

Analyst

Jonathan Snape 613 9235 1601

Authorisation

TS Lim 612 8224 2810

Australian Agricultural Co (AAC)

The perfect cut

Recommendation

Buy (Initiation)

Price

\$1.315

Target (12 months)

\$1.62 (Initiation)

Expected Return

Capital growth	23.2%
Dividend yield	0.0%
Total expected return	23.2%

Company Data & Ratios

Enterprise value	\$1,058m
Market cap	\$701m
Issued capital	532.8m
Free float	68%
Avg. daily val. (52wk)	\$2.6m
12 month price range	\$1.20-1.69

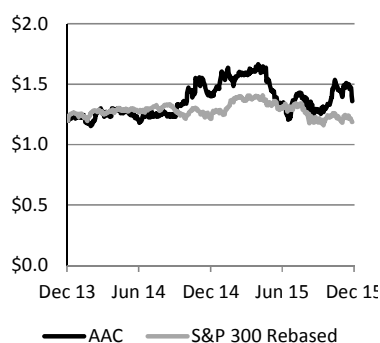
GICS sector

Food Beverage and Tobacco

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	1.45	1.28	1.42
Absolute (%)	-5.88	6.25	-4.23
Rel market (%)	-4.12	6.09	1.83

Absolute Price



SOURCE: IRESS

Vertically integrated beef producer

AAC is a vertically integrated beef producer with operations that span the entire supply chain across genetics, nutrition, pastoral operations, feedlots and processing. In 2013 AAC embarked on a strategy focused on diversifying away from what was largely a pastoral business towards becoming an integrated meat producer, with an eye to increasing its exposure to the less commoditised aspect of the supply chain while utilising its vast pastoral asset and genetics base to maximise returns within the meat business. The first signs that this strategy is delivering tangible gains became evident in 1H16, with ACC generating a 45% improvement in revenue relative to 1H14 levels on a herd of effectively the same size (+3% since 1H14).

Capturing more of the value chain

Investment in downstream processing and the move to vertically integrate the grassfed and grainfed operations creates significant value for AAC in excess of what could be achieved as a live cattle business. The investment in the Darwin abattoir has created a path to market for cattle that was previously of limited value (and consuming feed) and the investment in lifting meat sales results in a material uptick in carcass value. In total we estimate the supply chain initiatives pursued by AAC have the scope to add up to \$0.26/Kg lwt when averaged across AAC's total herd.

Investment view: Initiate with a Buy rating

We initiate coverage on AAC with a Buy rating and a \$1.62ps target price. Our favourable view on AAC is supported by: (1) favourable demand growth profile of beef as a source of protein in emerging markets as income levels rise; (2) a strategy in place that we estimate can add upto an average \$0.26/Kg lwt to AAC's total herd value; (3) an improving ROIC profile in the Northern Beef assets; (4) gaining exposure to a long-duration growth asset, with AAC having demonstrated internally funded compound growth in the asset base of ~4% p.a. over the last 15 years; and (5) undemanding valuation, with AAC trading at a 11% discount to its adjusted NTA.

Earnings Forecast

Mar Year end	2015	2016e	2017e	2018e
Sales (\$m)	346.8	599.8	663.7	703.3
Operating EBITDA (\$m)	(3.9)	16.8	37.0	42.9
Operating NPAT (\$m)	(28.1)	(19.4)	(7.1)	(3.7)
Reported NPAT (\$m)	9.6	62.0	3.7	7.6
Operating EPS (cps)	(5.3)	(3.6)	(1.3)	(0.7)
EPS growth (%)	n.a.	n.a.	n.a.	n.a.
PER (x)	(25.0)	lge	lge	lge
FCF Yield (%)	(12.7)	(4.9)	(2.2)	(1.0)
EV/EBITDA (x)	(268.7)	62.8	28.6	24.7
Dividend (cps)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	0.8	7.5	0.4	0.9

SOURCE: BELL POTTER SECURITIES ESTIMATES

Contents

Investment view and background	3
Livestock industry and supply chain	8
Cattle and beef prices.....	11
Financials	12
Board of Directors & Management	16
Substantial shareholders	18
Risks	19

Investment view and background

BACKGROUND AND STRATEGY

AAC was established in 1824 and is one of Australia’s oldest continuously operating companies. Over its 191 year history the company has had several ownership changes but can trace its current IPO listing to 2001, when a partial sell down was pursued by Futuris Corporation (renamed Elders Ltd). Today AAC is a vertically integrated beef producer with operations that span the entire supply chain across genetics, nutrition, pastoral operations, feedlots and processing. A summary of the AAC assets, supply chain strategy and industry structure is detailed in the chart below.

Figure 1 – AAC business model and supply chain at a glance

Industry Structure						
	Technical	Production	Processing		Sales and marketing	
			Feedlots	Processing	Live Export	Processed Beef
AACo	Developed the Barkley and gulf composites in the 1990's. Acquired Westholme Wagyu breeding herd in 2006. Developed propriety animal nutrition products.	20 owned cattle stations 4 leased agisted properties 13 agisted properties 3 fodder farms 6.4m Ha 527m head of cattle 202mKg lwt	2 company owned feedlots 34,500head turnover company facilities	Livingstone Beef Abattoir 244,000head capacity Cull cattle sourced from AACo properties & third parties	17m Kg lwt in FY15	11.6mKg (swt) Wagyu 14.6mKg (swt) Shortfed 5.8mKg (swt) Nth Beef sales Asia/US largest destination markets
Industry structure		Fragmented structure 78,000 properties 27m head of cattle	Consolidated ~1.2m capacity ~2.8m head turnover Top 25 control ~60% of capacity	Consolidated ~6.4m head capacity ~9.4m head slaughtered ~5.3m red meat produced Top 5 control 75% of capacity	Consolidated 1.4m head exported FY15 Indonesia & Vietnam main offtake (73% of demand) 5 major market participants	International market 1.3mt exported Top 5 markets 80% of volume US 35% of exports Domestic market 57% supermarkets 27% Foodservice 16% specialty
AACo Supply Chain						
	Grainfed Segment		Northern Beef		Grassfed Segment	
Sales & Marketing	Wagyu & shortfed meat sales		Manufacturing boxed beef		Live sales	
Logistics						
Processing	3rd Party processors		Livingstone Beef			
Production						
Purchasing	Backgrounding & feedlots				Grassfed properties	
Earnings Drivers	Global beef prices Global grain prices Domestic cattle prices Processing costs		Global beef prices (US 90CL) Domestic cattle prices Cull cattle supply		Domestic cattle prices Pasture growth	
Description	Grainfed supplies grain finished wagyu and shortfed beef to international markets. It consists of AAC's QLD properties, feedlots and farming operations (which supply grain to the feedlots).		Northern beef sells manufactured meat products, predominantly to overseas customers. It contains the Livingstone beef processing facility and Pell Station in the NT. The majority of cattle processed is cull cattle, both internally and externally sourced.		Predominantly focused on supplying feeder cattle into the grainfed operations and cull cattle into Northern Beef. However, the grassfed business also supplies live export volumes.	

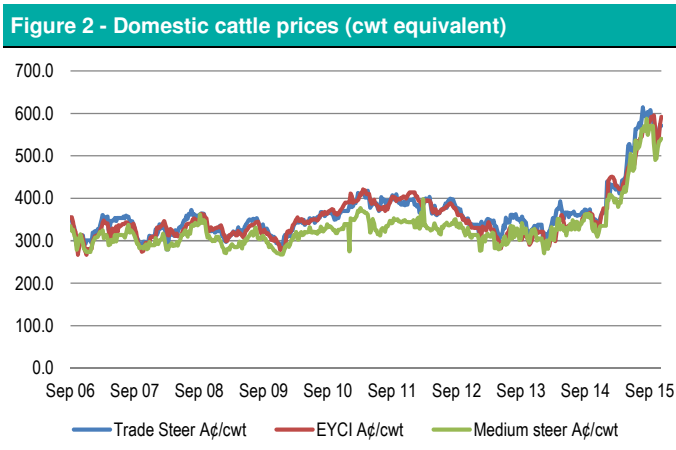
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

In 2013 AAC unveiled a strategy centred around diversifying away from what was a largely pastoral business (where returns were leveraged to cattle prices) towards becoming an integrated meat producer (where returns are exposed to meat prices). At the core of this strategy was an aim to increase AAC’s exposure to meat prices (which display less volatility through the cycle than livestock prices) while also improving the utilisation of its pastoral assets as a feeder for its grainfed operations, thereby reducing production costs across the supply chain. In essence there were three aspects to this strategy:

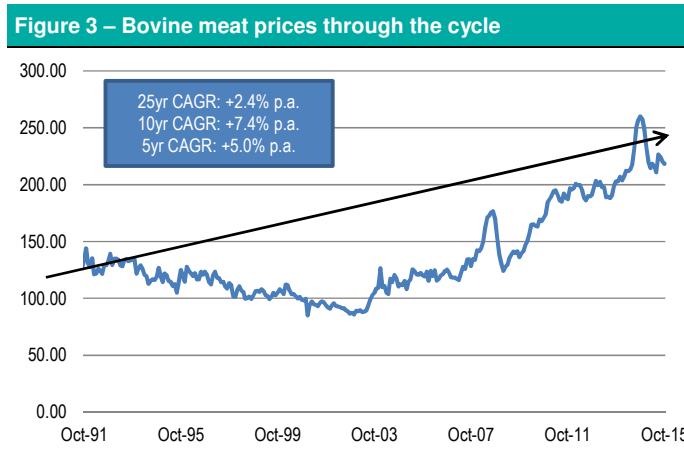
1.0 Investment in processing: AAC invested \$91m in the construction of an abattoir in Darwin. The facility became operational in 2H15 and delivered an operating EBITDA of \$1.3m in 1H16 as the facility ramped up towards 90% utilisation on a single shift (~45% of nameplate capacity). While there is a material portion of cattle sourced from non-AAC properties, the move to invest in processing effectively created an avenue to realise value

for cattle that was approaching the end of its useful life, while freeing up grazing capacity on AAC properties for income producing assets.

