

LAND AS PASTORAL BUSINESS

KATHERINE

MARCH 6, 2020



BUSH AGRIBUSINESS PTY LTD

Independent Analysis . . . trusted insights



INTRO & BACKGROUND

1. Advisory and Industry Work
 - Producer Groups
 - Private Clients
 - Company Benchmarking
2. Publications
 - Australian Beef Report
3. Speaking and Training
 - Business EDGE
4. Tools & Resources



AGENDA

1. Land and rural wealth
2. Land condition and intrinsic value
3. Market 'rationality'
4. Infrastructure (waters, fences, pasture development) and values



KEY MEASURES

- Total Business Return=
 - Operating return (return from cattle) +
 - Capital return (increase/decrease in value of the asset)
- % that can be compared to returns from bonds, shares, residential real estate, cash deposits etc.



BEEF INDUSTRY PERFORMANCE

Northern Australia	Average	Top 25%
Operating Return	0.4%	2.6%
Capital Return	2.2%	2.8%
Total Business Return	2.5%	5.4%

VRD & Katherine	Average	Top 25%
Operating Return	2.4%	4.4%
Capital Return	1.6%	2.8%
Total Business Return	4.0%	7.2%

- Real Estate or beef?
- Live export
- Scale

PRICE AND VALUE

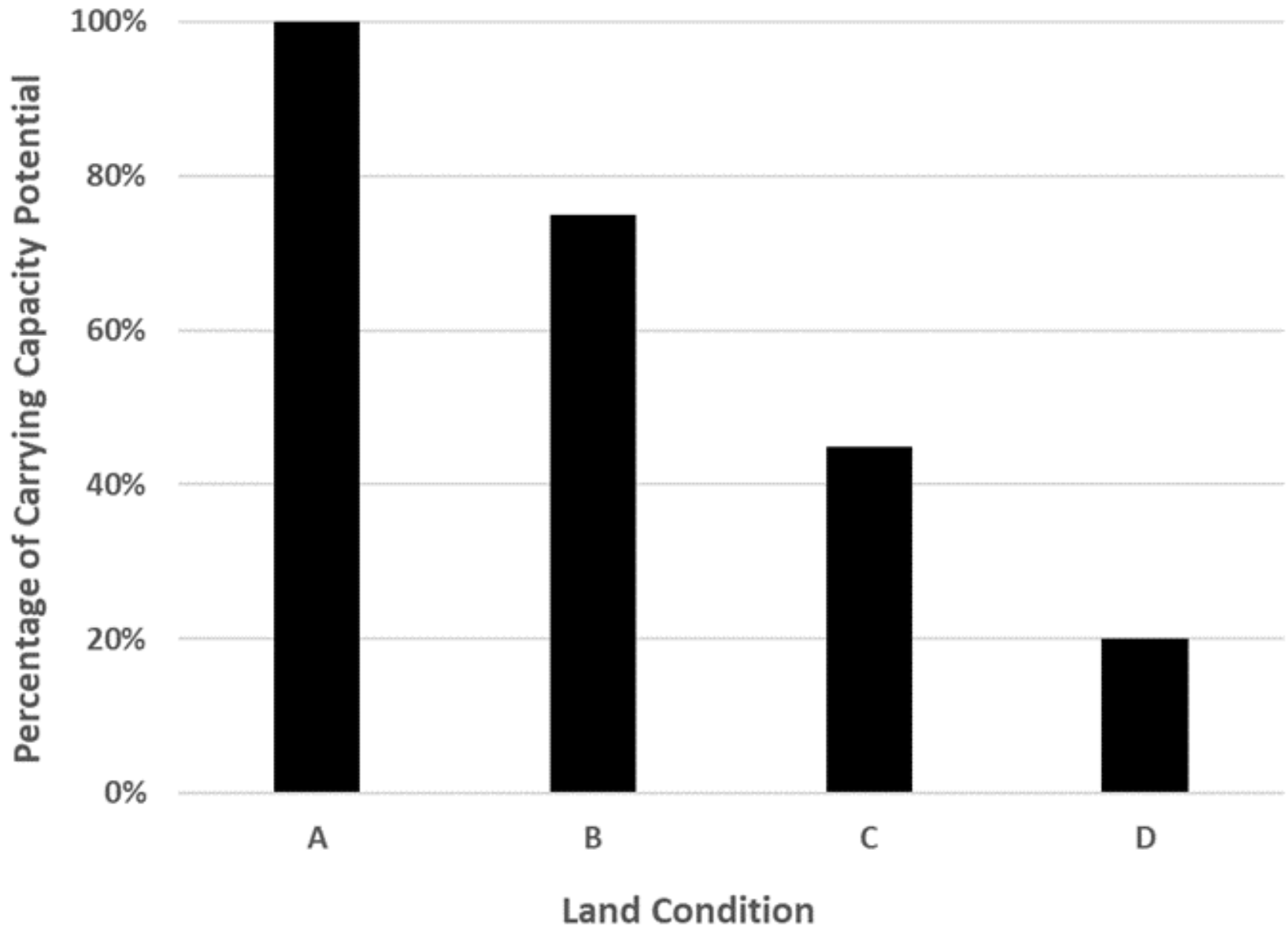
- **Price:** the amount to be paid, determined by the market.
- **Value:** worth to an individual.

