FORSYTH BARR

Food for Thought

What's in Store for the Primary Industry this Summer?

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Weather variability in recent years has led to some adverse outcomes for the New Zealand listed Food, Beverage and Agriculture sector — while we are not out of the woods, recent outlook has normalised for key areas and indicators, hence, risks have reduced. Forecasts are now for 'average' conditions over the key Summer harvest period, with movements over recent weeks lowering weather risk. Industry anecdotes we have gathered are also predominantly positive, although it is still early days. We have a positive bias to the sector, with stock preferences (in order): The a2 Milk Company (ATM), New Zealand King Salmon (NZK), and Sanford (SAN).

Climate outlook snapshot — average conditions with pockets of dry

NIWA's seasonal outlook for the key Summer period (January to March 2020) is for average temperatures and rainfall, with indicators pointing to neutral weather patterns. History suggests this is favourable for the sector. The current weather outlook for key horticulture/viticulture periods should see Scales (SCL), Delegat (DGL) and Seeka (SEK) navigate summer unscathed.

Key areas of risk are: (1) localised dry spells in the upper North Island — with Fonterra (FSF) and Skellerup (SKL) most exposed, and (2) warmer waters — although temperatures are below last year and forecasts have improved in recent weeks, lowering the risk to NZK and SAN.

Other key data of interest in this edition

- Recent Kantar data trends positive for growing consumption of ATM's key Infant Formula products in China. December was particularly strong, with market share in the survey of 7.5%.
- Dairy sector health indicators mixed. Positives: demand, milk price and confidence; key risks: negative farm prices, dry weather in some areas of NZ and elevated gearing.

Investment View

We summarise our sector stock ratings as follows:

- OUTPERFORM: The a2 Milk Company (ATM), Sanford (SAN), NZ King Salmon (NZK)
- NEUTRAL: Scales (SCL), Synlait Milk (SML), Delegat Group (DGL), PGG Wrightson (PGW)
- UNDERPERFORM: n/a
- Not rated: Comvita (CVT), Fonterra (FSF), Skellerup (SKL)

Food for Thought Summary

What's in Store this Summer?

The summer months are an important time for the listed Food, Beverage, and Agriculture companies. Current forecasts point to neutral weather patterns, with near average temperatures and rainfall. This is generally favourable for the NZ agriculture sector. The key risk area is localised dry spells for Northland, Waikato and Wairarapa — with FSF and SKL most exposed.

Key data to call-out in this report

- **Infant Formula (IF) China consumption data (Kantar survey) — trends positive for ATM:** December data was strong, with monthly market share of 7.5% for ATM (3m rolling 6.7%, 12m rolling ~6.5%), and recent trends are positive to growing demand for ATM's key IF products in China. Refer page 7.
- **Water temperatures — improving forecast for NZK and SAN:** Whilst warmer than historic averages, Marlborough Sounds' water temperatures remain below the prior period. With forecasts suggesting this may stay the case we believe the risk of another poor harvest has reduced in recent weeks. Refer page 5.
- **General NZ dairy sector health:** Various indicators we track are mixed with healthy (and increasing) milk prices for farmers, positive demand indicators for NZ production and positive farmer confidence, however declining farm prices and elevated sector gearing (and tightening credit) remain key risks. Refer page 9.

Investment view

We have a positive bias to the NZ listed Food, Beverage, and Agriculture sector. We are attracted to the growth opportunities, favourable macro demand trends and valuation metrics vs peers and the NZ market (risk and growth adjusted). Our preference is for the growth opportunities and higher returns available from branded exposures in the dairy and seafood sectors. Our preferred companies (in order) are: The a2 Milk Company (ATM), NZ King Salmon (NZK), and Sanford (SAN). This reflects favourable, differentiated brand attributes on a global stage, material growth runway over the medium-term, high (or in SAN's case improving) returns and attractive valuation metrics.

Stock preferences: OUTPERFORM — ATM, SAN, NZK

- **ATM:** Has built a valuable brand, with penetration still low of a large (and growing) addressable market. ATM offers a powerful combination of strong free cash flow, positive recent trading, high returns, a large net cash position and ample optionality.
- **NZK:** NZK is a fully integrated King salmon producer which has consistently achieved premium prices. We view NZK's product offering as industry leading. Aquaculture operations are on the right side of sustainable farming trends, which should help benefit future growth.
- **SAN:** Has a unique asset in its significant fishing quota holdings and marine farm licenses. Valuation is attractive, with material upside should it execute on its longstanding stated target of NZ$1 EBIT/kg. Long-term optionality also exists from additional aquaculture water space backed by government support.

Figure 1. Valuation snapshot

		Forsyth Barr	Price	Target Price	Target	12m forward			
Code	Company	Rating	NZ$	NZ$	return	EV/EBIT	PE	PEG	Cash yield
ATM	The a2 Milk Company	OUTPERFORM	14.68	17.50	21%	18.1x	27.9x	1.1x	0.9%
CVT	Comvita	n/a	3.00	n/a	n/a	13.8x	13.6x	0.3x	1.6%
DGL	Delegat Group	n/a	11.80	n/a	n/a	16.1x	21.2x	0.8x	2.2%
FSF	Fonterra	n/a	4.03	n/a	n/a	15.1x	15.3x	n/a	3.2%
NZK	NZ King Salmon	OUTPERFORM	2.15	2.65	26%	13.2x	18.9x	0.5x	3.6%
PGW	PGG Wrightson	n/a	2.37	n/a	n/a	6.3x	10.8x	1.7x	10.1%
SAN	Sanford	OUTPERFORM	8.17	8.35	5%	11.4x	14.7x	0.7x	3.9%
SCL	Scales	NEUTRAL	5.05	4.60	-5%	14.0x	20.0x	2.1x	5.5%
SKL	Skellerup Holdings	n/a	2.47	n/a	n/a	11.6x	15.8x	3.9x	6.7%
SML	Synlait Milk	NEUTRAL	8.87	9.50	7%	12.3x	15.9x	0.6x	0.0%

Source: Forsyth Barr analysis, Eikon

What's in Store for the Primary Industry this Summer?

Weather variability in recent years has led to some adverse outcomes for the NZ listed Food, Beverage and Agriculture sector – in this report we look into the outlook for 2020.

Heading through New Zealand's summer months, an ENSO (El Niño-Southern Oscillation) neutral weather pattern is on the forecast, which is expected to bring with it near average temperatures combined with stronger/more frequent westerly winds, and near normal rainfall levels. Weather forecasts are continually evolving; however movements in recent weeks have lowered the risk for this season.

What does this mean for the listed companies?

- **Average conditions are generally favourable** — ENSO neutral weather patterns have historically generally been a positive indicator for the New Zealand agriculture sector (Figure 3). Average temperatures and rainfall forecasted for key horticulture/viticulture periods should see *Scales (SCL), Delegat (DGL)* and *Seeka (SEK)* navigate summer unscathed.
- **Risks remain** — Localised dry spells for Northland, Waikato, and Wairarapa could create challenges for farmers and growers in those areas. Companies that may be negatively impacted include: *Fonterra (FSF)* and *Skellerup (SKL).* Additionally, warmer waters remain a theme, although well behind prior years, presenting a minor risk (at this stage) to aquaculture operators, *Sanford (SAN),* and *New Zealand King Salmon (NZK).*

It is worth noting that whilst we have identified the likely outcomes and risks/opportunities from an ENSO neutral weather pattern persisting, weather forecasts are continuously evolving. Investment into irrigation and other technological advancements that enable farmers to intervene in the growing process also help mitigate the potential effects of prevailing weather outcomes.

