

Cattlemen's beef with banks

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The deal of a lifetime . . . cattle baron Graeme Acton, in the saleyards, says high costs landed him in a tight spot in the GFC but he sold his Moray Downs property for about \$100 million. **Photo: Karen Tenni**

Matthew Cranston

The banks told cattleman Peter Camm to get big or get out. "I realised there is a time to walk and a time to run. I got out of there as fast as I could. Now I sit back on the verandah saluting the sunset."

Camm is one of the very few to have made the beef game profitable and, although most in the industry say it was just luck, he reckons it was smart timing.

When he sold his cattle stations Welltree and La Belle in 2008, it was at the very top of the market and the now struggling RM Williams Agricultural paid him \$72 million.

Camm did not believe the hype over world food shortages, world food security, and the proximity of a growing middle class in Asia. That big picture did not match up with a business with incredibly slender margins and loads of debt.

So he got out at the perfect time to watch the rest of his industry succumb to the global financial crisis. It's been a long, slow, ongoing crash.

Queensland's cattle industry groans under more than \$9 billion in debt – a 17 per cent jump since 2009. In the Northern Territory about 15 major stations have been on the market for more than a year and the banks are watching the loan-to-value ratios and debt serviceability like hawks.

So if you believe in buying in at the bottom, now might be the time to head north into Australia's Top End. Some say business is so bad you can pick up a cattle station for literally nothing more than the cattle grazing on it.

The industry is being walloped from all sides. Restrictions on the live export trade have dashed the great hopes of an Asian market.

Then the record high Australian dollar cruelled demand, even as the US cattle herd dropped to its lowest in more than 50 years.

Finally there are high input costs. Cattle industry analyst Beef Central's John Condon says that in the past decade cattle prices have trended down on an indexed basis, while costs have climbed.

"Many have been surviving on financial reserves alone, but as they have been exhausted, evidence of financial stress, and foreclosures has grown," he says.

Big debt

The main culprit is debt.

Big debt combined with the minuscule returns that are now squeezed out of cattle operations have culminated in property values crashing from their sky-high prices.

Condon warns that the run of favourable seasons had "perhaps provided some breathing space, but appears to have only delayed the inevitable descent for some into financial crisis".

After running up the debt, the cattle industry fell into a political furore over live export and the restrictions badly hurt the trade. Little wonder ANZ Banking Group chief Mike Smith recently criticised this as a "glaring example" of a failure by the federal government to reach out to the Asian export markets.

He would know. ANZ has been a supporter of the trade but recently had to place into administration the famous Maryfield and Mountain Valley stations in the Northern Territory, privately run by the Tapp family.

It's a similar story everywhere with another cattle operation placed into administration by a different bank in a different area every week.

For Camm the good times roll on. He says he still tips cab drivers twice what he sees on the meter. He has bought a flash new apartment on Queensland's Sunshine Coast, an Audi R8 V10 and a 26-metre yacht called Summer Wind.

Meanwhile the industry he quit sinks under the weight of its debts.

Suncorp head of agribusiness Greg Leahy believes the high debt level is what has hurt the big cattle station operators and the market.

"The drop in the value of the northern cattle properties is a result of two factors – the overheating of the property market in the five years or so years leading up to the GFC and the lack of confidence amongst buyers," Leahy says. "Whilst there is much talk about how much the values have dropped and the impact that this is having on the industry, the real impact is largely limited to the producers that actually expanded during that period, paying those higher prices."

One banker, who declined to be named but who lent to cattle operators during the boom and is now helping deleverage the big operators, says the banks and the owners are in a Catch 22 position.

"Buyers coming into the market have either to get such a bargain price [for the cattle station] that they can handle the low returns or they just have to get a better return. But if the returns improve then the vendors won't sell. Someone has to give."

Peleton-style standoff

Ray White Rural's Russell Wolff – the king maker of cattle station transactions – likens the stand-off to a Tour of France peloton. "No one is game to make the first move," Wolff says, "but the first one that does I reckon will win and everyone else will be trying to catch up. The problem is that this race has been going on for three years."

