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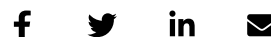
Land Co, Allied Farmers combo 'exciting for capital markets'

As the NZ Rural Land Co IPO kicks off, Allied Farmers shareholders vote on raising capital.

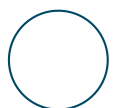
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NZ Rural Land Co director Chris Swasbrook



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Chris Swasbrook

Tomorrow's annual meeting of Allied Farmers could signal a rebirth for the venerable Taranaki-based livestock trader as its shareholders vote on a deal to buy into the management of newbie farm investor NZ Rural Land Company.

That's the way NZ Rural Land Co director and co-founder Chris Swasbrook sees it.

There's the immediate opportunity of the initial public offer for Rural Land Co shares opening today – and then there's the bigger picture.

"You are reinventing Allied and it's going to become a substantially larger company," Swasbrook says.

"Then you have the NZRLC. I think that's quite exciting for the capital markets."

On one hand, you have a company investing purely in farmland – NZRLC; on the other, you have a company – Allied Farmers – making money from managing those assets as well as potentially others besides.

The NZX is not exactly brimming with investor access to the agriculture sector and these two companies have the potential to cover a lot of ground, Swasbrook says.

"Agriculture is a huge part of our economy.

"There are lots of wonderful businesses, services businesses, particularly to the agriculture sector, that would be attractive to a listed company."

In this instance, he meant Allied Farmers – NZRLC will be a pure land investor, while the wider opportunities could provide useful synergies for Allied Farmers, which will own half of NZRLC's management company.

The idea has been a long time in the making.

Swasbrook, managing director of fund manager Elevation Capital and a member of the NZX Markets Disciplinary Tribunal, had been discussing the scarcity of agriculture businesses on public markets with governance specialist Rob Campbell for many years.

When former Elevation staffer Richard Milsom became chief executive of Bellevue Enterprises, a Waikato-based cattle breeding company, the conversation took a practical turn.



Bellevue Enterprises CEO Richard Milsom

“They were looking to expand their platform and Richard really developed this idea with myself and [Findex Waikato managing partner] Hayden Dillon to enable people – large-scale operators in the market – to expand their platform in a capital-efficient way,” Swasbrook says.

Tenancies

Although NZRLC is raising \$75 million to \$150m for investment in farmland, the idea began not with the land, but with the potential tenants – farmers looking for a way to expand their operations without having to take on the capital burden.

“It’s really been brewing for many years. We have been working with the tenants for more than two years. So this is an idea that has been in the works for a long period of time and is now ready to come to the market.”

The NZRLC offer document portrays a company aimed at retail and real estate investors – the minimum investor application amount is just \$1000 for shares priced at \$1.25.

Money raised will be used to buy dairy farmland, with 21 South Island properties totalling 9239ha already identified as likely targets.

These are large-scale assets, Swasbrook says – priced at \$40m or more – where vendors have been affected by overseas investment restrictions and a bank pullback from rural lending.

“The smaller farms – \$5m to \$6m – are still transacting in the market, albeit at a much slower rate because financing is harder to come by, but there is a lack of buyers for this large-scale premium farmland.”

These market conditions create an opportunity for a well-capitalised buyer such as NZRLC.

"You can see the opportunity in front of us where we can become a meaningful land owner in this country and a very important company on the stock exchange but, equally, a very important company within the New Zealand agricultural landscape and a provider of capital that will help drive efficiency and productivity in sector."

No properties will be acquired until lease deals are agreed with tenants and the likelihood is that farms will be acquired in clusters for operation by a single tenant specialising in dairying in that locality.

The company has carried out due diligence on three prospective tenants so far.

"All of the [memorandums of understanding] we have in place with our current tenants, they are geographical specialists," Swasbrook says.

"One tenant would be in Southland. Two others have operations in Canterbury and Waikato so could cross those areas."

Lease income

The lease deals will be based on a gross lease rate of at least 4.5% for a weighted average lease term of 10 years.

Income from the leases will provide the cash income for NZRLC's dividend payments, after covering costs such as management fees paid to its external management company – the NZ Rural Land Management Limited Partnership.

The fees comprise a management fee of 0.5% of net assets, a transaction fee of 1.25% of acquisition value, a lease fee of \$30,000 per lease, and a performance fee of 10% of any increase in net asset value from one year to the next.

The fee structure was carefully considered, Swasbrook says.

"We were very conscious to keep the fees appropriate and when you look at the fees, the 0.5% management fee is on net asset value. That's a big difference to the market where most are on gross assets. If you flip that to a gross number it's more like 0.35%.

"We have a performance fee which is 10% of net asset value growth. That aligns us with the investors ... and we get all of that performance fee in shares, of which 50% are escrowed for five years.

"The manager pays for everything out of its transaction fees – legal costs, conveyancing costs, transactions costs.

"There are very few additional imposts on the listed company. We think that is fair and very transparent for investors to see."

Shareholder vote

The other unusual factor is that the limited partnership will be 50% owned by Allied Farmers, allowing investors to also acquire an interest in the management company.

Allied is acquiring its stake through the issue of five million Allied Farmers shares valued at \$2.5m to Elevation Capital, Milsom, and Dillon.

This requires a shareholder vote at the AGM, where shareholders will also be asked to approve the issue of up to \$5m of 50c shares in placements during the year, on top of a rights issue to raise up to \$3m.

According to Allied: "The investors in the placements are likely to be a combination of high net worth persons, family offices, and institutions, some of whom are interested in investing because Allied Farmers has conditionally acquired a 50% in NZRLM.

"Some of these investors may also be investors in NZRLC who are interested in indirectly owning an equity interest in the manager of NZRLC."

For Allied Farmers, whose market capitalisation is just \$12m, these deals are significant – hence the need for a shareholder vote.

According to its notice of meeting, the idea is "to provide the fuel required to execute on Allied Farmers' strategy to invest in the growth of its rural-focused finance business, innovation initiatives, and investment in digital technologies".

As an example, "Allied Farmers is currently fielding and assessing several investment opportunities to increase its footprint in the rural sector.



“Those investment opportunities include a potential joint venture with an existing finance company for a rural lending business, and several early-stage initiatives in the rural sector’s innovation space. Allied Farmers will also continue to provide support to its subsidiary NZ Farmers Livestock for its continued investment in digital technologies relating to its MyLiveStock platform.”

Swasbrook sees the combination of the land company and Allied Farmers as an important aspect of the investment proposal.

“Allied has a long history since 1913 in the agriculture sector. They have a livestock trading business, they have a livestock lending business, they have a large database of people in the agriculture sector, which may open opportunities for us in terms of acquisition of assets or raising more capital.”

Allied Farmers director Marise James, a partner with Staples Rodway in Taranaki and a former director of Fonterra, Landcorp, and FMG Insurance, is to join the board of the management company.

“Marise has tremendous experience in the agriculture sector right across the board. She also has banking sector experience, insurance sector experience,” Swasbrook says.

“We thought this structure is quite appealing to investors.”

“What we have also found as we were embarking on the NZRLC was there are assets within the rural sector that people have spoken to us about that cannot go into a [listed entity focused on real estate].

“That company can’t look at these other opportunities whereas Allied can. I think that’s quite interesting for the capital markets and for investors.”