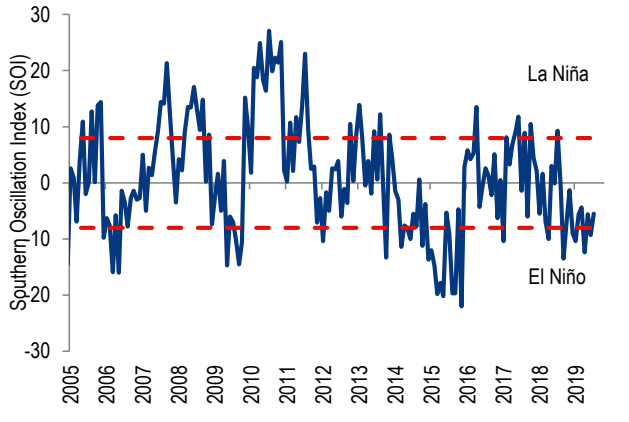
Updating the climate indicators

Southern Oscillation Index sitting in neutral territory with a lack of persistent climate drivers

The Southern Oscillation Index (SOI) currently indicates an absence of any strong persistent climate drivers, sitting firmly in the neutral category. The SOI measures the pressure difference between Tahiti and Darwin with negative values corresponding to El Niño conditions, while positive SOI values coincide with La Niña episodes.

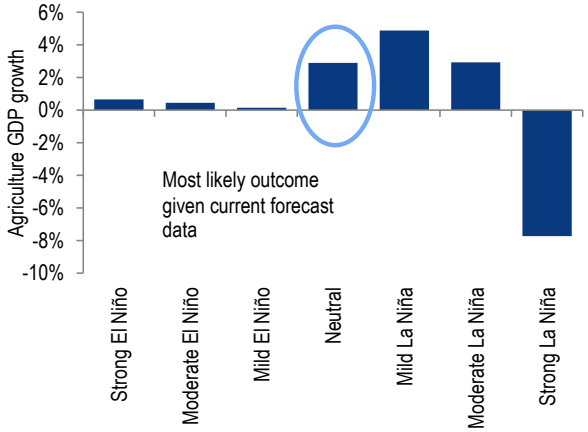
ENSO (El Niño-Southern Oscillation) neutral conditions will most likely continue through March 2020 and into Winter, with some mild El Niño category features. Historically, ENSO neutral conditions have been positive for agricultural output, however, with current indications suggesting a more mild weather event (less persistent conditions), and a weighting towards El Niño, the impact is likely to be mixed.

Figure 2. SOI indicator



Source: Australian Bureau of Meteorology ,Forsyth Barr analysis

Figure 3. ENSO neutral generally positive for Agri growth



Source: Stats NZ, Australian Bureau of Meteorology, Forsyth Barr analysis

A typical El Niño pattern through New Zealand's summer is characterised by stronger winds from the west. The prevailing westerlies generally result in warmer and drier conditions on the East coast, combined with a slightly higher chance of wet conditions on the West Coast. Current forecasts suggest that in the latter summer months the SOI could shift towards a positive reading, meaning drier (wetter) areas in December will be wetter (drier) in February.

NIWA forecasts a 53% chance of ENSO neutral conditions persisting

Both NIWA's temperature forecasts and its confidence in those forecasts have softened in its latest three month seasonal outlook.

Average air temperatures are expected for all of the country for the period January 2020 to March 2020. However, New Zealand coastal sea surface temperatures (SST) remain above average and have been warming generally, with 32 of the last 35 months above average. Should ocean and atmospheric conditions fail to couple then the forecast is expected to be more variable, meaning weather patterns are less likely to be as persistent as they have been through other events, lowering the risk of extreme conditions developing.

NIWA currently put the chance of the current weather pattern persisting at 53% with the probability of prolonged neutral conditions at 68% and 50% for autumn and winter respectively.

Figure 4. Seasonal climate outlook: January 2020 - March 2020 most likely outcomes

Region	Temperature		Rainfall		Soil moisture		River flows	
	Category	Prob.	Category	Prob.	Category	Prob.	Category	Prob.
Northern North Island	Average	40%	Average	40%	Below average	45%	Below average	45%
Eastern North Island	Average	40%	Average	40%	Average	40%	Average	40%
Central & Lower North Island	Average	40%	Average	45%	Average	40%	Average	40%
Northern South Island	Average	40%	Average	40%	Average	45%	Average	45%
West & lower South Island	Average	40%	Above average	40%	Average	45%	Average	45%
Eastern South Island	Average	45%	Average	40%	Average	40%	Average	40%

Source: NIWA, Forsyth Barr analysis

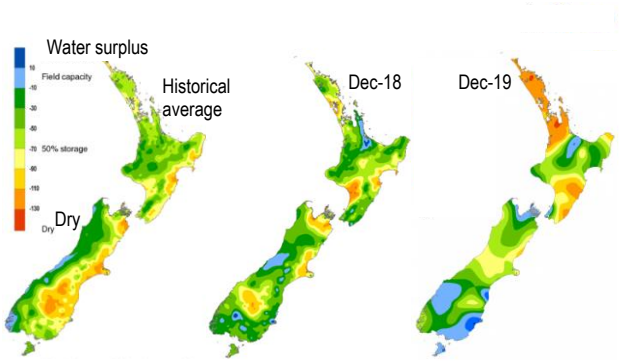
Average conditions expected; however, the warmer spring weather has dried up Northland

Temperatures are expected to be average in all regions combined with near-normal rainfall, albeit with some more localised variations. The west and lower South Island is forecast to experience rainfall at-to-above average while Northland leans towards the drier side of average. However, the warm end to Spring means that a large portion of the North Island is expected to have soil moisture levels below average, with Northland close to drought conditions.

Pasture growth is one of the four key components that drive dairy farm production, alongside days in milk, pasture management, and herd size. For a well-managed pasture, the major limitation to grass growth is soil moisture, although it is important to note that it does not restrict grass growth until the soil has dried to a critical deficit.

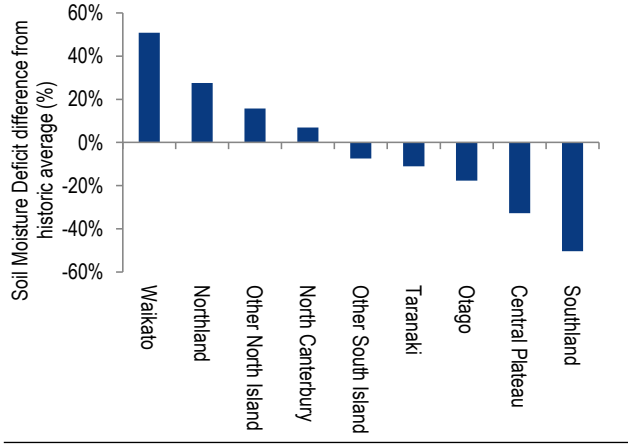
Soil moisture levels in the key milk producing areas of North Canterbury and Waikato remain supportive of production. However, this may change for Waikato, which, along with parts of the Hawkes Bay and Waiarapa, is beginning to experience dry conditions, with limited rain on the forecast.