2.0 Increase proportion of meat sales: In 1H14 AAC generated ~47% of sales from branded beef and ~53% from live cattle sales. In 1H16 AAC generated ~84% of sales revenue from its branded beef sales. The shift towards increased beef sales reduces the group’s exposure to livestock pricing cycles, which historically have been more volatile than beef prices, which have displayed compound growth of +2.4% p.a. over the last 25 years.



SOURCE: MLA AND BELL POTTER SECURITIES



SOURCE: MLA

3.0 Vertical integration of the supply chain: The highest return that AAC can make in its business is to push cattle from its breeding and backgrounding properties through to its grainfed operations to be sold as beef. Reducing the reliance on store and finished cattle purchases into the supply chain has a material positive earnings gain for AAC as demonstrated in the 1H16 results. In the last two years the volume of cattle transferred from internal sources (i.e. grass fed to grain fed) has doubled. Analysing the 1H16 results reveals a gross margin generated on company sourced cattle more than 10 times that generated on store bought cattle (when grassfed costs are adjusted for Tipperary stock losses).

Figure 4 - Return per Kg lwt: Internal vs. external supply chain

	Cost (\$Kg lwt)	Grassfed lwt (KG)	Cost (\$)	Cost (\$Kg lwt)	Store lwt (KG)	Cost (\$)
Cow cost	1.54	263	404	3.18	373	1186
Production cost	3.45	610	1200	3.45	610	820
Processing	0.61	610	369	0.61	610	369
Average cost through the supply chain	3.23	610	1974	3.89	610	2375
Margin	0.73			0.07		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

While live cattle sales will always remain an element of the business the increasing shift towards beef sales and the growing level of internally sourced cattle for the grainfed operations should have a continued earnings benefit for the group.

INVESTMENT VIEW

We initiate on AAC with a Buy rating and \$1.62ps target price. Our favourable view on AAC is driven by four factors:

1.0 Favourable demand profile for beef: Growing global population and rising income levels per capita in the developing world are expected to see continued growth in global food consumption with the FOA projecting growth of 70% by 2050 or +1.3% p.a. Categories expected to outpace the sector average are dairy, meat and seafood (projected to grow at 1.7-1.8% p.a.) given higher elasticity of demand to rising income level. As an integrated meat producer with an established Asian distribution platform.

Figure 5 – income elasticity of consumption

	Low income countries	Lower middle income countries	Middle income countries	High income countries
Food, beverage & tobacco	0.81	0.70	0.70	0.54
Cereals	0.59	0.49	0.34	0.08
Meat	0.80	0.76	0.69	0.53
Dairy	0.83	0.79	0.72	0.55
Fish	0.69	0.64	0.56	0.42
Fruit	0.66	0.60	0.51	0.36

SOURCE: FAO

2.0 Strategy in place to maximise returns: The transition from pastoral based earnings to an integrated meat processor looks to be delivering a tangible uplift in EBITDA. Branded beef sales have lifted from 47% to 84% of sales and internally produced meat (transfers from grassfed and grown) has lifted from 59% to 70% of sales. We estimate the integrated AAC supply chain generates a value of \$0.50/Kg lwt based on current splits between cull/wagyu/shortfed cattle and this is not yet reflected in the share price of AAC.

3.0 Improving returns from Northern Beef: When operating at full utilisation we estimate the Livingstone beef processing facility is capable of generating an EBITDA return of ~\$18-23m. We see this as a processing business which is likely to be valued as such by the market as the business moves from loss making to value adding. AAC has a virtual monopoly on the utilisation of cull cattle in northern Australia, where there are ~2.1m head of cattle. Assuming a cull rate of 8-10% of the NT herd then AAC would look capable of generating annual EBITDA of \$18-23m from Northern Beef.

Figure 6 – Northern Beef economics

Northern Beef	2016e	2017e	2018e	FY16e At Scale	
				8% cull	10% cull
Internal transfers (m Kg lwt)	15.1	14.5	14.5	15.1	15.1
External acquired (m Kg lwt)	20.0	35.1	39.2	53.6	67.6
Processed volumes (m Kg lwt)	35.2	49.6	53.8	68.7	82.7
Cattle price (\$/Kg lwt)	1.60	1.64	1.68	1.60	1.60
Average selling price (\$/Kg swt)	4.75	4.87	4.99	4.75	4.75
Revenue (\$m)	76.4	109.4	121.3	147.1	176.5
EBITDA (\$m)	3.9	10.7	13.0	18.0	22.6

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

4.0 Long-term growth in the asset base: Since its IPO in 2001, AAC has achieved compound growth in its herd valuation of +5.9% p.a. and compound growth in its fixed assets of +10.5% p.a. Importantly ~43% of this growth has been generated via internally generated operating earnings and revaluations of asset values. In a very simplistic sense this suggests that the business has been capable of generating compound growth in net assets of ~4% p.a. over the last 15 years suggesting that the business is capable of sustaining long-duration growth in asset values. In isolation the uplift in property and pastoral lease values relative to cost has been ~3.1% since 2001.

Figure 7 - Asset growth profile AAC

Valuation analysis	June YE			Dec YE								Sep YE			Total	CAGR (%)		
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014			2015	1H16
Herd Valuation	172.0	189.8	230.1	355.6	372.4	406.5	426.5	421.8	353.2	411.6	483.7	496.5	437.1	383.0	465.2	550.4	378.4	5.9%
PPE	99.7	106.3	223.2	385.3	487.6	586.5	810.4	847.3	681.7	598.9	608.5	602.9	603.2	605.7	668.4	664.2	564.5	10.5%
Net Assets	133.7	192.9	307.1	402.4	558.7	582.4	725.6	705.3	645.1	592.6	672.0	638.6	595.4	747.8	762.3	812.9	679.1	9.1%
Net Debt	106.5	57.0	101.6	284.3	241.0	356.9	408.4	408.7	287.1	340.3	344.2	388.2	411.5	213.2	357.2	370.2	263.7	8.6%
Net Debt to Equity	80%	30%	33%	71%	43%	61%	56%	58%	45%	57%	51%	61%	69%	29%	47%	46%	52%	
Net Debt to Fixed assets	107%	54%	46%	74%	49%	61%	50%	48%	42%	57%	57%	64%	68%	35%	53%	56%	58%	
Net Debt to Herd	62%	30%	44%	80%	65%	88%	96%	97%	81%	83%	71%	78%	94%	56%	77%	67%	73%	
Operating cashflow		(6.3)	21.0	(16.1)	15.2	(12.4)	(21.2)	10.7	(56.4)	(48.8)	(64.1)	(0.8)	(18.6)	18.5	(75.9)	(3.0)	(258.1)	
Capex		(10.7)	(29.4)	(89.4)	(28.2)	(135.5)	(31.2)	(9.6)	(4.4)	(4.7)	(17.9)	(41.1)	(4.7)	(71.3)	(67.0)	(9.7)	(554.7)	
Acquisitions		(0.7)	(1.9)			(4.0)					(5.0)						(11.6)	
Asset Sales		0.7	1.0	0.0	2.2	53.5	2.6	0.4	180.4	0.6	0.7	1.2	0.0	32.7	0.6		276.9	
Equity raising				0.1	0.5	1.0	0.5				65.5	1.2		211.9	0.5		281.2	
Dividends			(7.5)	(12.0)	(17.4)	(17.4)	(5.0)										(59.4)	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

TARGET PRICE

In determining a target price of AAC we have incorporated an adjusted NTA methodology which seeks to isolate the value that AAC can deliver on the existing herd asset base while also looking at the long-term value we believe AAC can extract from the Darwin abattoir. A summary of our \$1.62ps target price is summarised below with major assumptions highlighted.