Price is what you pay, value is what you get.

- Values are partly subjective, and different for everyone!



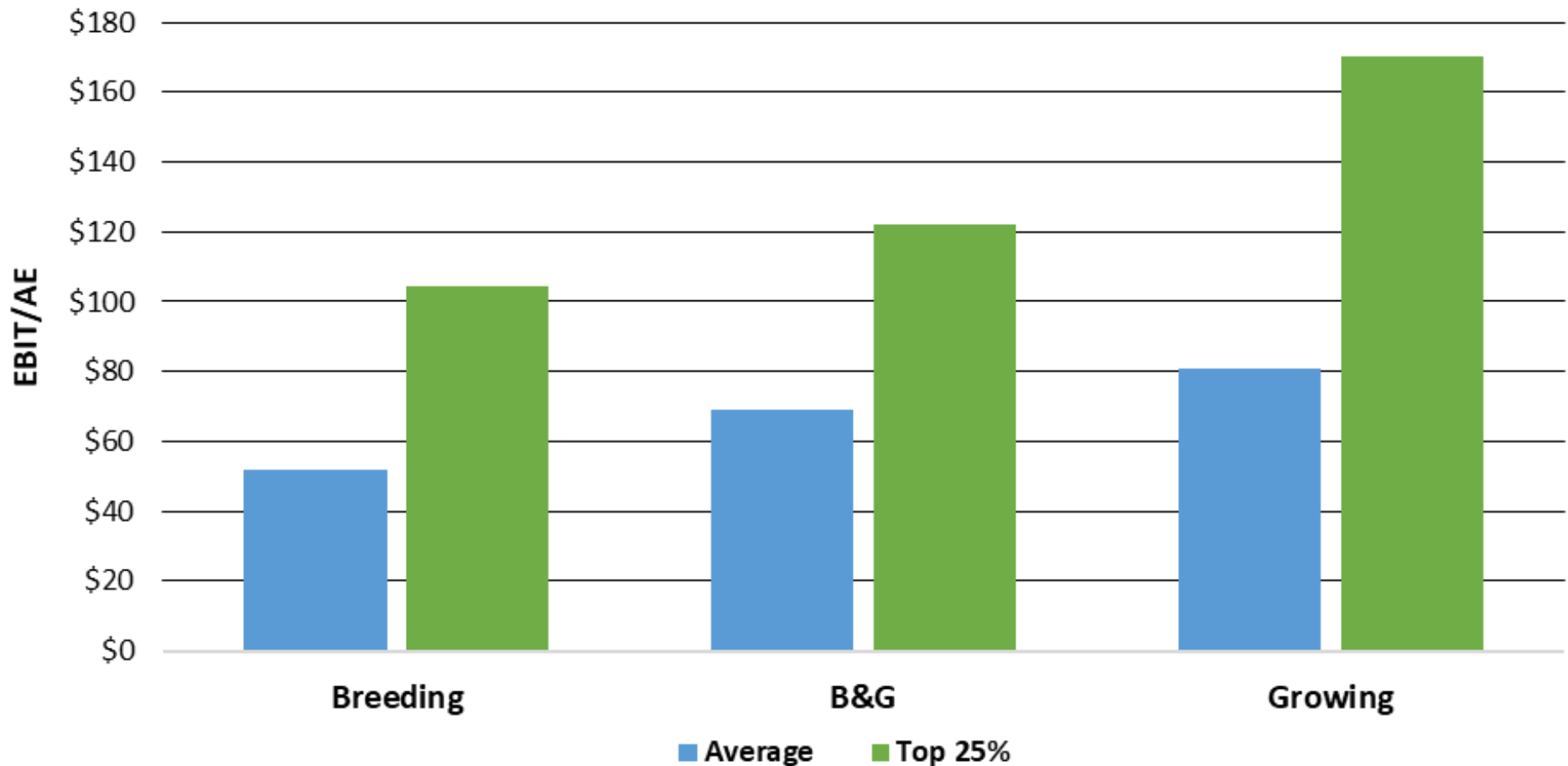
LAND CONDITION AND VALUE



Economic Valuation of Rangeland Property					
Gottago Station		120,000	ha		
Scenario 1	A	B	C	D	Total
Area %	15%	20%	30%	35%	100%
Area (ha)	18,000	24,000	36,000	42,000	120,000
AE/100ha	7.0	5.4	3.0	1.4	
Total AE (LTCC)	1,260	1,294	1,084	588	4,225
Scenario 2	A	B	C	D	Total
Area %	35%	30%	20%	15%	100%
Area (ha)	42,000	36,000	24,000	18,000	120,000
AE/100ha	7.0	5.4	3.0	1.4	
Total AE (LTCC)	2,940	1,940	722	252	5,855

Economic Valuation of Rangeland Property					
Gottago Station		120,000	ha		
Scenario 1	A	B	C	D	Total
Area %	15%	20%	30%	35%	100%
Area (ha)	18,000	24,000	36,000	42,000	120,000
AE/100ha	7.0	5.4	3.0	1.4	
Total AE (LTCC)	1,260	1,294	1,084	588	4,225
Scenario 2	A	B	C	D	Total
Area %	35%	30%	20%	15%	100%
Area (ha)	42,000	36,000	24,000	18,000	120,000
AE/100ha	7.0	5.4	3.0	1.4	
Total AE (LTCC)	2,940	1,940	722	252	5,855
EBIT/AE					\$44
Capitalisation Rate					2.4%
Value Scenario 1					\$7.68M
Value Scenario 2					\$10.65M

