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Fonterra 'must list' to solve problems

By Owen Hembry

Co-operative dairy giant Fonterra must list on the stock market if it is to deal with the core problems driving the review of its capital structure, says dairy industry commentator Tony Baldwin.

"To deal with their core two problems, which are raising more money and avoiding this redemption problem where older farmers pull their money out, the only way ... is by listing," Baldwin said.

A market listing would give farmers an exit strategy without Fonterra having to pay them out and drawing off the company's balance sheet.

"You can sell it to somebody else and also you can get it at a [more reliable] market price."

Fonterra could currently only get more equity capital if farmers increased the supply of milk, Baldwin said.

"The problem with increasing the supply of milk, of course, is that you've got to pay a whole lot more money for every kilo that you produce."

In the past week speculation has mounted that Fonterra will recommend some sort of listing option to farmers when they debate their capital structure later this year.

Fonterra has said it is reviewing the capital structure to take advantage of opportunities in the global dairy market, meet a redemption risk and provide farmers with greater investment choice.

The company was expected to present capital structure options and its preference at a special shareholder meeting in November.

The sharemarket would welcome a listing of Fonterra's $4 billion-revenue brands division but Baldwin would be surprised if this became the preferred option.

Other options could include listing the overseas business, which would enable farmers to retain ownership of the local operation, or retaining one share but with at least 51 per cent held within the co-operative, Baldwin says.

"In effect you float the whole company but it's controlled by the farmers through a co-operative ... and their bit is not for sale," Baldwin said.

Alternatively, the company could use an A-class untradeable share for farmers, who would have voting power, and a B-class share open to the public, but with limited rights.

So far two co-operatives have listed on the NZAX - Satara and Livestock Improvement.

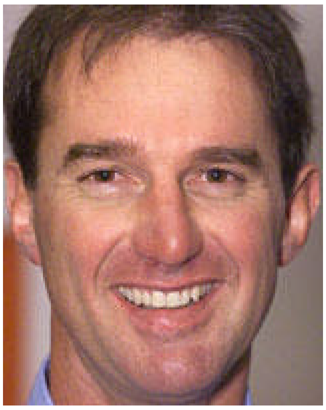
Kiwifruit co-operative Satara uses a two-tier structure, with growers retaining a 60 per cent controlling stake of non-tradeable shares based on production and the remainder traded publicly.

Satara chief financial officer Paul Moriarty said the hybrid structure had worked well for many years and had achieved the aims of listing the business, giving growers the opportunity to trade shares and providing more options should the company want to raise capital.

However, a hybrid structure could present challenges, Moriarty said.

New Zealand Exchange head of markets Geoff Brown said Livestock Improvement used a more traditional co-operative model with entitlement based on usage of services.

"Each year they work out on the basis of your spend what you're entitled to as a co-operative holder. Your co-operative entitlement is then split between a traditional co-op share and an investment share ... issued in the ratio of 10 for one." However, the investment shares were only tradeable among co-operative members.



Tony Baldwin. Photo by Greg Bowker