Figure 8 – Northern Beef economics

	2012	2013	2014	2015	1H16	Adj. 1H16
Total Herd ('000 Head)	691.7	676.2	552.1	597.6	526.5	526.5
Herd weight (m Kg lwt)			177.9	204.1	202.2	202.2
Herd Value (\$m)	487.2	437.1	383.0	465.2	550.4	550.4
Value per head (\$)			693.8	778.5	856.3	856.3
Value per Kg lwt (\$)			2.15	2.28	2.89	2.89
Estimated value uplift from grainfed-grassfed strategy (\$m)						28.7
Adjusted herd valuation (\$m)						579.0
PPE ex-Northern Beef						569.3
Estimated value of grain and grass fed operations						1148.3
Net cash (debt) (\$m)						(370.2)
Add: convertible note (\$m)						80.0
Adjusted net cash (debt) (\$m)						(290.2)
Incorporated value for Northern Beef						136.1
Net working capital (\$m)						32.5
Deferred tax liabilities (\$m)						(48.8)
Implied market value (\$m)						977.8
Shares outstanding (m)						532.8
Convertible note shares (m)						69.6
Diluted share capital base (m)						602.4
Value per share (\$ps)						1.62

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Adjusted asset value: In 1H16 48% of grassfed sales and transfers were diverted to the grainfed operations, 21% were diverted to Northern Beef and the remainder sold live. With Northern Beef largely cull cattle, this would suggest that ~61% of the grassfed trading herd is likely to be diverted to the grainfed operations over time. In this section we have adjusted what value we believe the herd would be worth when it is ultimately sold assuming that the 1H16 sales splits are retained and cattle is diverted to the grainfed operations at levels similar to that of 1H16. This analysis suggests that the vertically integrated supply chain model delivers ~\$0.37/Kg lwt (on a closing 1H16 basis) improvement in returns from the current book value of the trading herd and we have incorporated this value uplift into our adjusted NAV.

Figure 9 – Adjusted herd value

	Adj. Grainfed	Grainfed	1H16	
			Grassfed	Nth Beef
1H16 Trading stock (head)	193.0	118.2	122.7	2.1
1H16 Trading stock (m Kg lwt)	70.1	46.9	38.0	0.9
1H16 Average weight (Kg lwt/cow)	363	397	310	429
Target weight at disposal (m Kg lwt)	117.8		38.0	0.9
Target selling weight grain finished (Kg lwt)	610			
Required weight gain (m Kg lwt)	47.7			
Production cost (\$ Kg lwt)	3.45			
Processing cost per Kg (\$/Kg lwt)	0.61			
cost to achieve target weight (\$m)	235.7			
1H16 Revenue per Kg lwt (\$)	3.96		2.39	3.30
Implied revenue at target weight (\$m)	466.3		90.6	3.0
Implied gross margin ex-livestock cost (\$m)	324.2	230.6	90.6	3.0
Trading stock book value (\$m)		295.5		
Value uplift to herd from Diversion (\$m)		28.7		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

If we incorporated the expected value of cull cattle (~\$1.60/Kg lwt) when transferred to Northern Beef then we would determine a total value of \$0.26/Kg lwt (1H16 closing lwt) on the total herd value of AAC (~\$0.67/Kg lwt on a trading herd) as extracted from the supply chain model. This is predicated on the assumption that the majority of the cattle diverted to Northern Beef had very limited value in its current form.

Northern Beef valuation: In deriving a value for the Northern beef assets we have looked at the level of returns we believe are capable of being generated on a double shift based

on an 8-10% cull rate of the NT herd. We have then adopted an ROIC based approach in determining an EV/EBITDA multiple for the earnings assuming an asset beta of 0.95x, 5.5% risk free rate, 2.5% borrowing margin and a 5.0% MRP. This derives a WACC of 11.1%, which based on an ROIC range of 12.1-17.0%, long-term growth rate of 3.0% and asset turn of 3.0-4.0 years derives an EV/EBITDA range of 6.0-7.3x. This derives a target valuation of \$118-165m with a midpoint of \$136m (vs. Book value of \$94.9m).

Figure 10 – Northern Beef valuation

Northern Beef valuation	2016	2017	2018	Target utilisation	
				8% Cull rate	10% cull rate
Processed head of cattle	85,000	120,000	130,000	166,160	200,000
Capacity utilisation (%)	34.8%	49.2%	53.3%	68.1%	82.0%
EBITDA (\$m)	3.9	10.7	13.0	18.0	22.6
Depreciation (\$m)	6.5	6.5	6.5	6.5	6.5
EBIT (\$m)	(2.5)	4.2	6.5	11.5	16.1
Invested Capital (\$m)	94.9	94.9	94.9	94.9	94.9
ROIC (%)	-2.7%	4.5%	6.9%	12.1%	17.0%
Long-term growth rate (%)	3.0%	3.0%	3.0%	3.0%	3.0%
Pre-tax WACC (%)	11.1%	11.1%	11.1%	11.1%	11.1%
Derived EV/EBITDA (x)		1.6	3.5	6.0	7.3
Value of Northern Beef processing (\$m)		17.2	45.9	107.6	164.8
Utilised in target price				136.2	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

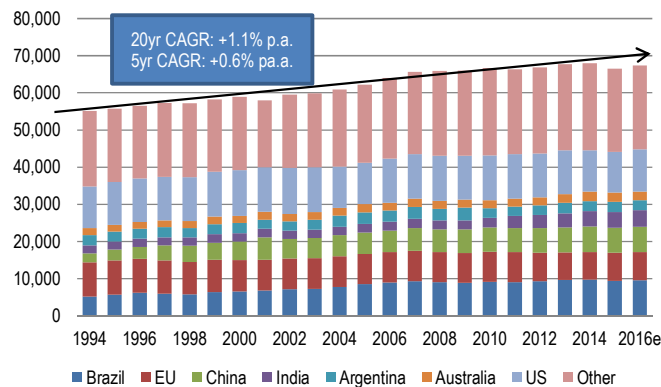
Capital base: We have adjusted the share capital base to reflect the NTA dilutive nature of the convertible note, which has a face value of \$80m and a \$1.15ps conversion price (compared to an NTA of \$1.52ps).

Livestock industry and supply chain

GLOBAL BACKDROP

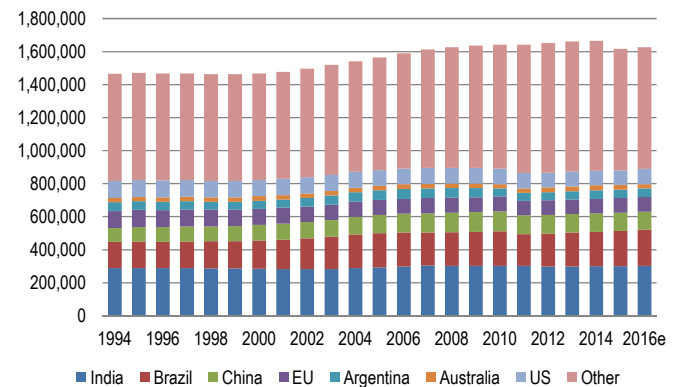
Global beef production has been growing at a compound growth rate of at +1.1% p.a. over the last 20 years, with the strongest growth rates being recorded in India, Brazil and China. In the last five years supply growth globally has been constrained by stalling global herd, growth, slowing to +0.6% p.a.

Figure 11 - Global beef and buffalo production ('000t cwt)



SOURCE: USDA & FAOSTAT

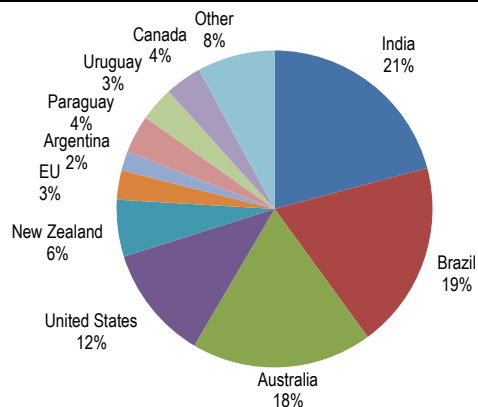
Figure 12 - Global beef and buffalo herd ('000 Head)



SOURCE: USDA & FAOSTAT

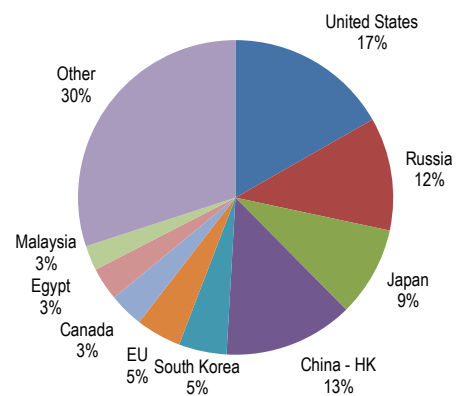
The largest exporters of beef products are India, Brazil, Australia and the US which combined account for ~70% of meat exports, ~40% of meat production and 38% of the global herd. Import demand is predominantly driven by Asia and the US, with the majority of US imports low quality and destined for the ground beef market (the domestic supply chain is established to produce higher quality grain fed beef). Asian demand is principally driven by a shortage of domestic beef capacity and this is unlikely to change in the near term with declining herds in the region.

