in demand for re-stocking cattle.

Market conditions for all categories of cattle apart from longfed Wagyu were reflected in declines in value over the quarter.

Kilograms produced during the quarter were 8.5 million, down from 11.1 million kilograms produced in the first quarter of 2012. The lower kilograms produced was largely due to the dryer conditions affecting all large trading herds.

Wholesale Beef Group Operations

AACo's Beef Group had a 65 per cent increase in kilograms sold for the first quarter. The major contributors were larger volumes of AACo's signature "1824" beef brand and improved inventory management due to new customer and market development.

	Wagyu (kg)	Shortfed Grain Finished (kg)	Average Selling Price (per kg) on total sales
Q1 2013	1,909,227	2,386,270	\$8.76
Q1 2012	1,834,132	769,162	\$9.00

The development of an integrated supply chain from the feedlots to the wholesale beef operations continues. This development will be furthered with the commencement of the Darwin abattoir operations and will provide the group's wholesale beef division with broader market access.

The division continued to perform on lower than desired margins due mainly to the adverse effects of the high Australian dollar.

Farming Operations

Farming operations continued to perform with 15,120 bales of cotton harvested. The 2012 harvest was delayed in the first quarter due to seasonal conditions. The value of the harvest is anticipated to be \$900,000 once ginned.

Property Portfolio

There was no change to the company's property portfolio during the quarter, however as announced this week, the company has exchanged contracts for the sale of 19,404 hectares of cropping and grazing land from its Goonoo aggregation for \$23.0 million. The company will lease back 7,800 hectares of high quality cropping land for a five-year period at commercial lease rates.

Brighton Downs Station, which has been determined to no longer fit into AACo's supply chain, was put to auction on 22 May 2013 and was passed in at \$10.25 million, with negotiations continuing with interested parties.

Darwin Abattoir Update

The stage one civil works for the development of AACo's Darwin abattoir have been completed.

AACo announced to the ASX on 19 April that it intends to fund the construction from its own balance sheet.

The completion of this facility will go some way to insulating AACo from movements in domestic pricing and live export fluctuations by opening up another marketing channel. It will be well positioned to take advantage of the current continued rising global beef price.

The abattoir will be the first major beef processing facility in northern Australia and will allow cattle to be processed locally, reducing transport and freight costs for northern producers who currently truck live cattle across large distances to eastern processing plants.

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