Figure 5. Soil moisture deficit (mm) — December 2019



Source: NIWA, Forsyth Barr analysis

Figure 6. Soil moisture deficit versus historic average by region



Source: NIWA, NZX, Forsyth Barr analysis

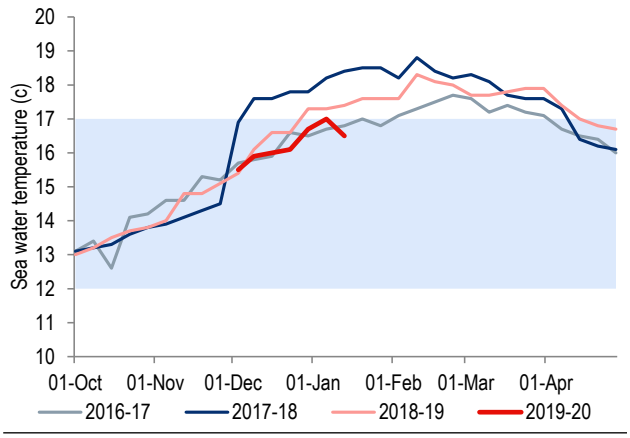
Warming Sea Surface Temperatures (SST) a risk, but remain cooler than previous years

New Zealand coastal SSTs are currently +0.1˚C to +1.1˚C above average across the country (warmer temperatures more contained to the top of the North Island). SSTs are much cooler than the prior year period where coastal SSTs exceeded +1.0˚C in all regions. Whilst this is positive for aquaculture companies, warming waters remain a risk and they are not out of the woods with New Zealand Ocean temperatures tending to peak around February to March.

Both NZK and SAN have installed upwelling devices at their respective salmon farms, mitigating the impact on fish health from warming waters, by both cooling the water column and increasing oxygen flow. Summer 2019/2020 will be a good test to the effectiveness of these devices.

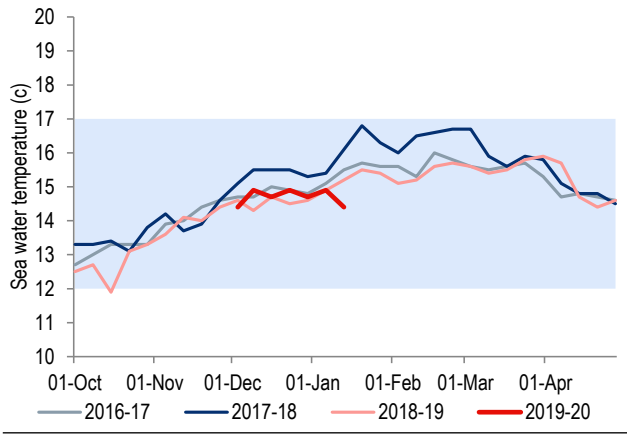
SSTs can vary significantly from region to region with isolated “hot spots,” however, these tend to not extend very deep which should limit the impact on fisheries. Sunshine hours are a key driver of water temperatures, though the higher winds expected through January in the southern coastal areas of both islands (i.e. near the major marine farms) can prevent waters from heating up too much as surface water is churned with cooler sub-surface waters.

Figure 7. Water temperature — Pelorus Sound



Source: NZK, Forsyth Barr analysis, = optimal temperature range for salmon growth

Figure 8. Water temperature — Tory Channel



Source: NZK, Forsyth Barr analysis, = optimal temperature range for salmon growth

Industry and Market Data

Dairy sector

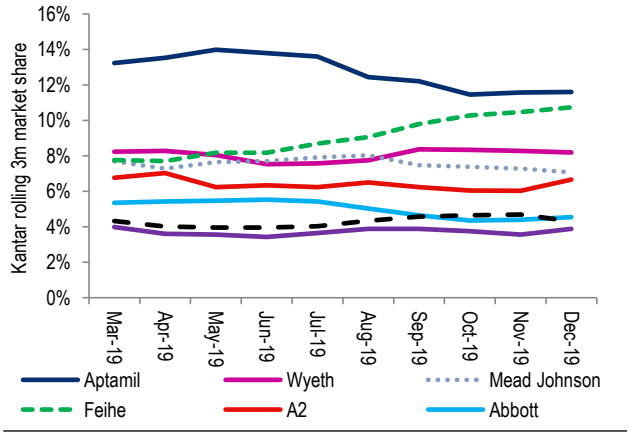
This section provides up-to-date industry data on the dairy sector, focussing on key charts and data points we find most useful to our coverage on The a2 Milk Company (ATM) and its key supplier Synlait Milk (SML). We also include data on broader sector health and Fonterra (FSF).

Infant Formula — Kantar consumption data shows positive trend for ATM

Kantar market share provides an indicator of brand strength for ATM and its key competitors in the infant formula (IF) segment, capturing purchasing habits for a sample of consumers across Urban China (Tier 1 and Key A–D cities).

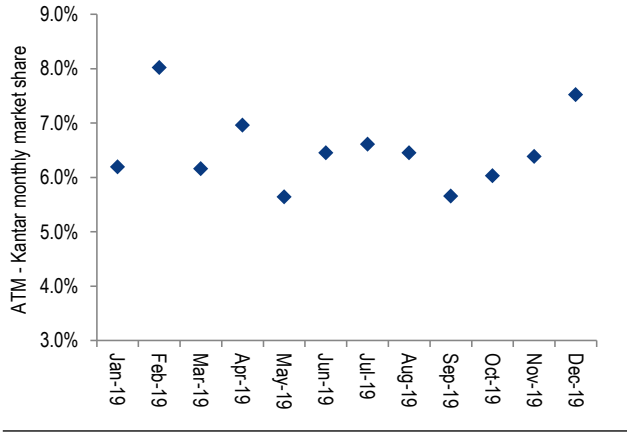
- **Latest data shows evident market share gain for ATM:** While we caution reading too much into an individual month, December was particularly strong and recent trends are favourable.
  - The most recent Kantar data for December shows monthly market share of 7.5% for ATM. This compares to 6.4% in the prior four week period, 3m rolling ~6.7% and 12m rolling ~6.5%.
  - Evidence the brand remains strong in China; particularly given Kantar data likely understates consumption trends, given ATM's growing sales in later stage products (i.e. Stage 4 / Smart Nutrition).
- **Other trends of interest:** Feihe continues to steadily win market share. December data saw a step-down in market share for smaller brands, while Mead Johnson and Aptamil have also seen pressure over the past six months.
- **What is Kantar:** Kantar's China Baby Panel tracks consumption data for a sample of 2,000 consumers. We use Urban China (in line with ATM itself), which covers a market of ~US$10bn versus the total Chinese IF market of ~US$25bn.
  - Key benefit: It should capture IF purchases regardless of the channel.
  - Key limitations: (1) It is a sample of 2,000 consumers — while large in the context of surveys, this is only a small fraction of the potential market; (2) It only covers babies up to 36 months — this misses any baby that consumes a2 products beyond this timeframe (this includes Stage 4, Smart Nutrition and some Stage 3 product).

