Ag & Vet Weekly

Monday February 3 – Friday February 7, 2020

All the news on ASX-listed agriculture and veterinary companies

*** FEB 7: ASX, AVW-45 DOWN: WIDE OPEN UP 17%; REGENEUS DOWN 10%**

*** DR BOREHAM'S CRUCIBLE: ELDERS**

*** CRESO TAKES $17.5m L1 CAPITAL CONVERTIBLE NOTE**

*** CANN GROUP CONVERTIBLE NOTES RAISE $8m**

*** ROOTS PLACEMENT RAISES $500k**

*** ELIXINOL RECEIPTS DOWN 8% TO $33m, ASSET SALES**

*** ECOFIBRE H1 REVENUE UP 118% TO $29m, LOSS TO $7m PROFIT**

*** CANN H1 RECEIPTS $1.6m, LESS THAN 2 QUARTERS CASH**

*** OPYL H1 RECEIPTS DOWN 3% TO $464K**

*** MEMPHASYS: 'FELIX SPERM SEPARATOR POSITIVE KOL FEEDBACK'**

*** BARLEV BUYS $36k ROOTS RZTO FOR MARIJUANA**

*** CRESO DEVELOPS OIL-FREE, WATER-BASED MARIJUANA LOZENGES**

*** VANGUARD TAKES 5% IN TASSAL**

MARKET REPORT

The Australian stock market was down 0.38 percent on Friday February 7, with the ASX200 down 26.6 points to 7022.6 points. Eleven of the AVW-45 stocks were up, 24 fell, eight traded unchanged and two were untraded.

Wide Open Agriculture was the best, up two cents or 16.7 percent to 14 cents, with 326,850 shares traded. MGC climbed 6.5 percent; Huon was up 5.6 percent; Clover, Opyl and Select Harvests rose three percent or more; Palla, Seafarms and THC climbed more than two percent; Clean Seas increased 1.4 percent; with Costa up one percent.

Regeneus led the falls, down 0.7 cents or 9.7 percent to 6.5 cents, with 68,565 shares traded. Cann Group fell 7.6 percent; Food Revolution and Terragen lost more than six percent; Apiam, Elixinol, Nanollose, Ocean Grown Abalone and Pharmaust were down more than four percent; Anatara, AP Hemp, Auscann, Cannpal, Creso, Murray Cod and Synlait fell three percent or more; Bega and Bubs shed more than two percent; Nufarm, Ridley and Tassal lost one percent or more; with A2 Milk, Elders and Fonterra down by less than one percent.

DR BOREHAM'S CRUCIBLE: ELDERS

By TIM BOREHAM

ASX code: ELD

Share price: $8.28

Shares on issue: 155,368,814

Market cap: $1,293,642,854

Chief executive officer: Mark Allison

Board: Ian Wilton (chairman), Mr Allison, Robyn Clubb, Diana Eilert, Michael Carroll

Financials (year to September 30 2019): sales revenue $1.67 billion (up 4%), net profit after tax $68.9 million (down 3.7%), underlying profit $63.6 million (flat), full-year dividend per share 18 cents (steady), net debt $94.3 million (down 45%).

Major shareholders*: Yarra Funds Management 8.4%, HESTA 5%, Perpetual Funds management 7.3%

***** The listed Pendal Group held 6% but ceased to be a substantial holder in December.

In a parched landscape devastated by the biggest bushfires the nation has seen - indeed, some are still burning - the rural supplies and services group sees some perverse upside.

In a January 9 update, management admitted the company would be affected by both lower farm supply sales and livestock agency commissions.

"However, we expect this will be offset by increased demand for farm supplies including fencing and the need for rebuilding once the fires ease and the rebuild effort commences."

Management reports that December quarter trading was in line with expectations and the company remains comfortable with the market's expectations about trading for the full year (more below).

Given Elders has a September 30 balance date, much can change. But it's nothing the legendary bucolic corporate name can't handle, having experienced 180 years of droughts and depressions.

Respect your Elders

In 1839, trader and ship owner George Elder set sail from the Scottish port of Kirkealdy in the schooner Minerva, bound for the new settlement of South Australia.

The canny Scot loaded the vessel with plenty of rum and whisky, as well as other goods likely to be in demand in the fledgling colony.

To cut a very long story short, Elders thrived, withstanding events such as the 1890s depression to become Australia's biggest agribusiness operator (the company remains the biggest listed rural services business).

