

# Rural Economic Note

## Fonterra Milk Price Forecast and Financial Results Update

21 May 2020

### Treading carefully

- Fonterra announced an appropriately wide 2020/21 opening milk price forecast range of \$5.40-\$6.90/kg. We expect \$6.50/kg, albeit with some downside risk to our forecast.
- Unsurprisingly, Fonterra reduced its 2019/20 forecast range to \$7.10-\$7.30/kg. We expect something in the midpoint of that range.
- Fonterra announced encouraging third quarter results, but it will be sometime before Fonterra undoes the damage of past poor performance.

### Milk Price Forecast Update

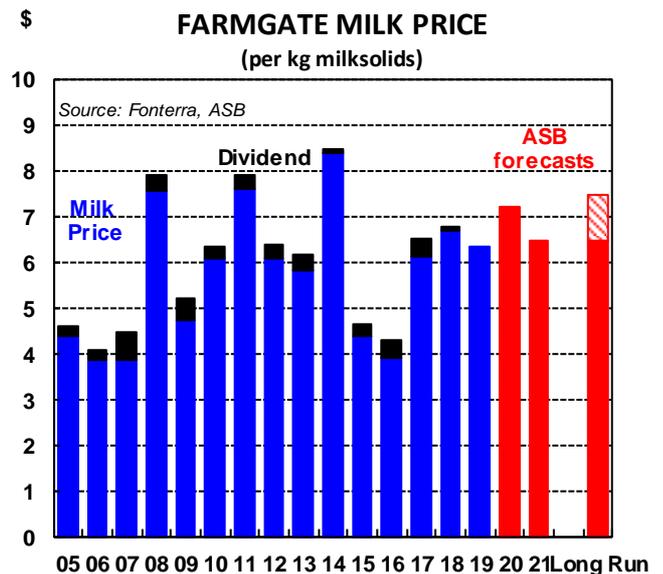
	2019/20		2020/21	
	Fonterra	ASB	Fonterra	ASB
Milk Price*	\$7.10-\$7.30	\$7.20	\$5.40-\$6.90	\$6.50

\* per kg of milk solids (excluding dividend).

Fonterra has set a wide opening 2020/21 milk price forecast range of \$5.40-\$6.90/kg, reflecting the heightened uncertainty to the outlook as a result of COVID-19. "COVID-19 adds significant uncertainty into the process of forecasting what will happen with global dairy prices over the next 15 months." Indeed, the \$1.50/kg range is considerably wider than last season's opening range of \$1.00/kg.

Our forecast of \$6.50/kg is towards the top of Fonterra's range. However, we agree with the cautious approach that Fonterra has taken at this juncture. We have been noting the risks that the milk price dips below \$6.00/kg and have regularly suggested farmers prepare for this contingency.

Looking at 2019/20, unsurprisingly Fonterra has reduced and narrowed its forecast range to \$7.10-\$7.30/kg. Fonterra also notes that the revision is "in response to a softening of demand relative to supply which is pushing down prices." We move to adopt the \$7.20/kg midpoint of the forecast range at this late juncture of the season.



## Third Quarter Results

**Fonterra also gave an encouraging third quarter financial performance update.** CEO Miles Hurrell reported that “the Co-operative’s total group normalised Earnings Before Interest and Tax (EBIT) for the nine months to 30 April is \$815 million, an increase of \$301 million on this time last year.” While last year’s result set an incredibly low bar, the result nonetheless does indicate that Fonterra is on track to record a profit this financial year.

**These encouraging results allowed Fonterra to reaffirm its full-year earnings per share at 15-25 cents.** However, Fonterra declined to give any indication of where it might set its cash dividend or indeed if it pays one.

**Fonterra has also moved to repair its balance sheet.** For example, its net debt has fallen to \$5.7 billion from \$7.4 billion last year.

All up, **the financial results are encouraging, but much work needs to be done to repair the damage of previous poor performance.** Indeed, the fact that Fonterra has not announced a dividend indicates that the business is still in repair mode.

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