Figure 9. Kantar – rolling 3m market share for key IF brands



Source: Forsyth Barr analysis, Kantar China Baby Panel

Figure 10. Kantar China Baby Panel – a2 monthly market share



Source: Forsyth Barr analysis, Kantar China Baby Panel

Infant Formula supply and demand indicators

- **Export volumes — supply indicator:** Lyttelton Port IF export data provides one insight into ATM/SML volumes. However, read through is becoming even more opaque as both companies diversify their product offering and as SML continues to package more from its Auckland facility (the mix can vary in any given month and ATM is not the only IF brand shipped from Auckland).
  - Recent Lyttelton IF export data has been weak (November month -58% YoY, 6m rolling -9%, 12m rolling +18%), while Auckland volumes continue to deliver

standout growth (November >+500% YoY, 6m rolling +410%, 12m rolling +121%).

- The data is unsurprisingly highly volatile from month to month. In combination, trend data supports volume growth for ATM's key IF product range, although we will be looking for improving trends in the next few months from Lyttelton.

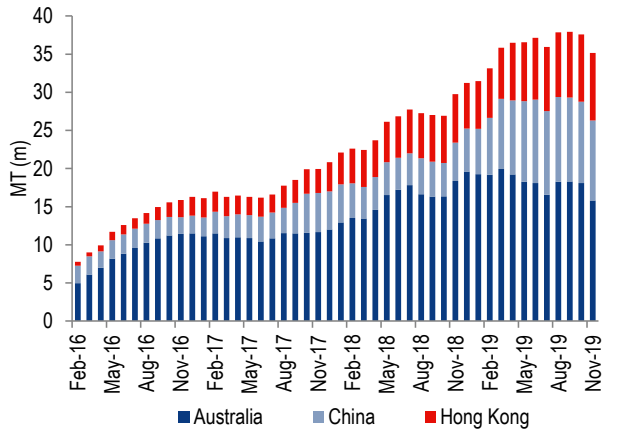
Figure 11. Rolling 12m export volumes

November 2019 (MT, 000)	Lyttelton	Auckland
Month	1,715	1,426
yoy % chg	-58%	>500%
3m rolling	6,040	4,459
3m yoy % chg	-31%	848%
6m rolling	14,096	8,042
6m yoy % chg	-9%	410%
12m rolling	35,284	11,618
12m yoy % chg	18%	121%

Source: Forsyth Barr analysis, Statistics NZ

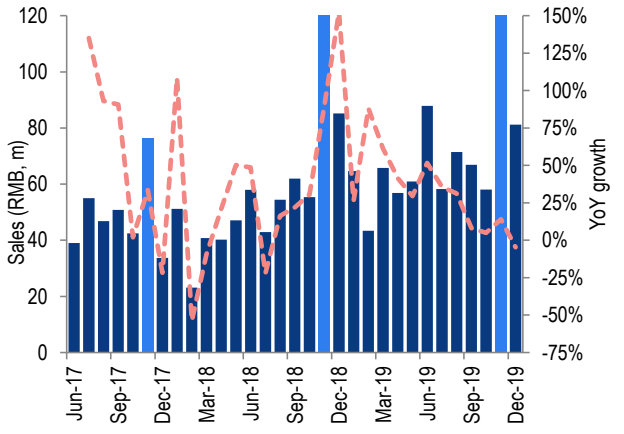
- **Alibaba data — demand indicator:** Channel checking is becoming more challenging as ATM expands further into offline MBS stores and broader channels to market. Nevertheless, Alibaba data provides an insight into one channel to market.
  - The latest data to December shows flat volume growth YoY for the month and value -4.7%. Trend data remains strong, with 3m rolling value growth at +7% YoY, 6m rolling +13% and 12m rolling +25%.
  - ATM market share was 8.1% in December (recent range 7.5% to 9%).
  - The key November month (Singles Day) reported value growth of +14% YoY underpinned by volume growth of +8%. This sees another record and follows +90% value growth in the prior year (November 2018).

Figure 12. Rolling 12m Stage 1–3 IF export volumes (Lyttelton Port)



Source: Forsyth Barr analysis, Statistics NZ

Figure 13. Alibaba platform sales

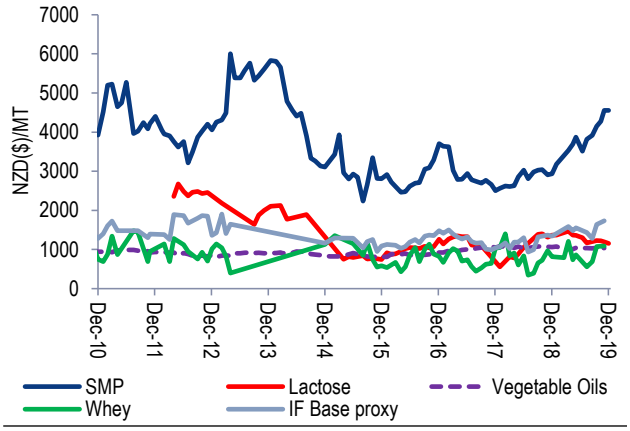


Source: Forsyth Barr analysis, Alibaba (Tmall and Taobao)

Input prices

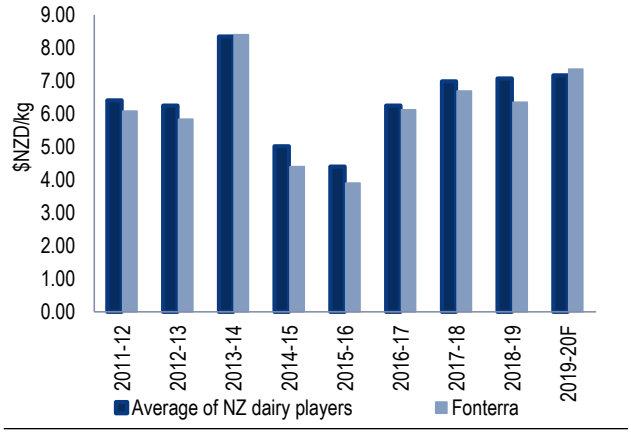
- **NZ Farmgate Milk Price:** Forecasts continue to be revised upward across the sector, with strong demand and weaker global supply. While positive for farmers and the dairy sector, it means higher input costs for processors/brands. Fonterra is most exposed and has indicated the higher milk price will mean its guidance will be harder to achieve.
- **IF key inputs:** Show an upward trajectory in recent periods. SML passes through input cost changes to its key customers. For ATM, recent price increases and favourable product mix should continue to support gross margins and more than outweigh the recent input cost movements.

