Land sales prompt AACo rethink for shareholders

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The fact that Australian Agricultural Company managed to get sale prices in line with and above book value on $34.75 million worth of cattle land last week has resurrected the question of whether AAco should get on with the job of privatising.

AAco shares have long traded below their net tangible asset backing, and the company's latest earnings report held no indication the trend would reverse. In Friday's March quarter result, NTA per share dropped 7 per cent to $1.90, while its shares closed at $1.08 on Monday.

Fellow rural landholder PrimeAg's decision to privatise has given its stock a lift and delivered value for embattled shareholders. Taking AAco off the ASX boards would also avoid the regular mark-to-market herd revaluation's of long-term cattle assets that drove the company to a headline loss of $46.5 million last quarter.

However the sell and distribute strategy may not be so straight forward for the nation's largest beef producer. The live cattle export ban and drought has brought northern Australia's cattle industry to its knees, which means there's less cash flying around and fewer buyers.

Moreover as the industry's largest player, AAco derives scale benefits which could only be eroded by piecemeal sales.

A takeover by a large multinational agribusiness a la GrainCorp-ADM would leverage AAco's scale and provide financial support for AAco's stretched balance sheet as it funds its $85 million Darwin Abattoir.

The financial firepower of a global agriculture giant would also alleviate concerns that adverse market conditions could promot an equity raising. AAco's banks are known to be supportive, but that didn't stop the company from holding the hat out for $68 million in 2011.

Although any buyer would require consent from major shareholders. FELDA IFFCO and billionaire Joe Lewis' Southeast Point hold 17 per cent and 11 per cent of the stock respectively.