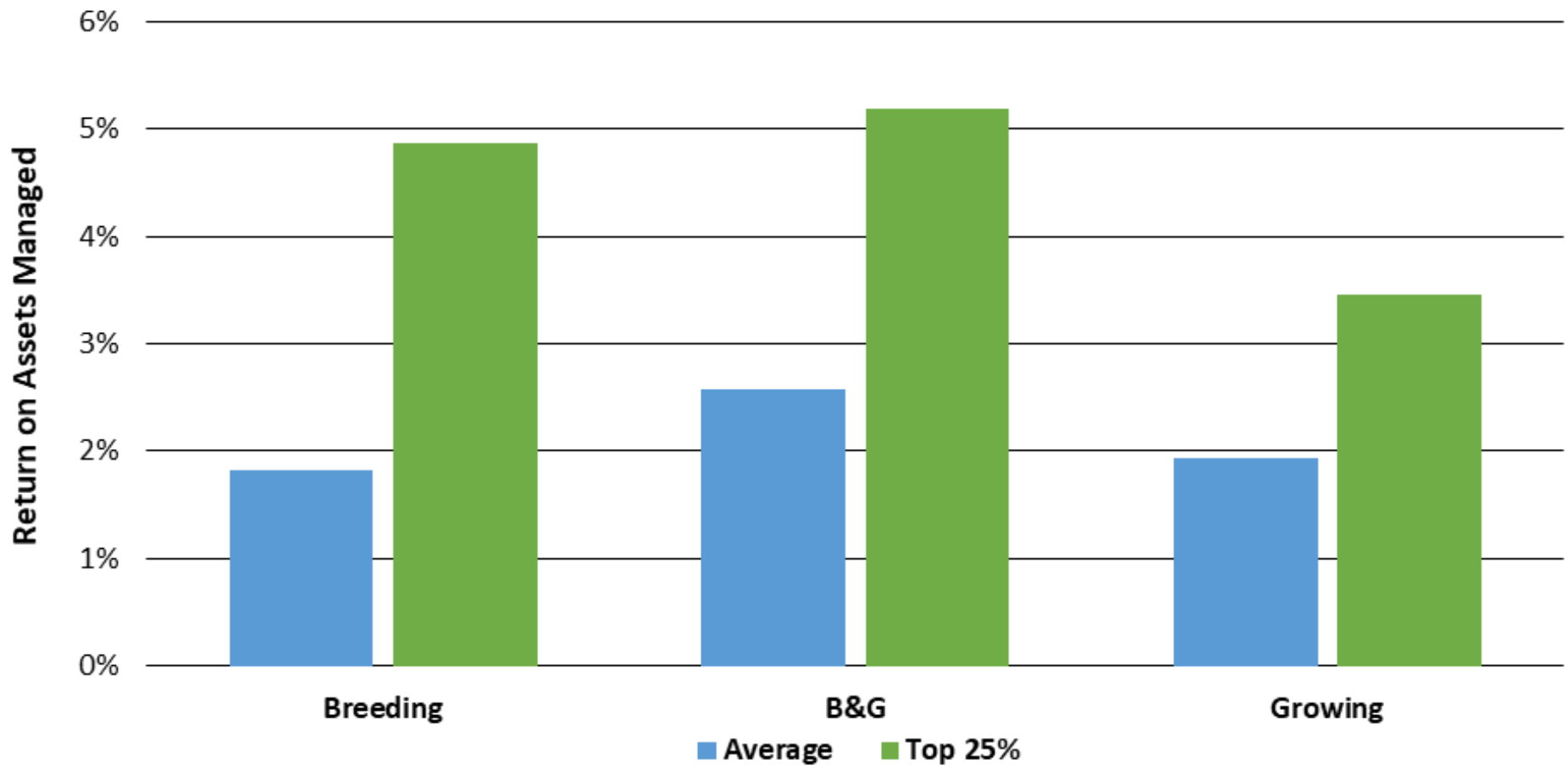
MARKET 'RATIONALITY'



BUSH AGR|BUSINESS PTY LTD

Independent Analysis . . . trusted insights

MARKET 'RATIONALITY'



INVESTING IN LAND AND INFRASTRUCTURE

- When considering developments (water points, yards, laneways):
 - **Investing** in land **value** vs **speculating** on land **price**
- An investment must justify cashflow analysis hurdles; that is, it must be worthwhile *before* considering any impact on land price.
- Consider the motivations:
 - Tax
 - Land price/ borrowing power
 - Productivity raising or cost-saving



SUMMARY

- Most wealth in agriculture comes from capital gain
 - But it doesn't pay any bills in the meantime
- Land condition has a significant impact on intrinsic *value*, price is a separate issue
- Is the market rational? Could argue it's efficient
- Capital investment may increase price, but cash returns should be the first consideration