Figure 13 – Exports by region (CY15)



SOURCE: USDA & FAOSTAT

Figure 14 – Imports by region (CY15)

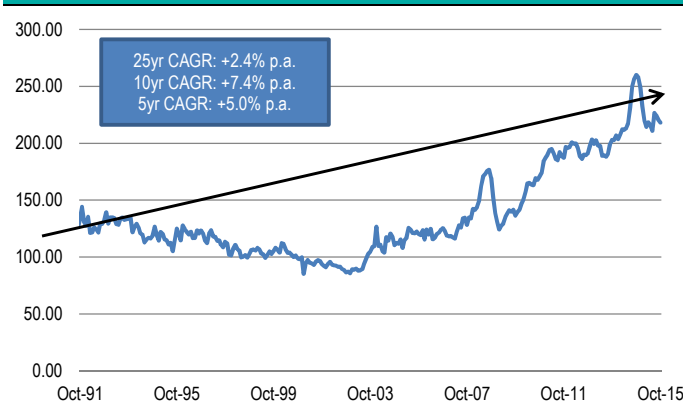


SOURCE: USDA & FAOSTAT

Land suitable for meat production is somewhat constrained and this places a limit on the pace at which global supply can expand. Demand is growing, with rising income levels in Asia and the result is upward pressure on prices. Over the last decade bovine meat prices globally have grown at a compound rate of +7.4% p.a., 1.5x the rate achieved by other meat protein sources over the same time frame. Over the past five years the pace of acceleration has somewhat slowed (+4.9% p.a.) though the outperformance relative to other meat protein sources expanded to 12x. Over the longer-run it would not be

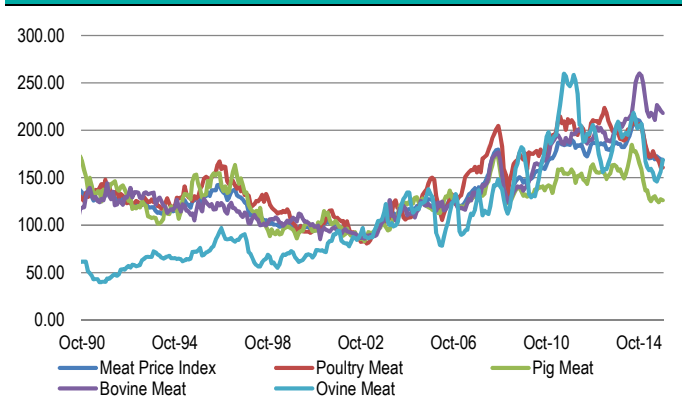
unreasonable to expect bovine meat price inflation to keep pace with the 25 year average of ~2.4% p.a. (in USD terms).

Figure 15 – FAO bovine meat price index



SOURCE: FAOSTAT

Figure 16 – FAO meat price index and constituents



SOURCE: FAOSTAT

In the short term global production of beef is projected to grow 1% in 2016 with herd expansion in India, US and Brazil offsetting a declining herd profile in Australia and relatively static growth in the EU, with a summary of the near term outlook by market in the table below.

Figure 17 - Global beef major supplier overview

Region	2015 Herd ('000Head)	CAGR 1994-2004	USDA Proj. Growth FY14-16e	Comment
Australia	27,600	0.5%	-5.5%	Herd at lowest level in 20 years and female slaughter rates the past two years have been well above average historical levels (46% vs. 40%).
Argentina	51,545	0.1%	0.4%	2016 beef production forecast at 2.68mt cwt, the lowest level in four years. This is due to favourable pasture growth and low supplementary feed costs, encouraging herd development.
Brazil	213,035	1.5%	2.6%	Depreciation of the real making Brazilian beef more competitive in global markets. Production is expected to climb for the next decade.
India	301,100	0.3%	0.2%	India's exports are predominantly buffalo. Exports to slow due to increased competitiveness from Brazil and recent incidents of FMD in the herd.
EU-28	88,388	1.8%	-1.3%	Herd and slaughter rates expected to remain static in 2016.
US	89,800	-0.6%	2.4%	U.S. production is expected to rise for the first time since 2010 as cattle inventories recover on improved pasture conditions and lower feed costs. Exports are forecast 6% higher.

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

AUSTRALIA IN A GLOBAL CONTEXT

Australia is one of the world's most efficient producers of cattle and the world's third largest exporter of beef. At the farmgate level there are ~78,000 properties running ~26-30m head of cattle through the cycle. There are two primary processing regions for cattle in Australia: (1) Northern region, which is based on a breeder/feeder production system, where cattle are turned-off younger for export or sold/transferred to fattening properties elsewhere and (2) Southern region, where production systems are mainly oriented toward finishing cattle for slaughter and processing domestically.

Outside of feedlot and abattoir ownership (~22% of feedlot capacity is owned by processors) there is limited vertical integration across the beef cattle supply chain. The result of this lack of integration ensures that returns through the cycle can shift from processor to farmer and vice versa. In a very general sense high livestock prices favourably impact returns at the farmgate level while being detrimental to the processor.

The supply of cattle to the processing sector is volatile, with seasonal factors playing a material role in the availability of cattle for slaughter and export markets. On average 35% of the herd is turned off annually, with ~9% of this finding its way to live export markets and the remainder as processed beef products, with ~70% of the latter destined for export markets.

Figure 18 - Australian cattle supply chain

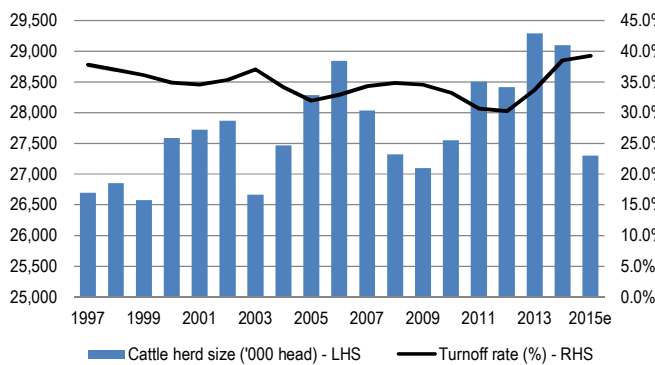
Production	Sales	Processing	End markets
78,000 Properties 27.3m Head of cattle 400 accredited feedlots 1.2m head processing capacity 2.8m head turnoff	52% saleyard 26% over The hooks 22% paddock	Slaughter 8.68m head 2.4mt red meat produced (owe)	Live export 1.38m head 55% Indonesia 22% Vietnam 6% China Export 1.4mt Top 5 markets 80% of volume US 35% of exports Domestic 1.0mt 57% supermarkets 27% Foodservice 16% specialty

Cattle producer: Farmgate returns are influenced solely by demand and supply. Cattle is purchased by processors, restockers, backgrounders, feedlot operators and live exporters based on demand at export locations, prevailing global prices and exchange rates. Supply is determined largely by seasonal factors. Profitability is linked to livestock prices as well as feed costs.

Processing: Returns are a function of local and global meat prices and the cost of acquiring cattle for processing. Input costs are determined by supply-demand factors, whereas selling prices tend to be more static. Returns can be volatile through the cycle.

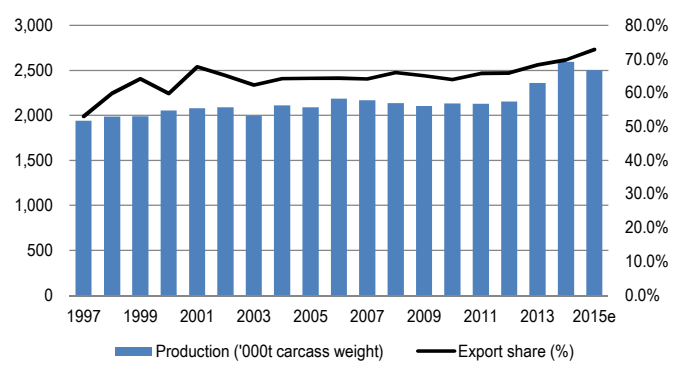
SOURCE: MLA AND BELL POTTER SECURITIES

Figure 19 - Australian cattle herd and turnoff rates



SOURCE: MLA

Figure 20 - Australian beef production vs. exports



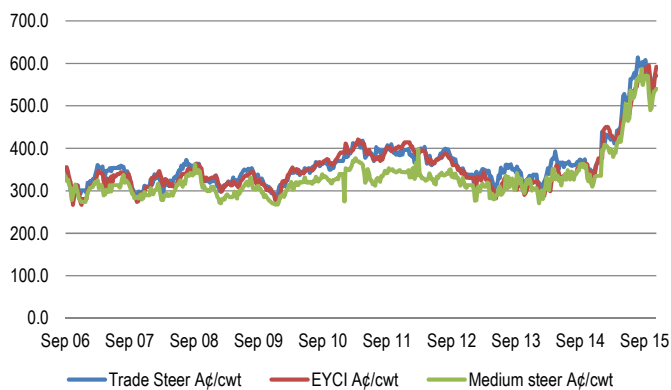
SOURCE: MLA

Cattle and beef prices

Australian livestock prices are influenced by a number of factors including international livestock prices, seasonal conditions and grain prices. In a very general sense there is a moderate to strong correlation between Australian cattle prices and international prices, a moderate correlation between meat and cattle prices and an inverse correlation between livestock prices and grain prices.

