

Peter Rowe, Bankwest

The Changing face of WA Farms



Presentation Outline

- Historical look at farming in WA
- Changes to the farming system
- Where we are now
- Specialist sheep producers
- Outlook 2011

Bankwest Rural and Regional

- Bankwest originally established in 1895 as the Agricultural bank to develop rural WA
- National focus
- Part of the CBA group of companies, separate banking licence
- Growing presence on the East Coast



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



Planfarm Bankwest Benchmarks

- Annual production and financial data for 500 WA farms
- Gathered during annual reviews
- Data supplied by Bankwest, Planfarm and BJW clients
- Historically focussed
- Normalised for production year



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



Farming is a volatile industry

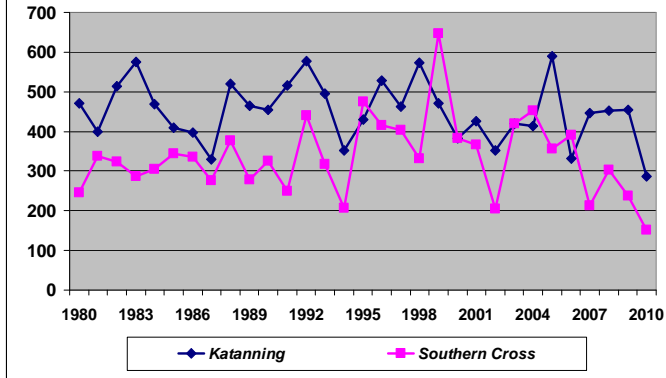
Farms are exposed to:

- Price volatility
- Yield volatility
- Enterprise mix

Traditionally deal with volatility through

- Mixed enterprise
- Low input costs
- Low gearing

Annual Rainfall for Katanning and Southern Cross



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



WA Agriculture

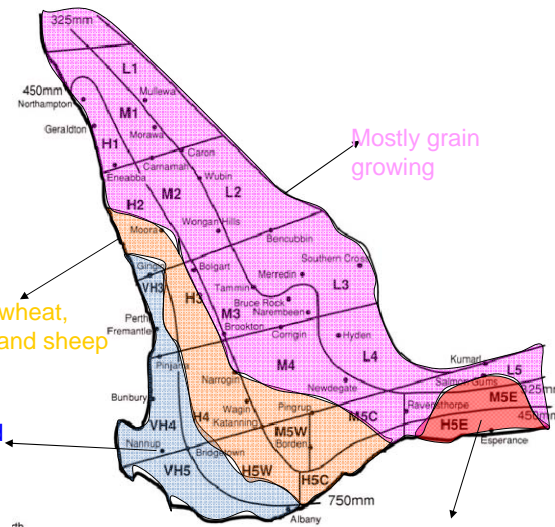
Mediterranean climate

Mixed farming wheat, barley, canola and sheep

Cattle, fruit and vegetable

Mostly grain growing

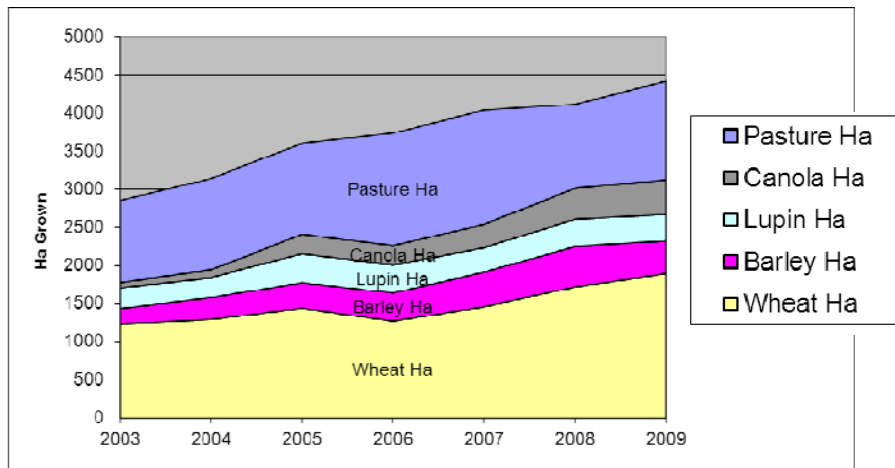
Mixed farming wheat, barley, canola and cattle