In the 1980s, Elders fell under the control of John Elliott, who merged the company with jam maker Henry Jones before taking over Carlton and United Breweries. Elders IXL then bid for BHP, before 'white knight' Robert Holmes a Court and the 1987 share market crash put paid to Elliott's wheeling and dealing.

Elders pretty much stumbled along for the next two decades before a corporate clean-up saw the company refocus on its core rural operations.

For the record, the business includes merchandising (Elders stores), marketing, technical advice, real estate, cattle feedlots, Indonesian live exports and financial products (in cahoots with Rural Bank, owned by Bendigo and Adelaide Bank).

Elders also has a little-known research and development arm, under the auspices of the Thomas Elders Institute.

The body carries out its own research into improved farming practices. It also partners with other parties such as industry and education bodies "who have a like-minded vision of improving the agriculture landscape for Australian farmers".

Since May 2014 the company has been helmed by experienced agri-type Mark Allison, who has been on the Elders board since 2009.

That's the plan, comrades.

Elders has a penchant for multi-year plans that would put Mao Zedong (better known as Mao Tse Tung) to shame.

Currently the company is at the dag end of its second, three-year "eight-point plan" with another one to come.

The charter targeted earnings growth of five to 10 percent a year, with sustainable return on capital of 20 percent "over the full agricultural cycle" (adjusted for acquisitions, the target return is 15 to 18 percent).

The plan includes an equal weighting on earnings growth from organic activity (the existing business) and acquisitions.

The plan now includes adding 20 new branches to address geographic and sectoral weakness in the company's coverage.

There will be plenty of former bank branches if they're looking for cheap rent.

On the acquisitive trail

Having regained its mojo, Elders is doing the equivalent of buying the neighbor’s sheep station.

In November last year, Elders acquired Australian Independent Rural Retailers (AIRR) for $78 million cash, as well as 13 million Elders shares (a total consideration of $187 million).

A member-owned buying and marketing group, AIRR is a rural merchandiser with a presence in pet food and produce.

Operating across eight warehouses and five retails outlets, AIRR was expected to generate earnings before interest, taxation, depreciation and amortization (Ebitda) of $22 million in the year to September 30, 2019.

“AIRR is an excellent strategic fit, providing Elders with additional growth channels through entry into the wholesale rural services market and the produce and hobby farmer services market,” Mr Allison says.

Retail and institutional investors evidently agreed, because they flocked to last year’s $137 million raising - by way of a placement and rights issue - to fund the shebang.

In a trio of lesser deals in 2018, Elders acquired the crop protection group Titanag and the Victorian livestock company Kerr & Co. The company also divested its troublesome Indonesian feedlot assets.

Finances and performance

While the10-year price graph gives Elders holders little to smile about, the more recent performance suggests the remedial measures are working despite the ongoing impact of drought.

Depending on what profit measure one prefers, Elders full year earnings for the year to September 30 were flat, or crept up four percent.

The main negative influences were subdued summer cropping and lower wool sales. The result was also weighed down by costs associated with an “exclusive relationship” agreement with Rural Bank, which meant staff were transferred to the latter.

In the January 9 update, management said it was comfortable with market expectations for the current year, which is code for what the brokers have plugged into their models.

Mr Allison says the AIRR acquisition “has the potential” to increase Elders underlying earnings by 20 to 25 percent annually.

In the meantime, Elders’ debt has dramatically reduced and dividends have been restored after a long drought.

Elders shares have gained 11 percent over the last 12 months, trading between a low of $5.38 (early June) and $7.46 (late July). They have run hard since the January 9 update.

But the 10-year graph shows Elders has not been a bounteous yield, with the shares losing close to half their value.

Dr Boreham's diagnosis:

At the peak of despair, Elders holders could be excused for uttering "we'll all be 'rooned".

But what the Hanrahans should remember is that the company has survived close to 200 years of vicissitudes, rather like the 196-year old listed rural counterpart, Australian Agricultural Co.

In reality, Elders can do little about exogenous forces such as droughts, floods, fires, soft commodity prices, currency movements, tariff policy and virus pandemics.

But management is doing a decent job at harnessing the factors it can control and upholding Elders lofty vision of being "Australia's leading agribusiness that creates value for all stakeholders in both Australian and international markets."