The depletion of local buyers is stark and Wolff believes it will be up to overseas investors, who have greater funds, to make the first move. But overseas investors not only have dozens of opportunities to buy stations in receivership but also face a serious financial mess.

One domestic cattle operator, who didn't buy during the boom and kept its debt levels low, is the McDonald family in Queensland. The family, whose wealth according to the *BRW* Rich List sits at \$352 million, has 3 million hectares under its belt and about 170,000 head of cattle. At a recent Rural Press Club event in Brisbane, fifth generation Zanda McDonald spoke frankly about where he thinks the value of land sits.

"We are trying to get more cattle," he said, "but land prices are still too high for us to make a return and I think land prices have got to come back a long way yet. I don't think it is unreasonable to think that some northern properties are going to be worth the value of the cattle [that is already on them] and nothing else."

"People have paid too much for land and I think there is a lot of pain to come for people who have paid too much for land."

Herron Todd White valuer Frank Peacock says the pastoralists' high levels of debt are stifling the industry.

"It's a very difficult situation for them to eradicate and bring back into balance given the increasing costs of running a cattle station and the reduced cashflows from live export, which are combining to force down returns, he says."

"This has to be a major reason why people are bringing properties onto the market under prevailing market conditions which generally favour buyers. And it's a bit of a vicious circle."

As soon as loans raised to buy cattle stations in the boom are not serviced, banks place the operator into administration and are more likely than not put the property on the market with all the others.

All the costs have gone up

Cattle baron Graeme Acton, who owns about 1.5 million hectares of breeding and fattening country and exports beef all over the world, got into a tight situation during the GFC. He needed to sell a station and miraculously struck the deal of a lifetime, selling his Moray Downs station for a rumoured \$100 million-plus to Indian power giant Adani.

"It certainly turned things around, but you will never be able to replace Moray," Acton says in the cattle yards of Charter Towers. He blames his tight situation on the high cost of doing business in Australia.

"We have the high cost of capital, the high cost of energy, labour and the high regulation. Cattle prices are sitting where they were 20 years ago but all the costs have gone up."

And there is also trouble at the big end of town. Consolidated Pastoral, backed by London-based private equity firm Terra Firma, lost its chief executive Mark Irwin and chairman Ken Warriner last month after months of uncertainty over the live export trade to Indonesia. RM Williams Agricultural's chief executive David Pearce also walked away after feeling the pressure.

The consensus is that the crisis will be resolved only with the help of overseas institutional money.

The head of specialist investments at one of the world's most respected asset managers, owned by BNY Mellon, believes in the growing Asia food story and consequently Australia's rural land values.

Asia's food story

Insight Investments' Reza Vishkai, who also manages the Insight Global Farmland Fund told *The Australian Financial Review* after buying the 500,000-hectare Tanumbirini Station in the Northern Territory last year that Australian cattle station values would hold in the long term.

The fund bought the station for a marginal discount, giving some vendors hope that values have begun to plateau. Some domestic investors also believe in the growing demand for food and land.

Managing director of listed gold and copper miner DGR Global, Nick Mather, paid more than \$11 million for the 6600 hectare Lyndley Station on the Darling Downs in southern Queensland last month. He bought it from the family of former National Party president Sir Robert Sparkes.

"Cyclically, it's a very good time to buy – interest rates are coming down and that will see the Australian dollar come down and that's good for our beef market," Mather says. "When you are trying to urbanise another 4 billion people around the world, there will be further demand not just for metals, but for food."

But Elders' Dick Allpass, who made the sale, was cautious not to talk the market up too soon. "Don't jump to any conclusions about this [sale] – it's still a tough market."

Indeed, unless there are more overseas companies and true believers such as Nick Mather who break away from the peloton and buy the land, it's highly unlikely there will be any more Peter Camms and 26-metre yachts any time soon.

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