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



Farm use 2003 -2009



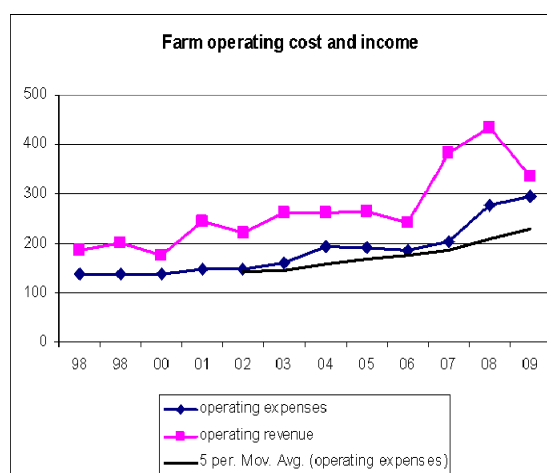
R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



Farm Operating Costs Continue to Rise

Farm operating costs have risen every year:

- Inflation
- Change in enterprise mix
- Are we chasing yield?



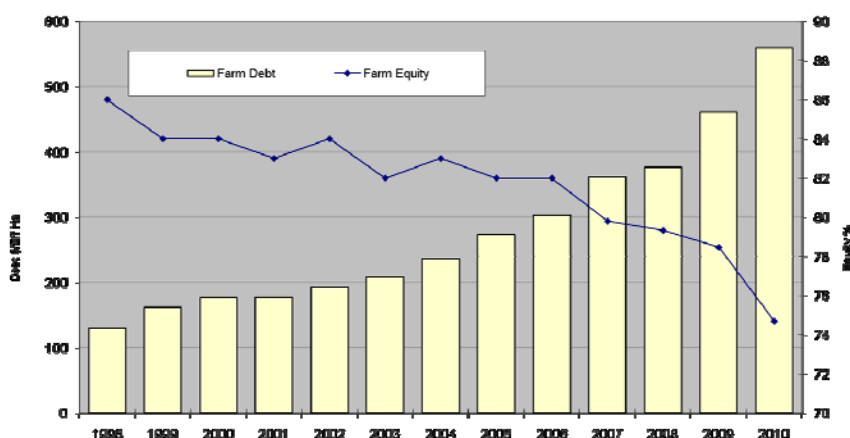
R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



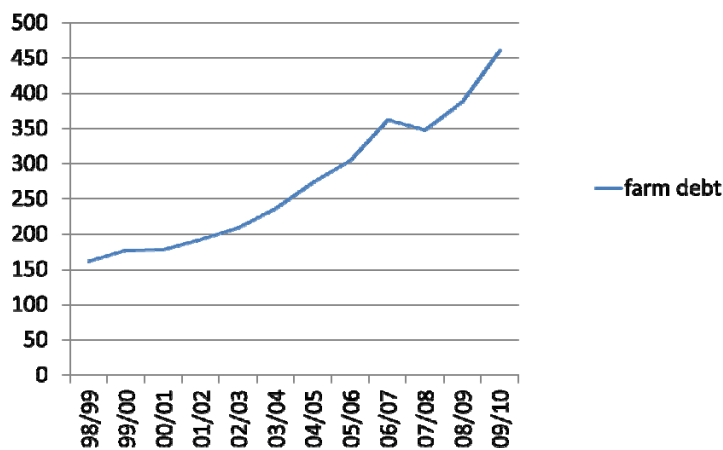
Running the farm

- Have we built a higher cost system?
- Have we built a higher profit system?
- Impact: Each year the roll of the dice is larger in a more volatile environment

