

AUSTRALIAN

RESEARCH



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ASX: ELD

Bloomberg: ELD AU

Reuters: ELD.AX

A Refocused Rural Services Company

Overview

Following a difficult couple of years, Elders has emerged as a leading Australian agricultural business and is in the final stages of transforming itself from an industrial conglomerate into a rural services company. In the period from 2008 to 2009, a new management team took decisive actions to transform the company and ensure its survival by repositioning the business, initiating asset sales and undertaking a recapitalisation of the company. Elders now has a clear focus and the financial strength to benefit from a recovery in the agricultural sector.

The Rural Services business has a strong franchise and is one of only two rural services businesses with a national distribution capability. Given its strong market position and renewed management focus, this business is well positioned to deliver an improving earnings profile. A strong customer focus, business efficiencies, improved inventory management and better supply chain management all are expected to help drive margin improvements over the short to medium term.

Forestry remains a core part of Elders business. Following the divestment of the non-core timber assets, Forestry's core focus is on plantation establishment and management and the funding of these plantations through managed investment schemes (MIS). Elders is now one of the main players in this sector. In FY09, Elders Forestry had around 10% of the agricultural MIS market and it is well placed to grow this with the support of its parent.

Financially, Elders is a much stronger business following its recapitalisation. Gearing is low, key borrowing facilities have been restructured and extended and the group has significant headroom under new banking covenants. We expect Elders' financial position to remain strong and further improve as the remaining non-core assets are sold and cashflow is used to repay debt rather than pay dividends.

Investment Opinion

We believe Elders has emerged from a difficult period in much better shape. However, there are still a number of risks surrounding Elders, not the least of which is its exposure to cyclical industries that can lead to earnings volatility. There is also a risk that the turnaround in earnings may take longer to achieve than expected.

We value Elders at A\$1.81 per share and our 12-month price target is A\$1.66.

We have an ADD recommendation on Elders on both 12-month and long-term horizons.

Elders looks reasonable value at current prices. However, the company operates in difficult, highly cyclical markets in the agricultural and automotive sectors and the stock may not be suitable for all investors. The stock will not be paying any dividends before March 2012.

Price Summary

Price (A\$) as at 19 March 2010	\$1.43
Valuation (\$):	1.81
12Mth Target (\$):	1.66
Long Term Target Return (% pa):	14.7


Market Statistics

Market Cap. (A\$M)	622.1
Shares (M)	450.8
% of All Ords	0.04
12-Month Range (A\$):	\$1.25-\$5.00
Turnover (\$M pa):	1,005.8
Index:	S&P/ASX 200
Sector:	Consumer Staple
Industry Group:	Food Beverage & Tobacco
Industry:	Food Products
Sub Industry:	Agricultural Products

Key Valuation Assumptions

Method	DCF
Beta:	1.30
Market Risk Premium (%):	6.00
Risk Free Rate (% pa):	6.30
Free Cashflow (years):	10.0
Residual value % of Total Valuation:	51.3
Notional 5-10yr Growth Rate (%):	1.9

Risk Ratings

Company Risk:	
Share Price Risk:	
Ethical Rating:	

Yr to Sep	NPAT Rep (\$M)	NPAT* Adj (\$M)	EPS* (c)	EPS chg (%)	PER (x)	PER rel All Ords (x)	PER rel Sector (x)	DPS (c)	Yield (%)	Franking (%)	ROE (%)
2009A	(466.4)	(51.8)	(64.6)	n/a	(2.2)	(0.1)	(0.1)	0.0	0.0	0	(5.8)
2010F	39.8	45.4	10.6	n/a	13.4	0.8	0.8	0.0	0.0	0	4.1
2011F	66.7	66.7	14.8	39.2	9.6	0.7	0.6	0.0	0.0	0	5.1
2012F	72.7	72.7	16.2	9.0	8.9	0.8	0.7	4.0	2.8	100	5.3

* NPAT and EPS are adjusted by removing non-recurring items and goodwill. All the above statistics are derived from normalised earnings.