Disclosure: Dr Boreham is not a qualified agronomist. He can barely grow a pot plant and has never lassoed a steer. He owns a pair of RM Williams riding boots, but never gets them dirty.

CRESO PHARMA
Creso says it has a new convertible note agreement with L1 Capital Global Opportunities Master Fund for up to $17,482,500.
Creso said it would be able to request an initial $1,750,000 advance in two equal tranches but must issue 9,000,000 shares as collateral shares prior to receiving the first tranche, pay L1 Capital a four percent fee of the advance, subject to shareholder approval, and may be required to issue an additional 11,000,000 collateral shares.
The company said the funds would be used for operations and working capital.
Creso said Everblu Capital was lead manager to the debt raising, and would be paid a $200,000 cash fee and issued 4,000,000 shares and 4,000,000 options, subject to shareholder approval and exercisable at 25 cents a share within three years.
The company said Everblu would be paid a six percent cash fee on the face value of the funds actually drawn down and would be issued one share for every $5 of the face value actually drawn down.
Creso said it would issue Mozaik Asset Management 1,000,000 shares in consideration for the termination and settlement of the original convertible note agreement and 222,222 tranche one convertible notes would no longer be issued to Mozaik.
Creso director Adam Blumenthal is the chairman of Everblu.
Creso was down 0.5 cents or three percent to 16 cents with 1,308,553 shares traded.

CANN GROUP

Cann Group says it will issue two years convertible notes to raise $8 million, at a base rate of 7.5 percent, for working capital requirements.
Cann said the notes would be convertible by February 10, 2022 at the lower of 70 cents a share, the five-day volume weighted average price to the most recent $5 million or more capital raise or 85 percent of the issue price of a capital raise of more than $5 million.
The company said it would issue one option per note, exercisable on or before March 31, 2022 and at a 35 percent premium to the conversion price.
Cann Group said interest would accrue daily at 7.5 percent a year for months it made interest payments and 9.5 percent for any month it did not make an interest payment.
The company said noteholders would be able to convert either 50 percent or 100 percent of the convertible notes any time before the 24-month maturity date, if the company announced a takeover or scheme implementation agreement or had an insolvency event.
Cann said PAC Partners and E&P Corporate Advisory were joint lead managers.
Cann chief executive officer Peter Crock said it was continuing discussions "with a tier one Australian bank on a loan facility".
Cann Group was down 10 cents or 7.6 percent to $1.21 with 1,906,730 shares traded.

ROOTS SUSTAINABLE AGRICULTURE TECHNOLOGIES

Roots says it has raised $500,000 through a placement of Chess depository instruments (CDIs) at 3.3 cents each to sophisticated and professional investors.
Roots said it would use the funds to commercialize its Root Zone Temperature Optimization, expand marijuana marketing and sales in North America, pursue new marijuana and hemp opportunities and provide ongoing working capital.
Roots said that the Sydney-based Everblu Capital Pty Ltd was the lead manager and would receive six percent of the total funds raised, subject to shareholder approval.
Roots director Adam Blumenthal is the chairman of Everblu.
Roots was unchanged at 3.9 cents.

ELIXINOL GLOBAL

Elixinol says receipts from customers for the year December 31, 2019 were down 8.1 percent to $33,102,000 compared to the previous corresponding period.
Elixinol said receipts for the three months to December 31 fell 40.8 percent to $6,705,000.
The company said it had cash and cash equivalents of $20,373,000 at December 31 and expected to spend $13,231,000 for the three months to March 31, 2020.
Elixinol chief executive officer Stratos Karousos said that the company's revenue for the six months to December 31, 2019 was "disappointing".
"We have taken steps to reduce our cash burn to account for the delayed development of the hemp derived [cannabidiol] market, in particular in the US, Europe and [the] UK," Mr Karousos said.
Separately, the company said it would sell its subsidiary Hemp Foods Australia to China's Shanghai Shunho New Materials Technology Co for $500,000 by April 2020.
Elixinol said it expected the sale to have a "non-cash impairment charge" of about $12.5 million but would improve "operating cash flow of the group and allow the company to focus its capital and resources solely on its hemp derived CBD products business".
Elixinol said it would sell land and assets owned under its subsidiary Nunyara Pharma, which would "give rise to a non-cash impairment charge of $4.8 million".
Elixinol was down three cents or 4.4 percent to 64.5 cents with 1,498,929 shares traded.

