Taranaki Investment Management Limited

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Media Release

Record production drives strong result for VDL

VDL's Tasmanian dairy farms have boosted production for the seventh consecutive year, with the annual increase in milk solids production cancelling out softer prices and allowing the company to almost match last year's $A52 million record sales revenue.

Mike Trousselot, chief executive of the investment fund, Taranaki Investment Management Ltd (TIML), says ongoing improvements in farm management, animal welfare, herd quality, feed conversion and pasture renovation boosted average production across VDL's 25 farms to 428kg MS per cow.

VDL milked 17,890 cows over a total effective area of 7,062 hectares, producing a total of 7.66 million kg MS, an increase of 14% on 2014.

Mr Trousselot said VDL was forecasting another substantial increase in production in the coming year, noting last year's record production was achieved in good climatic conditions. VDL also expects reduced production costs.

VDL expected prices in the coming year to be only slightly softer than this year's average of $A6.33 per kg MS, and Mr Trousselot said Australian dairy farmers were very confident about the future of the industry.

Around 84 percent of Tasmanian dairy farmers responding to this year's Dairy Australia survey were feeling positive about the future, something Mr Trousselot attributed to strong domestic demand and a diverse range of export markets, both of which had mitigated the volatility of the international commodities markets during the past year.

"Australian farmers expect to see benefits from the recent free trade agreements with China, Korea, and Japan, underpinned by continued urbanisation and increased demand for protein in developing countries," said Mr Trousselot.

"And, with 60 percent of Australian dairy production consumed domestically, we expect good competition for supply and strong farmgate prices to continue."

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Mr Trousselot said while the VDL board believed market valuations for Australian dairy farms were improving, it had opted not to revalue its farms, an approach he described as “prudent and conservative”. Independent valuations of VDL gave a total asset value of about $A250 million.

VDL’s total comprehensive income for the past year was $A26.4 million. VDL’s net profit after tax was A$3.1 million. This was due in large part to accounting changes associated with NPDC’s move to full ownership of VDL by acquiring the last 1.58% of shares it did not already own.

Strong operating cashflows had allowed VDL to pay a $2.5 million dividend, and pay down A$4.4 million debt and payables while the value of the Council’s net equity was up 20 percent to $145.3 million.

TIML has managed the investment through the VDL board and management team for 7 years now, increasing production by 150% from just over 3 m kgs MS on acquisition to 7.66 m kgs in 2015, and is on track to 8 m kgs this year.

While the business is a safe, cashflow positive, well-performing real growth asset, which has generated around a 10% IRR since acquisition, TIML has completed its pre-acquisition business improvement plan, including improvements in farming practice, infrastructure, livestock, and simplification of VDL’s balance sheet and ownership structures. It is now appropriate for TIML to focus on an exit from the investment.

VDL’s landbank, sufficient to double its current production, and its scale, allows interested parties the option to pursue integrated value chain strategies.

“A full or partial sale of our interest in VDL will also allow us to further diversify and rebalance our portfolio and strategic asset allocation.

Mike Trousselot
Chief Executive
Taranaki Investment Management Limited