

Rural Economic Note

Fonterra Milk Price Forecast Update

18 September 2020

Fonterra's wide forecast range is a sign of the times

- Fonterra's milk price for the 2019/20 season is \$7.14 KGMS, plus a final dividend of 5c announced.
- Fonterra sticks with its wide \$5.90-\$6.90 for the 20/21 season, which is understandable in this environment. Fonterra's 20/21 forecast earnings per share is in a 20-35 cent range.
- We are sticking with our 20/21 \$6.75 milk price prediction for now, but the present risks are skewed to a number closer to the mid-point of Fonterra's forecast range.

Milk Price Forecast Update

	2019/20		2020/21	
	Fonterra	Dividend	ASB	Fonterra
Milk Price*	\$7.14	5c	\$6.75	\$5.90-\$6.90

* per kg of milk solids (excluding dividend).

Fonterra finalised the 2019/20 milk price at \$7.14, confirmed a 5c dividend, and stuck with a wide 2020/21 milk price forecast range.

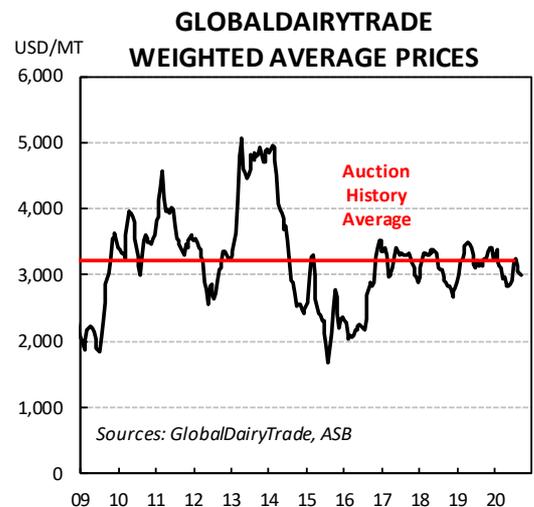
Fonterra's 2020/21 forecast range remains a wide \$5.90 - \$6.90. So, the mid-point, off which farmers are initially paid, remains at \$6.40. This wide range is wider than usual, but understandable in this environment. Fonterra noted today that "the supply and demand picture remains finely balanced" and for that reason Fonterra is maintaining the wide forecast range they announced earlier in the year. In terms of earnings, Fonterra is forecasting a full year normalised earnings per share range of 20-35 cents for 20/21.

We lifted ASB's forecast for the 2020/21 season from \$6.50 to \$6.75 back in July, encouraged by the prices at GDT events and the recovery in key markets such as China at the time. Since then dairy prices have softened at three out of four GDT events, which has put our forecast at risk of a getting reset lower. Right now, the risks are skewed to a number closer to the mid-point of Fonterra's forecast range, and we will be monitoring the upcoming auctions closely.

Fonterra Business Performance

Fonterra delivered a strong performance for the first half of the financial year, then faced the major disruption of COVID-19 over 2020. The pandemic impacted performance, particularly the Consumer and Foodservice businesses. Nonetheless, the co-operative significantly increased its profit and reduced debt over the full year. Highlights of today's announcement included a reported profit after tax of \$659 million and a normalised profit after tax of \$382 million, which was up \$118 million on last year.

Net debt for the cooperative was reported at \$4.7 billion, which is down \$1.1 billion or 19% on last year. That helped the Debt to EBITDA ratio improve to 3.4x from 4.4x.



The full-year normalised earnings per share was 24 cents, and a 5c dividend was paid. Fonterra note that *“at 5 cents per share, the dividend is at the lower end of the 5-7 cent range calculated under the Board’s dividend policy guidelines. In the context of so much uncertainty, as COVID-19 continues to impact our key markets and customer confidence, distributing a 5-cent dividend is a prudent decision and one that balances our aims of further reducing debt and distributing earnings.”*

For the 2020/21 year, forecast earnings are 20 – 35 cents per share. After no payment last year, this year marks a return to paying dividends. Fonterra expects this to continue, *“assuming normal operating conditions”*.

Fonterra Shareholder’s Fund units trade just north of \$4.00 today, an improvement on the sub \$3.20 lows last year. That’s an endorsement of the improvements made by the co-op. But it’s still a long way shy of the highs above \$8.00, reflecting the fact there’s still a long way to go.

ASB Economics & Research			Phone
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915
Senior Economist	Mike Jones	mike.jones@asb.co.nz	(649) 301 5661
Economist	Nat Keall	nathaniel.keall@asb.co.nz	(649) 301 5720
Data & Publication Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660
www.asb.co.nz/economics			 @ASBMarkets

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.