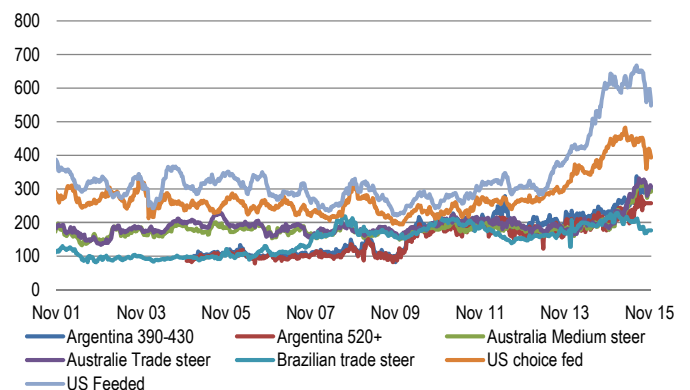
Livestock price correlation: Domestic cattle prices are highly correlated with the EYCI bearing a 94-96% correlation to movements in trade and medium steer cattle prices. The correlation to international cattle prices is moderate to strong, with a range of 40-67% when restated to Australian dollars. The relationship is distorted by movements in freight and supply chain costs as well as seasonal factors that influence regional turnover.

Figure 21 - Domestic cattle prices (cwt equivalent)



SOURCE: MLA AND BELL POTTER SECURITIES

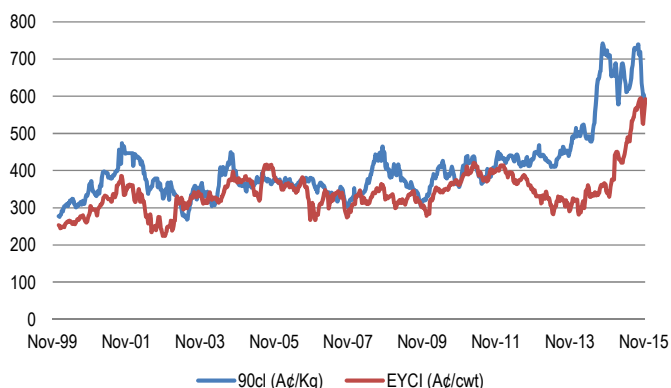
Figure 22 - International cattle price comparisons (A\$/kg lwt)



SOURCE: MLA

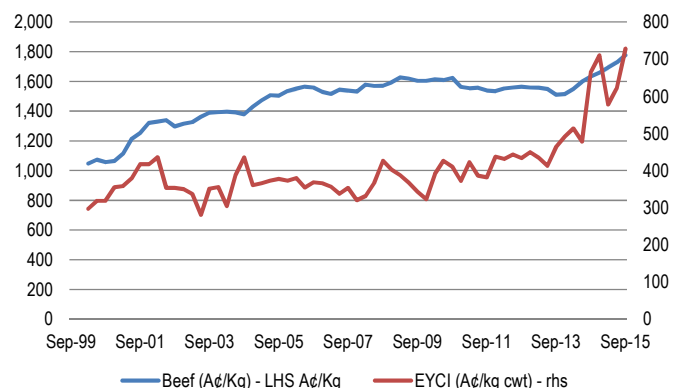
Meat and livestock price correlation: There is a moderate to strong correlation between cattle and retail meat prices, with domestic cattle prices bearing a 61% correlation to US 90CL prices and a 64% correlation to Domestic retail beef prices. Domestic retail prices tend to exhibit greater stability through the cycle which results in returns moving between the supply chain in reaction to movements in livestock prices.

Figure 23 – US 90CL export equivalent prices (A\$/Kg)



SOURCE: MLA AND BELL POTTER SECURITIES

Figure 24 – Domestic retail meat prices (A\$/Kg)



SOURCE: MLA

The more protracted movements between retail meat prices domestically and cattle prices may be primarily linked to the inverse correlation of livestock prices and grain prices. With the majority of domestically sold meat being grain finished and typically not transacted through saleyards the relationship would hold that the cost to produce the required market specifications is also linked to the cost to finish and supply chain costs.

Financials

SUMMARY PROFIT AND LOSS

AAC reports both operating and statutory EBITDA. The main difference between operating and statutory EBITDA is to substitute the movement in inventory at market value with the movement in inventory at standard cost. In effect under this methodology the deviation between market values and standard costs is not recognised as profit until sold, yet cost differentials (particularly externally acquired) are worn in the current operating period. The division that is most influenced by the standard cost model is the grainfed operations and we deal with in more detail then.

The table and sections below detail our earnings forecasts and underlying assumptions by division, however, at a high level we can make the following observations: (1) **Returns are maximised by internal transfers:** the cost of producing a Kg of lwt in the grass fed division was ~\$1.54/Kg in 1H16 (adjusted for Tipperary losses), a material discount to the \$3.18/Kg lwt cost of store cattle purchases within the grainfed division; and (2) **Returns in 1H16 are currently biased to grassfed:** in a vertically integrated model, cattle prices reflect a transfer mechanism for profits between the grassfed and grainfed divisions. As a result of cattle prices moving higher than beef prices in 1H16, returns were skewed towards grass fed and this is likely to remain the case in the near term.

Figure 25 - Summary financials of AAC

	2014	2015	2016e	2017e	2018e
Wagyu volumes (m Kg)	10.1	11.6	13.4	13.7	14.1
Wagyu Average price (\$/Kg)	11.78	11.99	12.63	12.95	13.27
Shortfed volumes (m Kg)	10.1	14.6	25.4	26.4	27.5
Shortfed average price (\$/Kg)	6.80	8.20	8.62	8.83	9.05
Live Cattle sales (m Kg lwt)	74.5	31.6	15.9	19.1	19.1
Northern Beef head processed (head)		14,900	85,000	105,000	125,000
Grainfed	234.7	277.0	412.0	435.4	460.2
Grassfed	107.3	92.0	111.5	118.8	121.8
Nth. Beef	0.0	15.5	76.4	109.4	121.3
Intersegment	(25.2)	(37.7)	(84.4)	(83.1)	(85.1)
Revenue	316.8	346.8	599.8	663.7	703.3
Grainfed	28.0	14.9	8.1	16.0	19.3
Grassfed	(6.4)	13.4	23.7	29.7	30.5
Nth. Beef	(1.7)	(9.9)	3.9	10.7	13.0
Corporate	(21.0)	(22.3)	(18.9)	(19.4)	(19.9)
Operating EBITDA	(1.2)	(3.9)	16.8	37.0	42.9
Unrealised gain on livestock	(20.1)	48.5	116.3	15.3	16.1
Reported EBITDA	(21.2)	44.6	133.1	52.3	59.0
Depreciation & Amortisation	11.2	15.7	20.5	20.5	20.5
EBIT	(32.4)	28.9	112.7	31.8	38.5
Net Interest Income	(22.0)	(20.4)	(24.1)	(26.6)	(27.7)
Pre-tax profit	(54.4)	8.4	88.6	5.2	10.9
Tax	18.1	(2.4)	(26.6)	(1.6)	(3.3)
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT	(36.3)	6.0	62.0	3.7	7.6
NRI's post tax	(3.6)	3.6	0.0	0.0	0.0
Reported NPAT	(39.9)	9.6	62.0	3.7	7.6
Operating EBITDA	(1.2)	(3.9)	16.8	37.0	42.9
Operating EBIT	(12.4)	(19.6)	(3.6)	16.5	22.4
Operating NPAT	(24.0)	(28.1)	(19.4)	(7.1)	(3.7)

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Grassfed division: The cost base of the grassfed operations are largely fixed in nature. Therefore the major drivers of earnings in the division are: (1) the volume of cattle sold externally or transferred internally; (2) the price of cattle sold; (3) the level of production (in terms of kilograms of live weight); and (4) the source of volumes growth (i.e. whether it is internally generated or acquired via store cattle purchases). Major assumptions in our forecasts for the grassfed division are detailed in the table below.

Figure 26 – Grassfed drivers

Grassfed assumptions	2014	2015	2016e	2017e	2018e
External live sales (Kg lwt)	57.9	28.5	11.0	14.2	14.2
Transfers (Kg lwt)	13.0	18.4	39.8	38.3	38.3
Kilograms produced (Kg lwt)	37.9	48.5	42.5	42.5	42.5
Store purchases (Kg lwt)	3.1	15.6	5.0	9.8	9.8
Closing herd (Kg lwt)	142.4	159.5	156.2	156.0	155.8
External Sales (\$/Kg lwt)	1.46	1.97	2.46	2.53	2.59
Northern Beef transfers (\$/Kg lwt)			1.60	1.64	1.68
Grainfed transfers (\$/Kg lwt)			2.43	2.50	2.56
Cost of production (\$/Kg lwt)	2.08	1.39	1.63	1.67	1.71
Store cattle purchase price (\$/Kg lwt)	1.78	1.27	1.81	1.86	1.90
Standard cost (\$/Kg lwt)	0.85	0.85	0.85	0.85	0.85
External revenue (\$m)	84.3	56.2	27.1	35.8	36.7
Internal transfers (\$m)	23.0	35.8	84.4	83.1	85.1
Total revenue (\$m)	107.3	92.0	111.5	118.8	121.8
Operating EBITDA (\$m)	(6.4)	13.4	23.7	29.7	30.5

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our forecasts for the grassfed operations assume kilograms produced are broadly in line with average levels produced (on a Kg per head basis) over the past two years with no material increment or decrement in the size of the herd from 1H16 levels. We have assumed a material 25% uptick in average selling prices for live cattle sales and sales into the grainfed division in FY16e and +2.5% p.a. thereafter. We have assumed transfers to Northern Beef at an average price of \$1.60/Kg lwt (in line with external purchases) in FY16e growing at +2.5% p.a. thereafter. We assume transfers to the grainfed operations are fairly static with a continuing share of the herd sold externally as live sales (albeit at a rate well below FY14-15 levels).