ECOFIBRE

Ecofibre says revenue for the six months to December 31, 2019 was up 117.9 percent to $29,029,000 turning the previous loss to a $7,078,000 net profit after tax.
Ecofibre said revenue came from sales of its marijuana-derived products.
The company said diluted earnings per share were 2.36 cents a share, up from a loss of 0.48 cents a share in the six months to December 31, 2018, with net tangible assets per share up 15.5 percent to 15.95 cents, compared to June 30, 2019.
Ecofibre said it had cash and cash equivalents of $23,184,000 at December 31, 2019 compared to $5,928,000 at December 31, 2018.
Ecofibre was unchanged at $2.85.

CANN GROUP

Cann says it has receipts from customers of $1,660,000 for the six months to December 31, 2019, compared to $3,000 in the previous corresponding period.
Cann said that customer receipts for the 12 months to June 30, 2019 were $1,466,000.
The company said it had cash and cash equivalents of $8,093,000 at December 31 and expected to spend $6,430,000 for the three months to March 31, 2020.
Cann said it would begin cost cutting measures, including a 25 percent reduction of staff.

OPYL (PREVIOUSLY SHAREROOT)

Opyl says receipts from customers for the six months to December 31, 2019 were down 3.1 percent to $464,000 compared to the previous corresponding period.
Opyl said receipts from customers for the three months to December 31, 2019 increased 45.85 percent to $264,000.
The company said it had cash and cash equivalents of $464,000 at December 31 and expected to spend $393,000 for the three months to March 31, 2020.
Opyl was up 0.5 cents or 3.3 percent to 15.5 cents.

MEMPHASYS

Memphasys says “key opinion leaders” in Japan, India, Canada, the US and Iran have provided positive feedback on the use of its Felix sperm separation device.
Memphasys said initial shipments to the first key opinion leader sites were delivered in late December 2019 and early January 2020, and a key opinion leader agreement had been signed with a New Zealand-based IVF clinic.
The company said an additional six consoles and 320 cartridges were dispatched by the end of December 2019.
Memphasys said it had begun verification and validation of the Felix device, expected to be completed by July 2020.
Memphasys executive chairman Alison Coutts said the company was “confident on how the Felix device would perform, but to see how easily and quickly it was able to be used and that it performed exactly as expected in various commercial [in-vitro fertilization] settings was extremely satisfying”.
“Based on this positive initial feedback from the sites, we are now eagerly anticipating their commencement of the protocol A assessments, which they have indicated will commence within weeks,” Ms Coutts said.
Memphasys was unchanged at seven cents with 2,343,807 shares traded.

ROOTS SUSTAINABLE AGRICULTURAL TECHNOLOGIES

Roots says it has an additional $36,000 sale of its Root Zone Temperature Optimisation (RZTO) technology to Israel marijuana grower Barlev.
Roots said the order followed a $47,000 RZTO technology installation on Barlev's farm to mitigate the challenges of growing marijuana, by providing a stable temperature for plant roots in any season and through the growth stage.
The company said it installed its RZTO technology on an additional 1,500 square metres in one of Barlev's Israel greenhouses as part of the follow-on order.

CRESO PHARMA

Creso says it has developed oil-free, water-based, plant-based gum arabicum marijuana lozenges.
Creso said "the technological breakthrough" would extend its Cannaqix product line.
The company said that the new products used natural hemp plant and provided an "entourage effect", in which various compounds worked together to strengthen the key benefits, including to manage stress and improve well-being.
Creso said it planned to distribute the new products with different commercial partners in several countries, and should be ready for launch by October 2020.
Creso chief executive officer Dr Miri Halperin Wernli said the company was "proud of having successfully developed this innovative oil-free hemp plant-based technology".
"The new products contain hemp compounds which are already approved for use in consumer products," Dr Wernli said.
"Importantly, this means that we have an additional path to market for our hemp-based food supplements without the need for regulatory approval," Dr Wernli said.

TASSAL GROUP

Vanguard Group says it has become substantial in Tassal will 10,388,230 shares or 5.009 percent of the company.
The Valley Forge, Pennsylvania-based Vanguard said that between October 9, 2019 and January 21, 2020 it bought and sold shares with the single largest purchase on December 20, 2019 of 126,958 shares for $4.20 a share.
Tassal was down six cents or 1.4 percent to $4.19.