Figure 14. IF inputs



Source: Forsyth Barr analysis, Statistics NZ, Global Dairy Trade

Figure 15. NZ Farmgate Milk Price (FGMP)

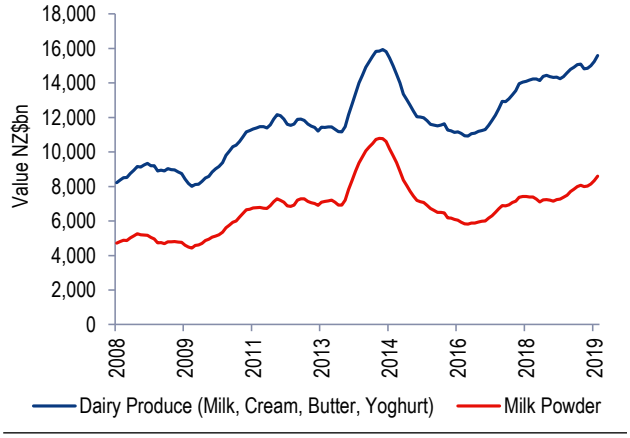


Source: Forsyth Barr analysis, Fonterra, NZ dairy players, Interest.co.nz

Dairy sector health

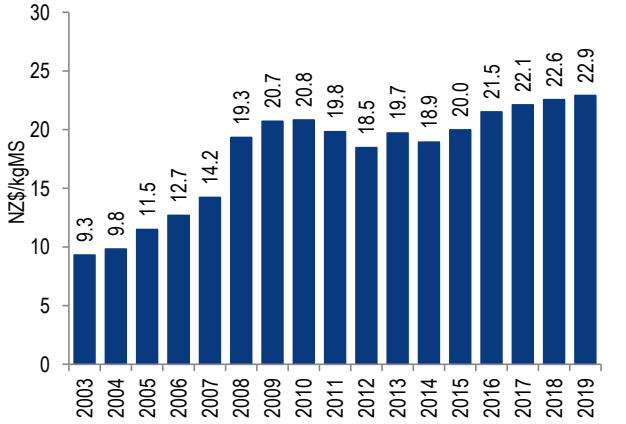
Export data and pricing trends are broadly favourable for the dairy sector, with continued growth in demand evident for NZ's dairy products. NZ farmers should be benefitting from a healthy milk price; however, debt levels are elevated across the sector which, coupled with tightening of credit from banks, will continue to add pressure.

Figure 16. NZ dairy exports (by value) – rolling 12m



Source: Forsyth Barr analysis, Statistics NZ

Figure 17. Dairy debt per kgMS

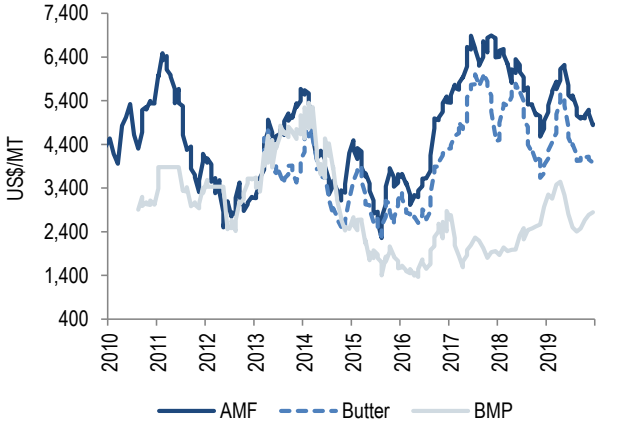


Source: Forsyth Barr analysis, Statistics NZ

Figure 18. GDT prices – WMP and SMP

Source: Forsyth Barr analysis, GDT

Figure GDT prices – AMF, Butter and BMP



Source: Forsyth Barr analysis, GDT

Seafood sector

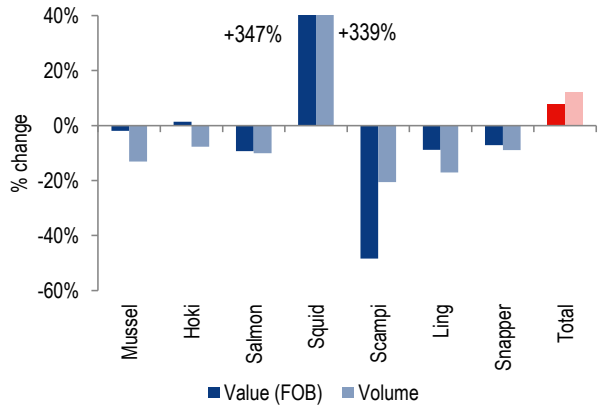
This section provides up-to-date industry data on the seafood sector — of relevance to New Zealand King Salmon (NZK NZ) and Sanford (SAN NZ). Export data can be highly variable due to catch timing and boat utilisation, we caution reading too much into an individual month.

Squid continues to be the standout

The key wild catch species for SAN (in order of estimated revenue exposure) are Hoki, Scampi, Toothfish, Orange Roughy, and squid.

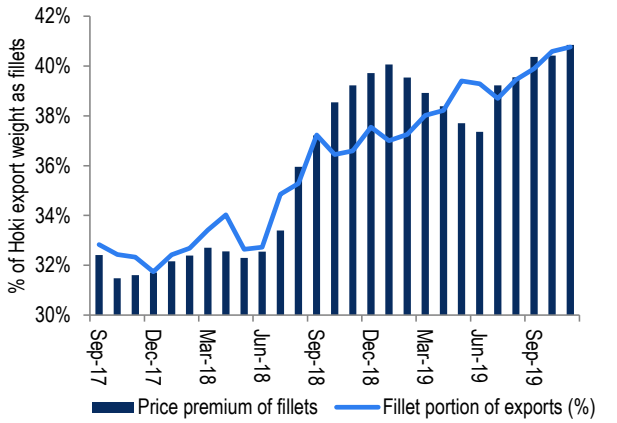
- **Catch:** Wild catch export volumes are up +17% on the pcp in SAN's financial year to date (Oct 19 to Nov 19) with squid catch up a whopping +339%, albeit off a low base. Squid catch is offsetting weakness elsewhere, likely exaggerated by additional vessels specifically targeting squid over other species. Hoki catch is down -7.7%.
- **Value:** Wild catch export value is up +12%, led by a strong squid season which is also experiencing pricing growth on the back of a weak international catch.
  - SAN is targeting value growth through a number of initiatives, including shifting Hoki volume out of block and into higher value formats, e.g. fillets. In FY19, improvements to the Hoki product cascade delivered +NZ$5m. In the 12-months to end November 2019, 41% of Hoki exports were in a fillet format, +4% higher than the prior comparable period.