Grainfed division: Earnings within the grainfed operation are largely a function of: (1) Sales volumes and the split between wagyu and shortfed beef; (2) Beef and by product prices received; (3) the mix between internally produced and externally acquired in beef (i.e. store and finished cattle acquired); (4) the cost of producing a kilogram (principally feed); and (5) the standard costs for inventory adjustments. The table below summarises material assumptions utilised in deriving our EBITDA forecasts.

Figure 27 – Grainfed drivers

Grainfed assumptions	2014	2015	2016e	2017e	2018e
Wagyu volumes (m Kg)	10.1	11.6	13.4	13.7	14.1
Wagyu Average price (\$/Kg)	11.78	11.99	12.63	12.95	13.27
Shortfed volumes (m Kg)	10.1	14.6	25.4	26.4	27.5
Shortfed average price (\$/Kg)	6.80	8.20	8.62	8.83	9.05
Live Cattle sales (m Kg lwt)	16.6	3	4.935	4.935	4.935
Live cattle sales average price (\$/Kg)	2.17	2.63	2.77	2.83	2.90
Kilograms produced (m Kg lwt)	26.3	27.4	40.2	41.7	42.9
Store cattle purchases (Kg lwt)	9.8	22.6	22.4	20.7	20.7
Finished cattle purchases (Kg cwt)	6.2	11.6	16.8	15.3	15.3
Internal transfers (Kg cwt)	13.0	9.6	20.5	19.7	19.7
Costs of production (\$/Kg lwt)	3.02	3.43	3.45	3.53	3.61
Store cattle purchase price (\$/Kg lwt)	2.96	2.68	3.22	3.30	3.38
Finished cattle purchase price (\$/Kg lwt)	3.78	4.38	5.34	5.48	5.61
Standard cost (\$/Kg lwt)		1.80	1.80	1.80	1.80
Processing costs (\$/Kg cwt)	1.11	1.16	1.19	1.22	1.25
Operating revenue (\$m)	234.7	277.0	412.0	435.4	460.2
Operating EBITDA (\$m)	28.0	14.9	8.1	16.0	19.3

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our forecasts for the grainfed operations assume: (1) compound volume growth in meat sales of +15% p.a. over FY15-18e, with the majority of this growth in shortfed cattle and generated in FY16e; (2) average pricing gains in FY16e consistent with movements seen through 1H16e and +2.5% p.a. thereafter (consistent with the long-term trend growth in beef prices); (3) an assumption that 56-58% of cattle utilised in the grainfed operations is produced internally in FY16-18e, up from 53% in FY15; (4) growth in cattle prices consistent with those assumed in the grassfed division; and (5) a standard cost for

inventory adjustments of \$1.80/Kg lwt, which compares to our estimate of \$1.77/Kg lwt in 1H16 as detailed in the table below.

Figure 28 - Determining standard cost grainfed

AACo Data provided			AACo Data provided				
Wagyu Revenue	86.1	191.0	Cattle revenue	191.0	Transfers from grassfed (Kg lwt)	16.8	102.6
Shortfed/Other Revenue	96.0		Finished & store cattle	64.5	Transfer price from grassfed (\$/Kg lwt)	2.39	
Live Cattle Sales	8.9		Transfers from grassfed	40.2	Weight produced (Kg lwt)	18.1	
		Cost of production	62.4	Cost of production (\$/Kg lwt)	3.45		
Processed volumes	45.6		Gross processing Costs	27.6	Store Cattle purchases (Kg lwt)	8.8	64.5
Live sales	4.0		Other costs	9.0	Store cattle cost (\$/Kg lwt)	3.18	
Total liveweight sold	49.6		Total calculated costs	203.8	Finished cattle purchases (Kg cwt)	7.1	
Total liveweight produced/transferred	57.9		Booked to inventory	(14.3)	Finished cattle cost (\$/Kg cwt)	5.15	
Attrition	0.2		Total costs	189.4			
Liveweight booked to inventory	8.1		Grainfed cattle EBITDA	1.6	Gross Processing Costs (\$/Kg cwt)	1.21	27.6
Value booked to inventory (\$m)	14.3		Grain farming contribution	1.1	Processed volumes (m Kg lwt)	45.6	
Estimated standard cost (\$/Kg lwt)	1.77		Grainfed cattle EBITDA	2.7	Conversion lwt to cwt	50%	
					Freight	7.8	9.0
					Attrition	1.2	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Northern beef: Earnings within the Northern Beef division are driven predominantly by: (1) capacity utilisation which we have assumed lifts to 53% by FY18e; (2) Average selling prices for meat and by-products, with the most useful indicator of pricing being the US90CL beef price in AUD terms; and (3) the cost of acquiring cattle from both internal and external sources (at capacity we assume AAC supplies only 15-20% of cattle requirements). Major assumptions utilised in the Northern Beef division are detailed below.

Figure 29 – Northern Beef economics

Northern Beef	2016e	2017e	2018e	FY16e At Scale	
				8% cull	10% cull
Internal transfers (m Kg lwt)	15.1	14.5	14.5	15.1	15.1
External acquired (m Kg lwt)	20.0	35.1	39.2	53.6	67.6
Processed volumes (m Kg lwt)	35.2	49.6	53.8	68.7	82.7
Cattle price (\$/Kg lwt)	1.60	1.64	1.68	1.60	1.60
Average selling price (\$/Kg swt)	4.75	4.87	4.99	4.75	4.75
Revenue (\$m)	76.4	109.4	121.3	147.1	176.5
EBITDA (\$m)	3.9	10.7	13.0	18.0	22.6

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

BALANCE SHEET AND CASHFLOW

Net debt exited 1H16 at \$370.2m, however, this includes a convertible note worth \$80m where the conversion is price well below the current share price (conversion price of \$1.15ps and convertible post Sep'14). Adjusting for the convertible notes, gearing (adj. net debt-to-equity) sits at 33% and adj. net debt-to-fixed assets sits at 44%. Typically we would see farming assets as having the scope to sustain debt to fixed asset ratios in the region of 50% (which is a level banks will lend typically lend up to). At current adjusted gearing levels AAC balance sheet is at levels well below historical levels.

Figure 30 - AAC gearing metrics

Valuation analysis	June YE			Dec Y/E										Sep Y/E			Average
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	1H16	
Herd Valuation	172.0	189.8	230.1	355.6	372.4	406.5	426.5	421.8	353.2	411.6	483.7	496.5	437.1	383.0	465.2	550.4	
PPE	99.7	106.3	223.2	385.3	487.6	586.5	810.4	847.3	681.7	598.9	608.5	602.9	603.2	605.7	668.4	664.2	
Net Assets	133.7	192.9	307.1	402.4	558.7	582.4	725.6	705.3	645.1	592.6	672.0	638.6	595.4	747.8	762.3	812.9	
Net Debt	106.5	57.0	101.6	284.3	241.0	356.9	408.4	408.7	287.1	340.3	344.2	388.2	411.5	213.2	357.2	370.2	
Convertible note														80.0	80.0	80.0	
Adjusted net debt														133.2	277.2	290.2	
Operating cashflow		(6.3)	21.0	(16.1)	15.2	(12.4)	(21.2)	10.7	(56.4)	(48.8)	(64.1)	(0.8)	(18.6)	18.5	(75.9)	(3.0)	
Net Debt to Equity	80%	30%	33%	71%	43%	61%	56%	58%	45%	57%	51%	61%	69%	29%	47%	46%	
Net Debt to Fixed assets	107%	54%	46%	74%	49%	61%	50%	48%	42%	57%	57%	64%	68%	35%	53%	56%	
Net Debt to Herd	62%	30%	44%	80%	65%	88%	96%	97%	81%	83%	71%	78%	94%	56%	77%	67%	
Adj. Net Debt to Equity														16%	33%	33%	
Adj. Net Debt to Fixed assets														22%	41%	44%	
Adj. Net Debt to Herd														35%	60%	53%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Outside of the convertible note AAC has a \$400m club facility which expires in Jun'18. The facility was renewed in Sep'15 and is made up of a \$250m term facility (expiring Jun'18) and a \$150m 18 month facility, renewable every 6 months to Jun'18. These facilities are currently drawn to \$300m.

