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Dairying

Higher share value may prompt exodus

The increase in Fonterra's Fair Value Share may act as a catalyst for some farmers to exit.

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THE increase in Fonterra's Fair Value Share may act as a catalyst for some farmers to exit the dairy industry.

That's the reaction from dairy industry critic Tony Baldwin to news the share price has climbed 19c. The shares are now worth $4.69.

The 7% jump in share value may provide an incentive for some to cash in their shares and leave the company.

"I think this highlights the need for Fonterra shares to be traded among dairy farmers," says Baldwin.

"That way we would get a true feel for their value and it would mean Fonterra isn't burdened with the huge cost of paying out suppliers when they leave."

Shareholders are already unhappy with the company's capital structure and tried unsuccessfully to revamp it at the company's last agm.

The company's cessation figures topped the 400-mark last season despite overall production continuing to climb.

But not all are unhappy.

Dairy Farmers of New Zealand chairman Kevin Wooding says the extra equity is good news because it allows farmers to borrow more money at the bank if need be.

Fonterra chairman Henry van der Heyden put a positive spin on the news of the share increase last week.

He said it provides independent confirmation that the cooperative is making steady progress and creating greater wealth for shareholders.

"While payout is a snapshot of performance for one season, Fair Value Share price takes into account the long-term prospects of the co-operative and long-term benefits for shareholders."

Standard & Poor's valued each share at between $4.34 and $5.05 (compared with a range of $4.05 to $4.71 for the 2003-04 price).

And Fonterra's board decided on the $4.69 mid-point value.

Van der Heyden says the positive trends in the business identified by the valuer when it provided its estimated share price six months earlier had since strengthened.

He says the largest factor behind the increase was a decline in debt. A reduction in working capital, and in particular a reduction in inventories, was a significant contributor to this.

In addition, the valuer had also acknowledged Fonterra's strong performance by assessing an increase in Fonterra's underlying enterprise value.

"Our balance sheet is a lot stronger. Because farmers own more of the business than before and the banks less, the value of each share has risen. Our improved performance also adds to the enterprise value."

Given the increased strength in commodity markets and the lower kiwi, van der Heyden says Fonterra would revisit its payout forecast for both this season (2003-04) and next season (2004-05).

The board would meet within the next month to consider both forecasts, $4.15 per kg/MS for 2003-04 and $3.50 per kg/MS for 2004-05.

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