Figure 19. Financial YTD* change in export volume and value



Source: Seafood New Zealand, Forsyth Barr analysis *1 Oct 19 to 30 Nov-19

Figure 20. Portion of Hoki exports as fillets vs. blocks

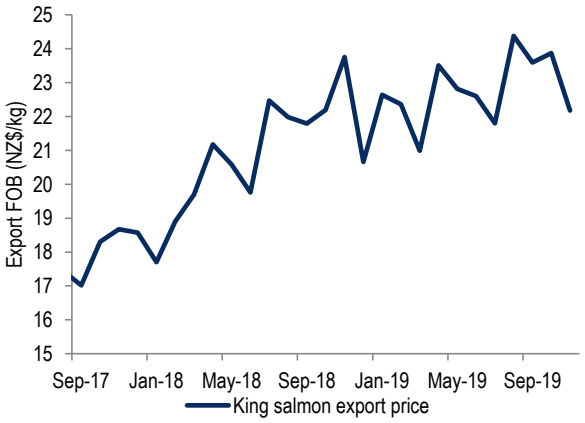


Source: Seafood New Zealand, Forsyth Barr analysis

King salmon and Greenshell mussels are the primary aquaculture species.

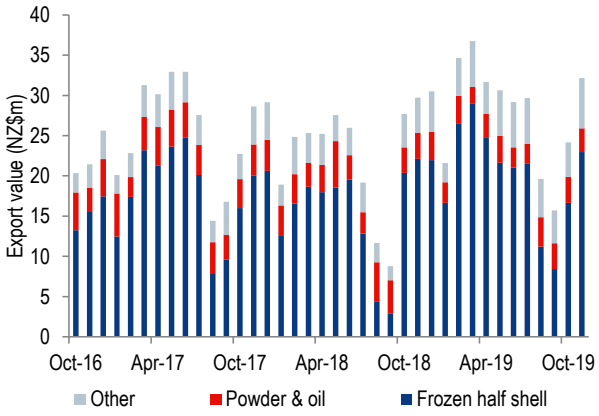
- **Harvest:** King salmon and Greenshell mussel export volumes are up +5.0% and +14% respectively in the 12 months rolling to November 2019. Prior period volumes were constrained by weather related impacts such as warmer waters and algae blooms.
- **Price:** Both King salmon and Greenshell mussel export prices continue to trend upwards, up +8.8% and +7.6% respectively in the 12 months rolling to November 2019. Value growth has been driven by a mixture of underlying pricing growth and changes to product format/channel.

Figure 21. King salmon export price (NZ$/kg)



Source: Seafood New Zealand, Forsyth Barr analysis

Figure 22. Mussel export value by format (NZ$m)



Source: Seafood New Zealand, Forsyth Barr analysis

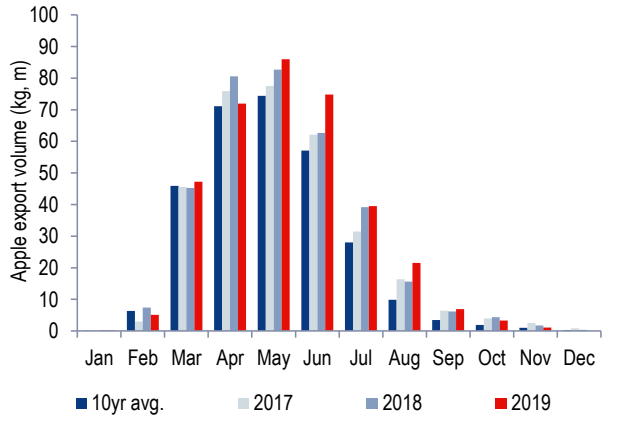
Other primary sectors

Apples

This section provides up-to-date industry data on the apple sector — of relevance to Scales (SCL NZ).

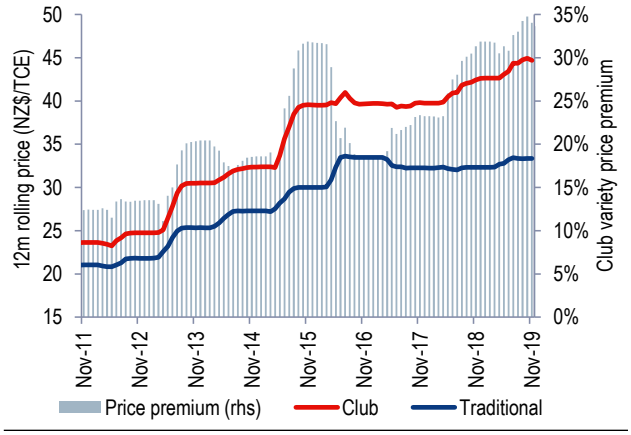
- **Harvest:** Apple orchard operators are currently in the key growing period, with harvest and peak exports occurring in March through May. Apple export volumes are expected to remain relatively flat in the coming year as orchard owners, such as SCL, reposition plantings into new varieties.
- **Price:** The 12-month average price of club variety apples is up +4.6% on the pcp with the price gap between club and traditional varieties continuing to widen. Club varieties demand a +34% premium over traditional, underpinning replanting activity. Orchard rotation, reducing supply of traditional varieties, has helped lift the 12-month average price up +3.2% on the pcp.

Figure 23. NZ apple export seasonality



Source: Stats NZ, Forsyth Barr analysis

Figure 24. 12-month rolling apple price (NZ$/TCE) by variety



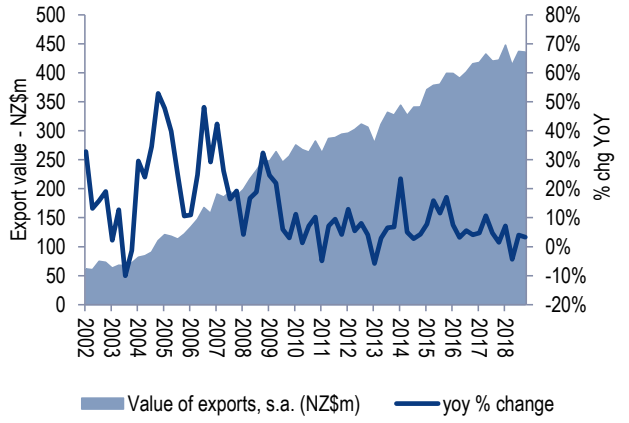
Source: Stats NZ, Forsyth Barr analysis

Wine

This section provides up-to-date industry data on the viticulture sector — of relevance to Delegat (DGL NZ).

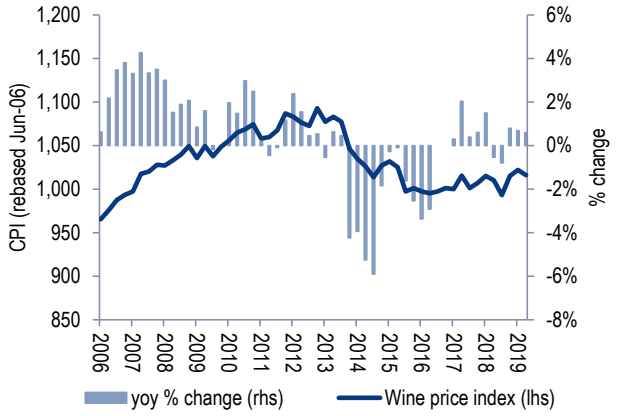
- **Export data:** The value of wine exports continues to trend upwards as a strong 2018 harvest and underlying price growth flows through. As of the September 2019 quarter, the price index for wine was up +0.6% on the pcp although remains well below peak 2012 levels.
- **Harvest:** Viticulturists are approaching the beginning of the harvest with the next few months critical for both size and quality. Marlborough is the main wine region, contributing ~75% of New Zealand's harvest volume. DGL experienced a smaller vintage in 2019, and whilst current case growth forecasts accommodate that, a second smaller vintage will have a negative impact on case sales.

