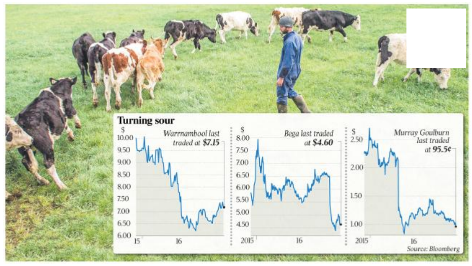
THE AUSTRALIAN

Bill McDonald ditches dairy to return to coalmining



Turning sour

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As a barometer of the booming dairy-exports-to-China market, a decision by former mining services magnate Bill McDonald to quit his fledgling infant-formula empire, Camperdown Dairy International, to return to coalmining had all the early warning signs of a brewing storm.

Only 18 months ago, McDonald, 43, who made his fortune through his MCG Group developing Queensland coalmines followed by inner-city Brisbane apartments, flagged his $500 million-plus dream to ride the next business success wave, the China food boom.

McDonald bought his first cropping farm in far western Victoria's grain belt, looked to buy others to house 40,000 milking cows in big intensive barns, bought the old Camperdown butter factory as the base for his new infant formula business and talked of a $200m upgrade investment in milk dryers, buying milk from nearby farmers and employing 200 locals.

"In 2012 I knew coal was too hot, and so I diversified then — first into (Brisbane) property development and now I have gone into this venture, into agriculture," McDonald explained to *The Australian* last year.

But Camperdown managing director Gavin Evans confirmed big-hitting McDonald had completely sold his stake in his Camperdown Dairy International business. With Bellamy's profit downgrade last week and $500m loss of share value in a few short hours, after admitting its sales of infant formula — known as nutritionals — to China had stalled or fallen under forecast export levels, it is clear the bubble behind the highest-flying segment of the Australian dairy industry has burst.

The share prices of listed producers from Murray Goulburn. Warrnambool to Bega have fallen to earth while it is now up to investors and farmers to pick up the pieces.

To compound woes, Murray Goulburn — the nation's biggest dairy producer — yesterday said its deal to supply large volumes of infant formula to China in a joint venture with global child food specialists Mead Johnson had been shelved.

For his part, Camperdown's Mr Evans said the dairy producer was continuing to buy powdered milk from processing companies such as Fonterra and Burra Foods to blend into tins of infant and toddler formula for export to China under the CDI brand at its Melbourne factory.

But he admitted McDonald's vertically integrated dream of founding a fully owned cow-to-can agribusiness in western Victoria based on China demand had been shelved.

"We are all about selling infant formula (to China) and are targeting 10 million tins; but we are not there yet and we can't justify that investment on farm or at Camperdown itself," Evans said.

"It is true to say the mining cycle has swung back and that's where Bill now sees more value for himself, back in coal, but that's not necessarily a knock on our (infant formula) business."

But many in the dairy industry would disagree with Evans and see Bill McDonald as the smart money mover.

Murray Goulburn's now-departed chief executive Gary Helou announced early this year the go-ahead for construction of a new $300m specialist nutritional powder factory to be built by the dairy processor at Koroit in western Victoria.

At the time — just a few weeks before Murray Goulburn's implosion and his own sudden exit — Helou said the Mead Johnson infant milk powder supply agreements was the "final piece" in Murray Goulburn's transformation from a bulk low-value dairy commodity business to a high-value, value-added food processor and exporter.

The Murray Goulburn deal followed high-profile infant formula supply deals in the previous six months involving dairy company Bega Cheese supplying milk powder to investor darling Blackmores for its new infant formula division, and Fonterra locking in infant formula supply agreements with both Bellamy's organic and Chinese based, Beingmate.

Yesterday Murray Goulburn interim chief executive David Mallinson announced the "mutual" termination of its March strategic supply alliance for nutritional products with Mead Johnson to the ASX and to its 2200 farmer-suppliers.

"With recent changes in Chinese regulations (affecting infant formula imports) and uncertainty about who can provide what to China, the agreement became unworkable," Mallinson said of the set volume contract due to start in 2019 once the new Koroit nutritionals plant was built.

"We were going to supply nutritional powder to (Mead Johnson's factory in) Singapore, but we got to the point where we agreed the level of uncertainty around regulations and the market in China made this arrangement too difficult."

Mallinson declined to speculate if Murray Goulburn's current woes had any bearing on Mead Johnson's exit call.

Plans to build its new Koroit specialist infant formula nutritionals plant have already been shelved as Murray Goulburn addresses its dire financial problems.

It has also lost so much milk supply as its dairy farmers switch to supplying other better-paying processors — with its annual intake cut from 3.2 billion litres to 2.8 billion this year — that its ability to almost double its infant formula production from its current 60,000 tonnes to meet the contract may have been in doubt.

Rabobank dairy analyst Michael Harvey said there was no doubt uncertainty over import regulations has played a big part in the downfall of the infant formula aspirations and strategies of Bellamy's, Murray Goulburn and Camperdown International.

Early this year, the Chinese government cracked down on companies exporting infant formula to China, announcing that from November all companies would have to apply for new licences and would be limited to a maximum of three brands and three infant formulae age-stages.

The move follows Chinese concerns about maintaining imported food safety standards, as Chinese mothers rushed to buy Australian, NZ and European brands of infant and toddler formula in the wake of its internal melamine-in-baby milk scandal.

Harvey said that while implementation of the new restrictions has been delayed until early next year, hundreds of global dairy companies — both established and fly-by-night — looking to ride the Chinese infant formula boom would be seriously affected.

"It's an interesting and high growth market, but this short-term, relatively opaque, regulatory change as the Chinese government looks to cut back on brands, shorten the supply chain and stop all the repacking, re-canning and rebranding that was going on is making it very high risk too," Harvey said.

NAB Agribusiness Asia desk specialist Laura Mattiazzi says China's own dairy production has also recently boomed, with large companies such as Indonesia's Japfa and Fonterra building their own massive dairies there, housing 12,000 milking cows in each modular centre.

Ironically, much of the growth has been based on the export of top dairy heifers from Victoria and New Zealand, with Australia exporting 150,000 young dairy breeding cows a year for a decade, until the demand recently slowed.

"That's 1.5 million dairy cows from Australia alone — and now they have had their own calves — that's a lot of milk and much greater internal self-sufficiency," Mattiazzi said.

But she does not believe the current infant formula uncertainty spells the end of the China dairy boom story. Rather she says, companies will have to learn with greater market volatility and factor that into their continuing growth strategies.

JENNINE KHALIK

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Freedom to criticise backed

GEOFF CHAMBERS

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