Farm equity changes 1998 to 2010



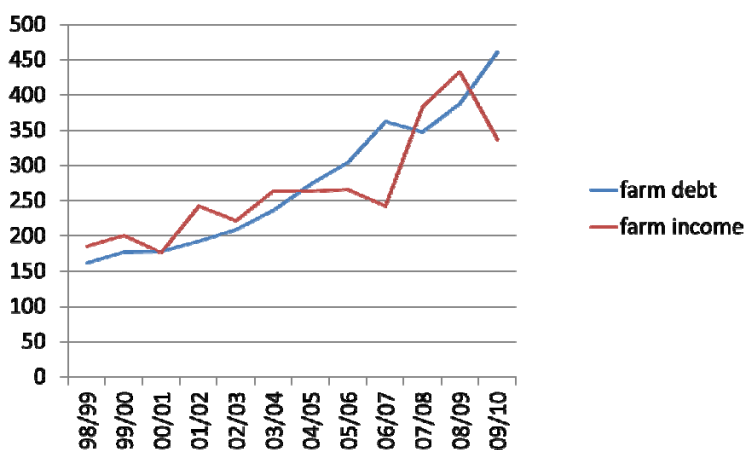
Debt to Income Continues to Rise



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



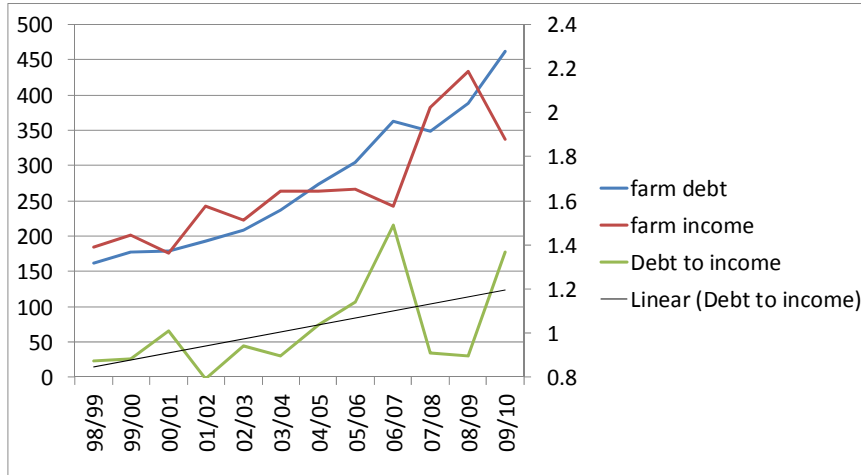
Debt to Income Continues to Rise



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



Debt to Income Continues to Rise



2010 Season

- Good conditions to August, full programs planted
- Extremely below average rainfall Sept-Oct
- Yields 0-50% of long term average
- Losses of \$200-\$500k on average (3-7% of equity)

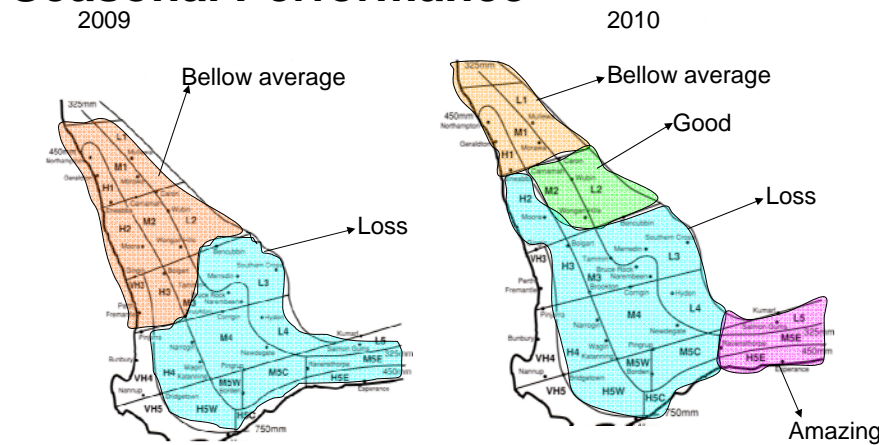
Seasonal Performance



R&D INSIGHTS FORUM



Seasonal Performance



Australian Wool
Innovation Limited

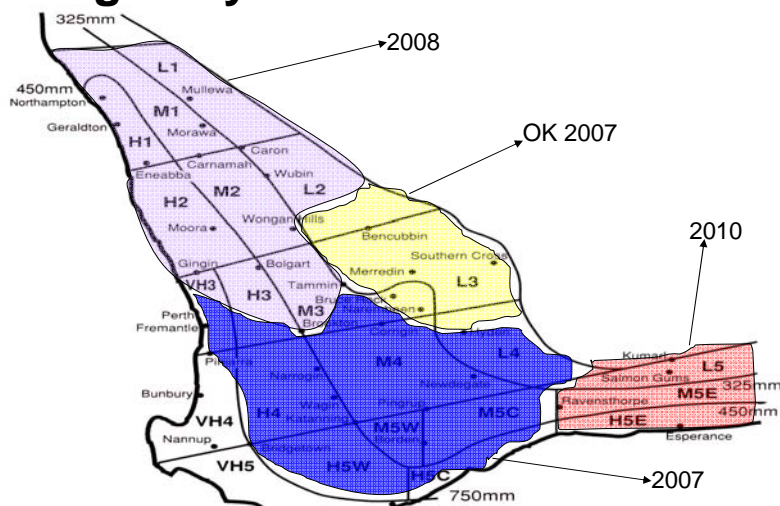
R&D INSIGHTS FORUM

MONDAY 7TH & TUESDAY 8TH MARCH 2011



MEAT & LIVESTOCK AUSTRALIA

Last good year



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



Where we are now

- Volatility in yields and prices
- Higher cost system
- Higher profit system?
- Farm equity has declined
- Rolling larger dice each year