Figure 25. Export value and YoY change – wine



Source: Forsyth Barr analysis, Statistics NZ

Figure 26. Price index and YoY change – wine



Source: Forsyth Barr analysis, Statistics NZ

Honey — mixed bag

This section provides up-to-date industry data on the honey sector — of relevance to Comvita (CVT NZ).

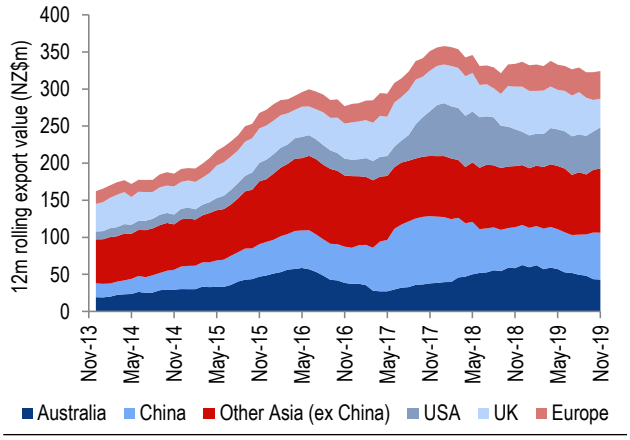
- **Export data:** Honey exports data (by value) have weakened since the peak period in early 2018. The latest data to November 2019 shows export value growth of +5% for the month, 3m rolling -5% and 12m rolling down -3%. Strength in China and broader Asia is being outweighed by weakness in UK/Europe and Australia.
- **Honey production:** Two key attributes matter — yield and quality. FY19 marked a third consecutive poor honey season, with solid yields but sub-par honey quality due to adverse weather and site overcrowding. The key honey harvest period varies by region, beginning in October (for Northland) moving through to February (lower North Island). It is early days but initial signs appear broadly favourable for volumes, although the dry soil in the upper North Island presents a risk. It is too early to judge quality.

  As part of CVT's turnaround strategy the company is putting in place a number of initiatives to improve results from its Supply segment. This includes:

  (1) Adjusting the cost base in its Supply segment: This is expected to lower the agriculture risk on profitability. The segment NPAT range is anticipated to be -NZ$3m to NZ$3m. This is in place for FY20.

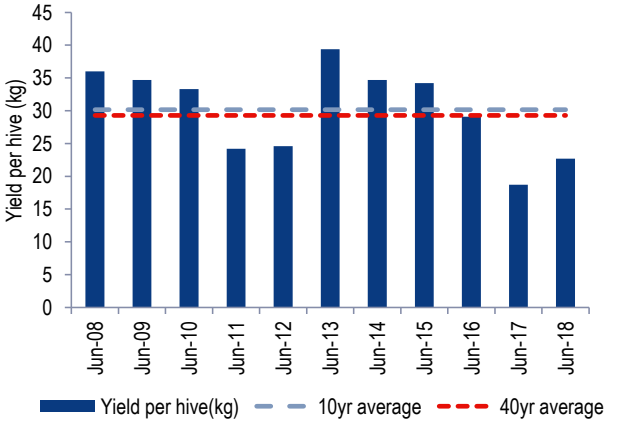
  (2) More strategic focus on site quality: This ranges from near-term initiatives, including moving hives away from the crowded Northland area, through to longer-term investment in Manuka plantation and Queen Bee breeding programmes. This should also help improve honey yield/quality over time.

Figure 27. NZ honey exports by value – rolling 12m



Source: Forsyth Barr analysis, Statistics NZ

Figure 28. Historic honey production per hive



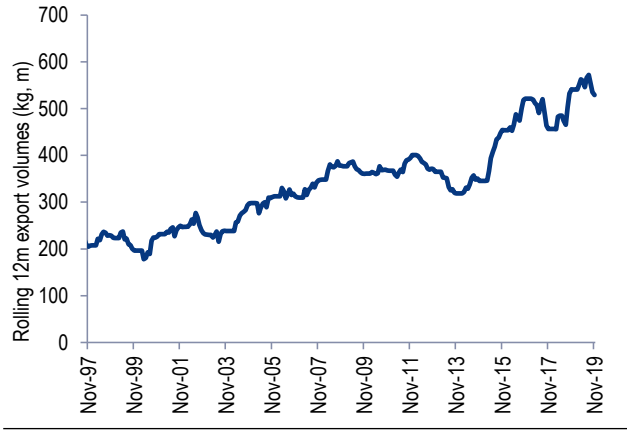
Source: Forsyth Barr analysis

Kiwifruit — export price trends improving, volumes under some recent pressure

This section provides up-to-date industry data on the kiwifruit sector — of relevance to NZ-listed Seeka (SEK NZ).

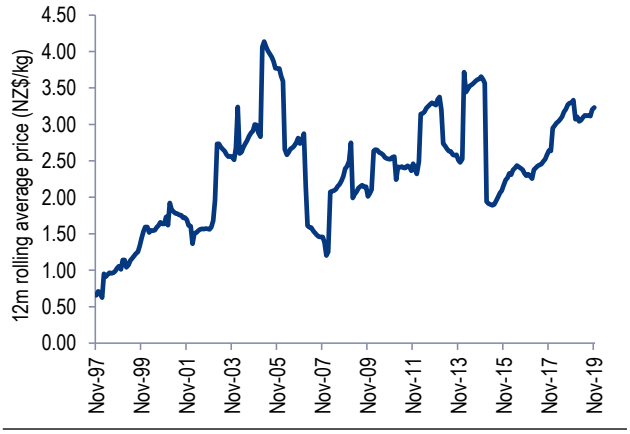
- **Price:** Export data shows an upward trend over the past couple of years. 2019 started off with price pressure, with the trajectory improving through the year and ending with a strong 4Q19 lifting averages. The latest data to November 2019 shows price growth of +10% for the month, 3m rolling average prices up +14% and 12m rolling average prices down -2%.
- **Volume:** Data is unsurprisingly volatile month to month; however, trend data shows volumes under some pressure. The latest data to November 2019 shows volumes down -43% for the month YoY, 3m rolling down -31% YoY and 12m rolling -2%.