Operating cashflow has been difficult to achieve in the past, with positive operating cashflow only four times in the last fifteen years. However, this is more a reflection of investment in expanding the herd with the cumulative operating cash outflow of \$258m broadly consistent with the \$234m growth in the herd (excluding our estimated movement in herd valuations over that time frame).

DETERMINING WHAT VALUE THE SUPPLY CHAIN DELIVERS

Earnings in AAC can be volatile and to this end the most important driver of the valuation of AAC in our view is the upside (in terms of herd valuation) that can be unlocked from the vertically integrated supply chain. Looking at the relative returns of the supply chain models reveals three things:

1.0 Northern Beef delivers value: Northern Beef processors cull cattle and delivers value to an asset that previously had little value to AAC and was consuming feed resources. The transfer price between the grassfed and Northern Beef division in 1H16 was \$1.60/Kg lwt.

2.0 Internal diversions to grainfed are high returning: Diverting grassfed cattle to the grainfed operations delivers significant incremental value to the beast. On an opening live weight basis the dollar returns generated from grain finishing cattle (based on 1H16 splits) would be roughly double that generated if cattle was sold live from the grassfed operations.

Figure 31 – Live cattle returns vs. grain finishing returns

	Grainfed returns			Grassfed returns		
	Cost (\$/Kg lwt)	lwt (KG)	Cost (\$)	Cost (\$/Kg lwt)	lwt (KG)	Cost (\$)
Cow cost	1.54	310	477			
Production cost	3.45	610	1037	1.54	310	477
Processing	0.61	610	369			
Average cost through the supply chain	3.08	610	1883	1.54	310	477
Average selling price (\$/Kg lwt)	3.96			2.39		
Gross margin (\$/Kg closing lwt)	0.88			0.85		
Gross margin (\$/Kg opening lwt)	1.72			0.85		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

NOTE: COW WEIGHTS IN THIS ANALYSIS IS BASED ON CURRENT GRASSFED WEIGHTS

3.0 Returns are greatest on internal transfers: In the grainfed operations, the best return is generated on internal transfers (from the grassfed operations) relative to store cattle purchases.

Figure 32 – Grainfed returns – grassfed vs. store cattle source

	Grainfed returns					
	Grassfed transfer			Store cattle purchase		
	Cost (\$/Kg lwt)	lwt (KG)	Cost (\$)	Cost (\$/Kg lwt)	lwt (KG)	Cost (\$)
Cow cost	1.54	263	404	3.18	373	1186
Production cost	3.45	610	1200	3.45	610	820
Processing	0.61	610	369	0.61	610	369
Average cost through the supply chain	3.23	610	1974	3.89	610	2375
Average selling price (\$/Kg lwt)	3.96			3.96		
Gross margin (\$/Kg closing lwt)	0.73			0.07		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

NOTE: COW WEIGHTS IN THIS ANALYSIS ARE BASED ON 1H16 ACTUALS

In a very simplistic sense lifting the volume of cattle transferred from the grassfed to grainfed operations results in a favourable margin shift across the group.

Board of Directors & Management

Donald McGauchie – Chairman

Donald McGauchie was appointed to the Board in May 2010 and became Chairman in August 2010. He is also the Chairman of Nufarm Limited and a Director of both James Hardie SE and GrainCorp Limited.

Donald was formerly the Chairman for Telstra Corporation Limited, Woolstock and Victorian Rural Finance Corporation, and was also the Deputy Chairman of Ridley Corporation Limited. He was previously a Director of National Foods Limited and has been a member of the Reserve Bank Board and a President of the National Farmers Federation.

Mr McGauchie is an Officer of the Order of Australia and in 2001 he was named the Rabobank Agribusiness Leader of the Year and awarded the Centenary Medal for services to Australian society through agriculture.

Jason Strong – Managing Director and Chief Executive Officer

Jason Strong was appointed as Managing Director and Chief Executive Officer in January 2014 after previously holding the position of General Manager of Marketing.

Jason joined AACo from Meat & Livestock Australia where he was the Regional Manager of Europe. He has previously held senior management positions with Pfizer Animal Genetics and Meat Standards Australia Grading Services, and is a former Chairman of the Australian Beef Industry Foundation.

Stuart Black – Director

Stuart Black was appointed as a Director in October 2011. Stuart is currently a non-executive Director of NetComm Wireless Limited and The Country Education Foundation of Australia Ltd. He is also the Chairman of the Chartered Accountants Benevolent Fund Limited and a Director and former Chair of the Accounting Professional and Ethical Standards Board Ltd.

Stuart was previously a Non-Executive Director of Coffey International Limited, President of the Institute of Chartered Accountants in Australia and a Managing Partner in the chartered accounting firm Chapman Eastway.

Mr Black was appointed a member of the Order of Australia in 2012.

David Crombie – Director

David Crombie was appointed as a director in October 2011. David currently serves as a Director of Alliance Aviation Services Limited, Barrack Street Investments Limited and Foodbank Queensland Limited. He is also a non-Executive Director of GRM International, and a Commissioner of the Australian Centre for International Agricultural Research (ACIAR).

David has formerly held the positions of President of the National Farmers Federation, Chairman of MLA and directorships at Grainco Australia, the Meat Industry Council and Export Finance Insurance Corporation.

Tom Keene - Director

Tom Keene was appointed as a director in October 2011 and is also a director Midway Limited.

Tom was formerly the Managing Director of Graincorp Limited where he established the company as a listed entity.

Tom was named NAB Agribusiness Leader of the Year in 2007.

Dr Shehan Dissanayake - Director

Dr Shehan Dissanayake was appointed to the Board in April 2012. Shehan is a senior Managing Director of the private investment company Tavistock Group which currently owns 31.98% of AACo.

Dr Dissanayake was previously a Managing Partner of Arthur Andersen, and holds a Ph.D. in Pharmacological and Physiological Sciences from The University of Chicago.

Anthony Abraham – Director

Anthony Abraham was appointed to the Board in September 2014.

Anthony previously spent 21 years with Macquarie Bank where he established Macquarie's agricultural funds management business, and still holds a variety of non-executive directorships within Macquarie Group or associated companies.

Substantial shareholders

SHAREHOLDER STRUCTURE

The three largest shareholders in AAC own a relevant interest in the company of 42.37%. The largest shareholder is AA Trust, a revocable discretionary trust established in The Bahamas and ultimately controlled by Mr Joseph Lewis (the principal investor and controller of the Tavistock Group).

Figure 33 - Substantial shareholders

Holder	Shares held	% held
AA Trust (Joe Lewis)	170,439,738	31.99%
Kaplan Equity Limited	28,284,428	5.31%
Paradice Investment Management	27,032,060	5.07%

SOURCE: COMPANY DATA

CAPITAL NOTES

As part of its Oct'13 recapitalisation AAC issued \$80m of capital by issuing 160 subordinated convertible notes to an existing shareholder (AA Trust). The notes are unsecured and subordinated to the Company's senior bank debt. The notes expire on 30th September 2023, although the note holder may redeem the notes on 16th October 2018, and annually thereafter. The coupon rate is the 6 month BBSW+15bp payable semi-annually in arrears subject to a floor of 3.0% p.a. The notes are convertible from the 1st September 2014 to the 15th September 2023 at \$1.15ps and if fully converted would result in 69,565,280 new shares being issued. If converted then the effective holding of AA Trust would lift to 39.8%. Given the convertible notes are significantly in the money, we have assumed that they are in some fashion converted in our determination of valuation.

Risks

AAC is an agricultural business with an end product highly exposed to global supply and demand forces. As such AAC is subject to the vagaries of seasonal factors and global pricing dynamics in cattle and beef markets. Key risks of an investment in AAC include but are not limited to:

Adverse weather risk: Adverse weather conditions cause volatility in the agricultural sector. AAC has exposure to a number of natural events such as drought, flood, pestilence, disease, fire, temperature fluctuations, hail, rainfall and frost that are beyond its control. AAC's operating results can be negatively impacted due to adverse changes to the weather conditions and other unpredictable factors, which can affect the price and volume of AAC's agricultural products and its operations.

Commodity price risk: The financial performance of AAC is influenced by variations in domestic and international prices paid for cattle and beef produced by AAC as well as the prices for cotton, grain crops and other commodities produced by AAC. Major factors that can influence demand and supply in the beef market and, therefore, the price of beef include: (1) the level of world cattle inventories; (2) consumers' preference for red meat protein (which may change) and the availability of other protein sources; (3) the rate of world economic development, and in particular, economic growth in Asian and Middle Eastern countries; (4) movements in exchange rate relativities between the currencies of the major cattle and beef export and import countries; and (5) competition from alternative food sources.

Trade risk: AAC products are exported to a number of countries each of which has separate regulatory regimes. These regimes often include factors such as quota limitations and other compliance issues, and may include the imposition of tariffs and free trade agreements which reduce AACs international competitiveness. A material change in any of these may have an adverse affect on AAC.

Water usage: AAC's operations are heavily dependent on water for both the growth of pasture and crops as well as direct consumption by its cattle. In addition to rainfall, AAC sources water from bores which utilise water stored in sub-artesian and artesian basins and from rivers that flow through its properties. Water licences regulate the water usage demands of properties both upstream and downstream of AAC properties and determine the extent to which water can be pumped from particular rivers. Depending on water availability, there is the potential that AAC will be unable to access as much water as it requires to sustain a herd sufficient to generate the current earnings base.