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



Where we are now

- Above average number of farms for sale
- Difficulty in funding the 2011 season
- A lot of farms unlikely to make it back
 - Need a dignified exit



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



Specialist sheep producers

- Standing out from the crowd



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



Specialist sheep farms

- Sheep grower – not as profitable as average in either 2008 or 2009
- ROC minus 2.2% versus average at minus 1.4%
- The state sheep flock continues to decline
 - 6% in 2009, more in 2010 (drought)
- The sheep flock for specialist producers increased by 3% in 2009

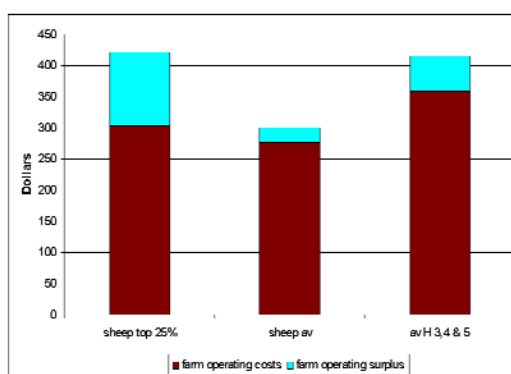
Sheep performance against the average

Sheep producers had lower costs than comparable farms

Operating profits were lower for the average

Top 25% spent less on fertiliser and more on livestock

Top 25% of sheep farmers more profitable than the average



Differentiating points of top 25% of sheep farms

- Smaller farms (2535Ha) than the average (3562 Ha) with slightly lower rainfall
- Running stock at a higher rate (7.6) than the average (6.6 DSE/WG Ha) but cutting similar wool per Ha with 26 kg/ha for the top 25 against 25 kg/ha for average
- The top 25% had slightly higher wool sales with price per kilogram 3% higher but had much higher animal sales.
- Top 25% had more of a meat focus than the average.
- Expenses were similar in dollar terms, but the top 25% were able to generate more per Ha.



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



2011



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011

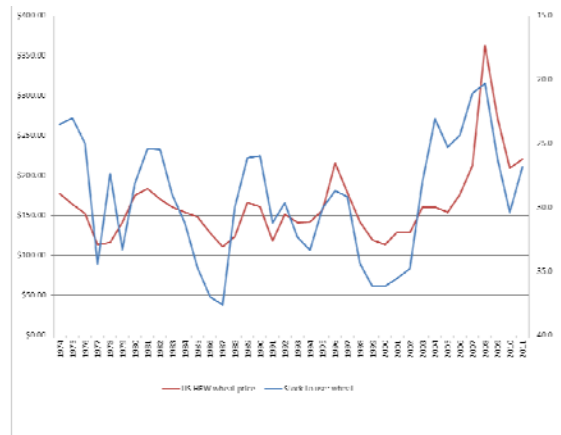


Commodity prices

Global commodity levels are at historical low levels for :

- Oilseeds
- Coarse grains
- Cotton
- Sugar
- Wheat

World wheat stocks to use and price



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



Looking forward prices

- Prices likely to stay up (APW 2011 \$310 February 2011)
- Global grain levels low
- Current budgets \$300/t FIS
- Sheep prices around \$100/head



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



Looking forward Expenses

- Input costs
 - Fertiliser inputs down
 - Cost of fertiliser up slightly
 - Chemical down slightly
 - R&M static to lower
 - Fuel stable to higher
- Farm operating costs similar levels to last year



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



Indicative Gross Margins 2011

- Income \$413/Ha 1.6t/Ha, \$100/hd lamb
- Expenses \$282
- Op profit/Ha \$131/Ha
- Farm op profit \$537k (4,100 Ha)
- Drawings \$120 k
- Machinery \$99 k
- Debt costs \$255 (70% equity)
- Surplus \$63



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011



Conclusions

- The farm has changed over the last 20 years, less sheep and more cropping
- System is more volatile
- Farms less able to deal with it
- 2011 looking good globally for commodities
- Gross margins look good
- Cost control is vital
- System needs more equity



R&D INSIGHTS FORUM
MONDAY 7TH & TUESDAY 8TH MARCH 2011