Figure 29. NZ kiwifruit – 12m rolling export volumes



Source: Forsyth Barr analysis, Statistics NZ

Figure 30. NZ kiwifruit – 12m rolling average price



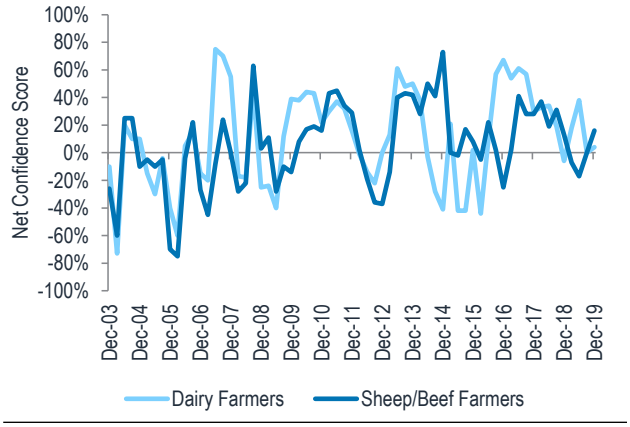
Source: Forsyth Barr analysis, Statistics NZ

General industry health indicators

Confidence

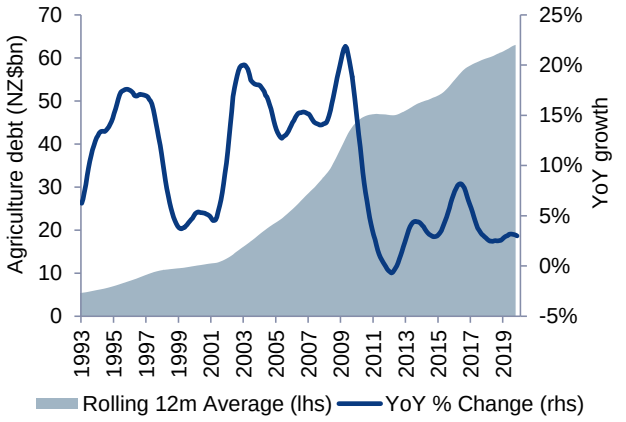
- Farmer confidence is a robust indicator of how participants in the primary sector broadly perceive the state of current and expected future trading conditions, providing a strong gauge into potential investment and activity levels moving forward.
- Surprisingly, despite sustained concerns of elevated leverage in the dairy sector, dairy farmer confidence has been net positive for the last 6 months, up an average of +14% during such time. Confidence of sheep farmers over the 2H of 2019 was more subdued with a net change of ~0%, albeit a +23% YoY shift was an encouraging sign for the sector.

Figure 31. Dairy and Sheep farmer confidence



Source: Forsyth Barr analysis, Rabobank

Figure 32. Agri sector debt levels

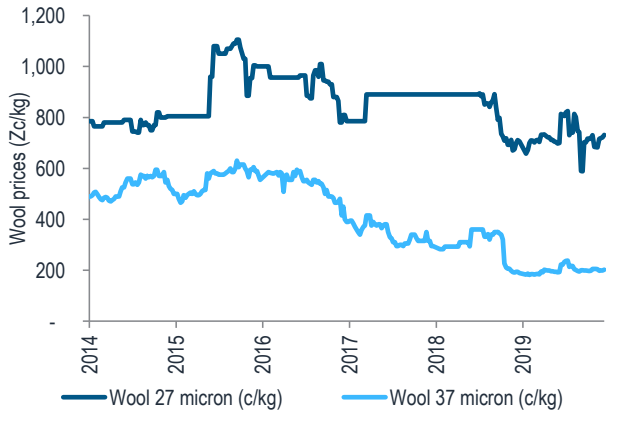


Source: RBNZ, Forsyth Barr analysis

Commodity Prices

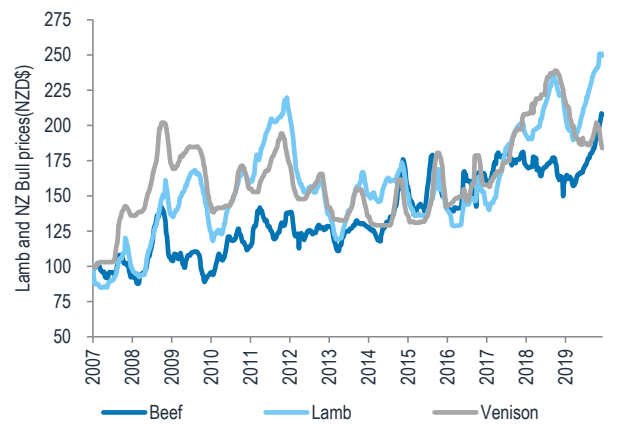
- Wool, Lamb and Beef are three key primary sector exports, where the demand for such products has had strong influence over the health of the farming sector holistically.
- Global demand for beef and lamb; most prominently out of Asia, remained strong during 2019, buoyed by the effects of African swine flu. Lamb prices increased +24% and beef prices rose +26% over the period.
- Wool remains weak with prices continuing to trend lower. Rolling 12m average prices are down -14% YoY (27 micron wool) and -33% YoY (37 micron).

Figure 33. Wool prices



Source: Forsyth Barr analysis, AgriHQ

Figure 34. Lamb and NZ Bull prices

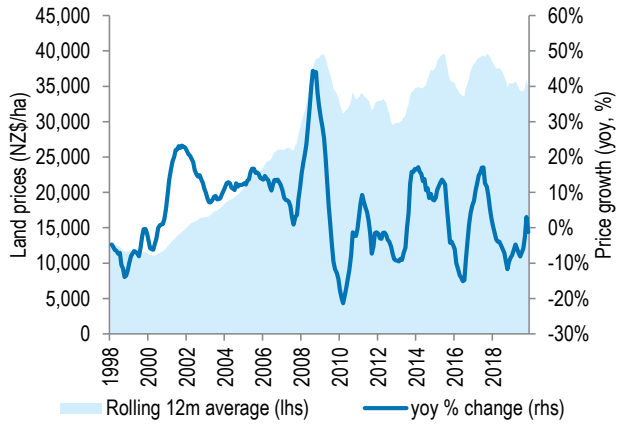


Source: Forsyth Barr analysis, AgriHQ

Land/Farm Prices

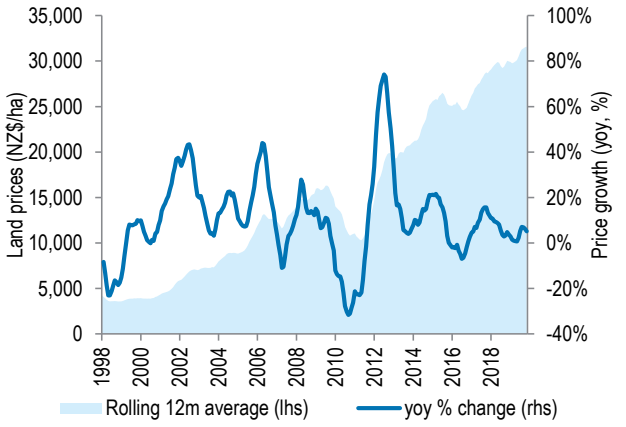
- Dairy farm prices dipped during 2019 down -22%, a function of concerns surrounding unproductive investment in the dairy industry, increasing compliance costs, uncertainty around environmental footprint, reduced availability of quality labour and a directive from banks to significantly reduce their exposure to the dairy industry.
- Meanwhile, finishing farms experienced a more optimistic 2019 with prices up +2% on the back of strong NZ red meat prices.

Figure 35. Dairy farm prices



Source: Forsyth Barr analysis, REINZ

Figure 36. Finishing Farm Prices



Source: Forsyth Barr analysis, REINZ