Execution risk: AAC has embarked on a strategy of moving its operations up the value chain into meat processing and branded meat sales. Failure to execute on this strategy or to attract sufficient third party volumes into its Northern Beef facility would likely impact the ability of AAC to meet the returns we are projecting.

Renewal of pastoral leases: Land held under pastoral leases and similar forms of Crown leasehold in Queensland and the Northern Territory comprise a substantial portion of the assets of the Company. The Northern Territory pastoral leases held by AAC have been granted in perpetuity. There is no automatic right of renewal for the Queensland Crown leases granted to AAC, however (as in previous years) the Company expects these leases will be renewed. In the unlikely event that these are not renewed, AAC's business may be adversely affected.

Product liability: AAC produces consumable food products (among other things). Such products are potentially vulnerable to contamination. Such products may also be subject to processing and production defaults against specification. Product contamination (or a related extortion threat) may have a material adverse impact on the operating and financial performance of AAC.

Customer risk: The majority of AAC's production is sold under short-term contracts to customers in Australia, the United States, Japan and Korea. Any change in trading terms with major partners would likely impact the financial performance of AAC.

Funding risk: AAC has a relatively high level of debt given its historical operating cash flow profile. Failure to secure refinancing of existing debt packages and or secure additional funding for potential capital expenditure or working capital investment may impede the performance of AAC.

Table 1 - Financial summary

Mar Year end	2013	2014	2015	2016e	2017e	2018e		
Profit & Loss (A\$m)							Share price (\$ps)	\$1.315
Sales revenue	337.5	316.8	346.8	599.8	663.7	703.3	Recommendation	Buy
... Change		-6.1%	9.5%	72.9%	10.6%	6.0%	Target price (A\$ps)	\$1.62
Operating EBITDA	(5.1)	(1.2)	(3.9)	16.8	37.0	42.9	Diluted issued capital (m)	532.8
Unrealised gain (loss) on livestock	(42.4)	(20.1)	48.5	116.3	15.3	16.1	Market cap (\$m)	700.7
Reported EBITDA	(47.5)	(21.2)	44.6	133.1	52.3	59.0	Enterprise Value	1057.8
Deprec. & amort	(2.7)	(11.2)	(15.7)	(20.5)	(20.5)	(20.5)	Free Float	68%
EBIT	(50.3)	(32.4)	28.9	112.7	31.8	38.5	Mar Year end	
Interest expense	(26.5)	(22.0)	(20.4)	(24.1)	(26.6)	(27.7)	Valuation Ratios	
Pre-tax profit	(76.8)	(54.4)	8.4	88.6	5.2	10.9	Operating EPS (\$ps)	(22.4)
Tax expense	27.0	18.1	(2.4)	(26.6)	(1.6)	(3.3)	Change (%)	n.a.
... tax rate	35%	33%	29%	30%	30%	30%	PE (x)	(5.9)
Minorities	-	-	-	-	-	-	EV/Operating EBITDA (x)	(206.5)
Net Profit	(49.8)	(36.3)	6.0	62.0	3.7	7.6	EV/EBIT (x)	(21.0)
Abs. & extras.	-	(3.6)	3.6	-	-	-	NTA (\$ps)	2.48
Reported Profit	(49.8)	(39.9)	9.6	62.0	3.7	7.6	PINTA (x)	0.53
Operating EBITDA	(5.1)	(1.2)	(3.9)	16.8	37.0	42.9	Convertible adjusted NTA (\$ps)	1.40
Operating EBIT	(7.9)	(12.4)	(19.6)	(3.6)	16.5	22.4	Book Value (\$ps)	1.12
Operating NPAT	(53.7)	(24.0)	(28.1)	(19.4)	(7.1)	(3.7)	Price/Book (x)	1.18
Cashflow (A\$m)							DPS (\$ps)	-
EBITDA	(5.1)	(1.2)	(3.9)	16.8	37.0	42.9	Payout (%)	0.0%
Net Interest Expense	(26.0)	(25.2)	(15.2)	(27.3)	(30.0)	(31.1)	Yield (%)	0.0%
Tax Paid	14.2	14.2	27.4	10.2	5.7	2.3	Franking (%)	0.0%
Change in Wkg Capital	(458.6)	74.7	(113.8)	(153.2)	(36.7)	(25.6)	Performance Ratios	
Other	472.7	(44.1)	38.5	116.3	15.3	16.1	EBITDA/sales (%)	-14.1%
Operating Cash Flow	(2.7)	18.5	(67.0)	(37.2)	(8.7)	4.6	EBIT/sales (%)	-14.9%
Dividends paid	-	-	-	-	-	-	OCF Realisation (%)	5.5%
Capex	(4.7)	(71.3)	(67.0)	(15.0)	(15.0)	(15.0)	FCF Realisation (%)	15.0%
Free Cash Flow	(7.5)	(52.8)	(133.9)	(52.2)	(23.7)	(10.4)	ROE (%)	-8.4%
Asset Sales	0.0	32.7	0.6	-	-	-	ROIC (%)	-5.0%
Aquisitions	-	-	-	-	-	-	Asset turn (years)	(17.4)
Other	-	5.7	(10.3)	-	-	-	Capex/Deprn (x)	1.7
Equity Issues(Reduction)	1.2	211.9	0.5	-	-	-	Interest cover (x)	(1.9)
(Inc.) /dec. in net debt	(6.3)	197.5	(143.1)	(52.2)	(23.7)	(10.4)	Net debt/EBITDA	(8.7)
Balance Sheet (A\$m)							Net debt/equity (%)	69.1%
Cash & near cash	11.2	69.2	12.3	12.5	12.5	12.5	Segmental Information	
Receivables	16.8	12.6	29.9	33.0	36.5	38.7	Grainfed	234.7
Inventories & WIP	30.7	26.4	36.8	54.0	59.7	63.3	Grassfed	107.3
Biological Assets	166.8	144.8	200.1	263.2	277.2	287.1	Nth. Beef	-
Other Current assets	1.1	3.1	1.6	2.7	3.0	3.2	Intersegment	(25.2)
Current assets	226.7	256.1	280.6	365.4	388.9	404.7	Revenue	316.8
Fixed assets	603.2	605.7	668.4	662.9	657.5	652.0	Grainfed	28.0
Intangibles	-	-	-	3.1	3.1	3.1	Grassfed	(6.4)
Biological Assets	270.3	238.3	265.1	348.7	367.3	380.4	Nth. Beef	(1.7)
Other assets	-	-	-	-	-	-	Corporate	(21.0)
Non current assets	873.5	844.0	933.5	1,014.8	1,027.9	1,035.5	Operating EBITDA	(1.2)
Total assets	1,100.1	1,100.1	1,214.1	1,380.1	1,416.8	1,440.2	...EBITDA Margin (%)	-0.4%
Creditors	26.1	38.2	34.2	48.0	53.1	56.3	SGARA	(20.1)
Current borrowings	15.3	4.3	4.5	4.5	4.5	4.5	Reported EBITDA	(21.2)
Other current liabilities	9.1	7.1	18.9	56.7	60.9	63.2		
Current liabilities	50.4	49.6	57.6	109.3	118.5	124.0		
Non-current borrowings	407.5	278.9	364.9	417.3	441.1	451.5		
Deferred tax liabilities	46.2	22.6	27.2	27.2	27.2	27.2		
Other liabilities	0.5	1.1	2.1	2.1	2.1	2.1		
Non-current liabilities	454.3	302.6	394.2	446.6	470.3	480.7		
Total liabilities	504.7	352.3	451.8	555.9	588.8	604.7		
Net assets	595.4	747.8	762.3	824.3	827.9	835.6		
Share capital	239.5	460.5	461.2	461.2	461.2	461.2		
Reserves	328.1	305.9	310.1	310.1	310.1	310.1		
Retained earnings	27.8	(18.6)	(9.0)	53.0	56.7	64.3		
Outside equity interests	-	-	-	-	-	-		
S/holders' funds	595.4	747.8	762.3	824.3	827.9	835.6		
Net Debt (Cash)	411.5	214.0	357.2	409.4	433.1	443.5		

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research	612 8224 2810	tslim
Industrials			
Sam Haddad	Industrials	612 8224 2819	shaddad
John O'Shea	Industrials	613 9235 1633	joshea
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
Sam Byrnes	Industrials	612 8224 2886	sbyrnes
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
Financials			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified	613 9235 1668	Isotiriou
Resources			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Associates			
Hamish Murray	Associate Analyst	613 9256 8761	hmurray
Tim Piper	Associate Analyst	612 8224 2825	tpiper

Bell Potter Securities Limited

ACN 25 006 390 7721

Level 38, Aurora Place
88 Phillip Street, Sydney 2000

Telephone +61 2 9255 7200

www.bellpotter.com.au

The following may affect your legal rights. Important Disclaimer:

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. In Hong Kong this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded, Bell Potter Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

Disclosure of interest:

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

ANALYST CERTIFICATION

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.