



Australian Agricultural Company Limited
ABN 15 010 892 270

ASX RELEASE

Thursday, November 7, 2013

AACo half-year results affected by domestic cattle price slump

- **Cattle sales revenue down, driven by slump in domestic cattle prices**
- **Branded Beef division gross margin improves 323 per cent as higher value customers targeted**
- **\$4.5 million improvement in operating cash flow against prior corresponding period**
- **Darwin Beef Processing Facility construction underway and on schedule**

Australia's largest beef cattle producer, the Australian Agricultural Company Limited (AACo), today announced a net loss after tax of \$31.6 million for the six months to 30 September 2013.

The result was significantly adversely affected by a 12 per cent decline in average live weight cattle prices during the period, which contributed to a \$20.4 million drop in revenue for live cattle sales.

Domestic cattle prices continue to be depressed due to the ongoing effects of the previous Federal Government's June 2011 suspension of live cattle exports to Indonesia and below-average seasonal rainfall in northern Australia.

Acting Chief Executive Officer Craig White said the poor result in live cattle operations was partly offset by the continuing strong performance of the company's Branded Beef division which improved gross margins by 323 per cent.

"The strong result from our Branded Beef division was driven by a decision to concentrate on higher-value customers and improved yields, initiated by a reinvigorated management team," he said.

"The success of the Branded Beef business continues to validate AACo's strategy of moving from a pure pastoral company to a vertically integrated producer, processor and marketer.

"The company's Darwin Beef Processing Facility, which is now under construction and is expected to be operational during the second half of the 2014 calendar year, will be crucial to both enhancing the group's profit as well as reducing the volatility of the group's earnings profile.

“Together with the recently completed \$299 million capital raising which has substantially strengthened the balance sheet, the company is in a strong position to grasp the opportunities of rising global demand for beef, especially in Asia, and to drive return on capital employed in the business.

“Recent diplomatic moves by the new Federal Government are also promising for an improvement in live export trading conditions with Indonesia.

“While external factors such as the drought and the corresponding low cattle prices have affected the result for this half, the company has been able to effectively manage the things it can control.

“This is demonstrated by a \$4.5 million improvement in operating cashflow for the half compared to the prior corresponding period, despite a volatile environment with significantly increased feed and transport costs.”

Group Financial Results

	6 Months to 30 Sep 2013	6 Months to 30 Sep 2012
Total kilograms produced	44.7m	57.7m
Revenue		
• Finished and store cattle	\$78.5m	\$98.9m
• Branded Beef	\$83.9m	\$76.2m
• Farming	\$15.2m	\$18.3m
Total Revenue	\$177.7m	\$193.3m
Gross margin	\$11.4m	\$34.4m
Operating expenses	\$(45.4m)	\$(43.8m)
EBITDA¹	\$(28.8m)	\$(7.3m)
NPAT	\$(31.6m)	\$(18.7m)
Operating cash flow	\$(1.0m)	\$(5.5m)
	At 30 Sep 2013	At 30 Sep 2012
Herd numbers	552k head	646k head
Gearing²	31.5%	38.0%
Net tangible assets per share³	\$1.58	\$2.07

Notes:

1. EBITDA represents net profit (NPAT) + tax expense + finance costs + depreciation, amortisation and impairment
2. Assuming all of the capital raising proceeds had settled prior to 30 September 2013, gearing would have been 19.4%
3. Assuming all of the capital raising proceeds had settled prior to 30 September 2013, NTA per share would have been \$1.44. Assuming no capital raising occurred prior to 30 September 2013, NTA per share would have been \$1.77. Net tangible assets include leased land assets

Seasonal Conditions

Rainfall was well below average for AACo's northern Australia properties in the half, with many properties in areas that recorded their lowest rainfall on record. The 2012/13 wet season rainfall was lower than in the 2007 drought. The drier conditions have continued to drive increased costs for feed, water and transport.

Branded Beef Operations

AACo's Branded Beef division sold 9 million kgs of beef in the half, slightly down on the 9.5 million in the prior corresponding period.

However revenue improved by 10.5 per cent to \$83.9 million and gross margin by 323 per cent to \$7.2 million following a decision to reduce the volume of 1824 branded beef and concentrate on higher-value customers.

	Wagyu (‘000 kg)	Average Wagyu \$/kg	Non- Wagyu (‘000 kg)	Average non-Wagyu \$/kg
1H FY14	4,755	10.76	4,233	6.35
1H FY13	4,457	9.93	5,004	6.24

Improved management focus positioned the Branded Beef division to take advantage of better currency conditions, although the Australian dollar remained volatile throughout the half.

Cattle Operations

During the first half AACo delivered 172,517 head of cattle for sale (six months to September 2012 – 147,693 head), at significantly lower prices than the prior corresponding period.

	Grass Finished	Shortfed Grain Finished		Wagyu		Breeder and Feeder	Live Export	Total sales	Av. sale price (\$/head)	Av. sale price (\$/kg lwt)
		Internal	External	Internal	External					
1H FY14	49,004	2,508	5,094	16,908	2,498	61,051	35,454	172,517	731	\$1.77
1H FY13	40,197	2,052	6,322	15,214	3,262	32,537	48,109	147,693	919	\$2.01

This accelerated sales program was undertaken to manage the continuing drought conditions and the uncertainty in the live export trade. The dry conditions increased destocking across the cattle industry, forcing prices lower than in previous years.

Prices achieved to 30 September 2013 averaged \$731 per head, more than 20 per cent lower than the prior corresponding period average of \$919 per head.

Cattle purchases were reduced to 14,453 head for the six months to 30 September 2013 (six months to 30 September 2012 – 61,181 head) with the bulk of the cattle purchased to support feedlot operations.

Kilograms produced during the half were 44.7 million, down from 57.7 million kilograms in the prior corresponding period.

Farming Operations

Cotton production for the half was down on the prior corresponding period, reflecting an earlier harvest this year rather than any deterioration in yield. Wheat production of 4,948 tons included 937 tons which was used internally.

	Cotton harvested (bales)	Wheat harvested (metric ton)
1H FY14	7,284	4,948
1H FY13	20,517	0

Darwin Beef Processing Facility Update

At the August Annual General Meeting, the Board announced it had given final approvals for the construction of the \$91 million Darwin Beef Processing Facility.

Contracts have now been executed with the major plant and equipment providers and construction is well under way and on schedule.

The plant is expected to be operational during the second half of calendar year 2014.

Property Portfolio

In May this year the company sold part of the Goonoo aggregation in Queensland, totalling 19,404 hectares, for \$23 million and Brighton Downs, a 420,000 hectare station near Winton in Queensland for \$11.75 million.

The sales reflect the company's strategy to sell non-core assets and deploy capital in northern Australia.

Following the half-year balance date at 30 September, the company last month purchased (subject to regulatory approvals) the adjacent La Belle Downs and Welltree stations in the Northern Territory. The 99,400 hectare properties are 180km from Darwin and will be complementary to the Darwin Beef Processing Facility, helping ensure continuity of supply during both wet and dry seasons.

Chief Executive Officer Recruitment

The search process for a new chief executive officer has attracted a field of high-quality candidates. The process is continuing and the Board will update the market as and when appropriate.

Media Enquiries:

Matthew Horan

matthew@horancommunications.com.au

0403 934 958