Year-end September. All figures are in A\$M

Profit & Loss Summary	2009A	2010F	2011F	2012F	Ratio analysis	2009A	2010F	2011F	2012F
Operating revenue	3,540.0	2,423.8	2,486.9	2,563.1	Revenue growth (%)	6.9	(31.5)	2.6	3.1
Invest & other income	0.0	0.0	0.0	0.0	EBITDA growth (%)	(69.9)	76.6	13.7	5.3
EBITDA	49.0	86.5	98.4	103.6	EPS growth (%)	n/a	n/a	39.2	9.0
Depreciation/Amort	(36.3)	(32.1)	(35.4)	(39.3)	EBITDA/Sales margin (%)	1.4	3.6	4.0	4.0
EBIT	12.7	54.4	63.1	64.3	EBIT/Sales margin (%)	0.4	2.2	2.5	2.5
Net Interest	(90.6)	(23.6)	(4.9)	(1.3)	Tax rate (%)	31.6	5.0	30.0	30.0
Pre-tax profit	(77.9)	30.8	58.2	63.0	Net debt/equity (%)	119.8	9.7	6.6	3.0
Tax expense	24.6	(1.5)	(17.5)	(18.9)	Net debt/net debt + equity (%)	54.5	8.9	6.2	2.9
Minorities/Assoc./Prefs	1.5	16.1	25.9	28.6	Net interest cover (x)	0.1	2.3	13.0	49.0
NPAT	(51.8)	45.4	66.7	72.7	Payout ratio (%)	0.0	0.0	0.0	24.8
Non recurring items	(414.6)	(5.6)	0.0	0.0	Capex to deprec'n (%)	178.4	121.8	121.3	66.7
Reported profit	(466.4)	39.8	66.7	72.7	NTA per share (\$)	5.75	2.33	2.48	2.64
NPAT add Goodwill & Pref	0.0	0.0	0.0	0.0	ROA (%)	0.4	2.7	3.3	3.3
Adjusted profit	(51.8)	45.4	66.7	72.7	ROE (%)	(5.8)	4.1	5.1	5.3
Cashflow Summary	2009A	2010F	2011F	2012F	Multiple analysis	2009A	2010F	2011F	2012F
EBITDA	49.0	86.5	98.4	103.6	Market cap (M)	622			
Working capital changes	(354.1)	15.1	(11.3)	(13.4)	Net debt (\$M)	123.8			
Interest and tax	(98.6)	(33.8)	(12.3)	(21.6)	Peripheral assets (\$M)	(283.8)			
Other operating items	(119.7)	(6.5)	3.0	3.6	Enterprise value (\$M)	462.1			
Operating cashflow	(523.3)	61.3	77.9	72.2	EV/EBIT (x)	36.4	8.5	7.3	7.2
Required capex	(64.8)	(39.1)	(42.9)	(26.2)	EV/EBITDA (x)	9.4	5.3	4.7	4.5
Maintainable cashflow	(588.1)	22.1	35.0	46.0	EV/EBITDA All Ind (x)	7.7	7.1	6.4	5.9
Dividends	(38.3)	0.0	0.0	0.0	EV/EBITDA rel All Ind (x)	1.2	0.8	0.7	0.8
Acq/Disp	312.4	145.0	0.0	0.0	P/E (x)	(2.2)	13.4	9.6	8.9
Other investing items	(40.9)	0.0	0.0	0.0	P/E rel All Ind (x)	(0.1)	0.9	0.8	0.8
Free cashflow	(354.9)	167.1	35.0	46.0	P/E rel All Ind ex banks (x)	(0.1)	0.9	0.7	0.8
Equity	26.9	540.5	0.0	0.0	P/E sector (x)	20.6	17.6	14.9	13.3
Debt inc/(red'n)	451.8	(707.6)	(35.0)	(46.0)	P/E rel sector (x)	(0.1)	0.8	0.6	0.7
Balance Sheet Summary	2009A	2010F	2011F	2012F	Assumptions	2009A	2010F	2011F	2012F
Cash & deposits	367.9	50.0	50.0	50.0	GDP growth (%)	-0.25	0.50	1.60	1.80
Inventories	269.3	256.4	263.2	271.2	Interest Rates (%)	3.82	4.25	5.13	5.50
Trade debtors	535.8	455.8	467.8	482.1	Inflation (%)	3.03	2.50	2.50	2.50
Other curr assets	47.6	47.6	47.6	47.6					
Total current assets	1,220.6	809.7	828.6	850.9					
Prop., plant & equip.	114.4	115.8	123.3	110.2					
Non-curr intangibles	228.5	228.5	228.5	228.5					
Non-curr investments	567.0	439.6	467.1	497.2					
Other non-curr assets	410.8	410.8	410.8	410.8					
Total assets	2,541.2	2,004.4	2,058.3	2,097.6					
Trade creditors	362.7	284.9	292.4	301.3					
Curr borrowings	854.1	123.8	88.8	42.8					
Other curr liabilities	145.2	114.8	127.1	128.4					
Total current liab.	1,362.0	523.4	508.4	472.5					
Borrowings	345.2	50.0	50.0	50.0					
Other non-curr liabilities	132.3	147.6	148.4	149.2					
Total liabilities	1,839.6	721.0	706.7	671.8					
Minorities/Convertibles	7.8	9.2	10.8	12.4					
Shareholders equity	701.7	1,283.3	1,351.6	1,425.9					

Notes to Accounts: ELD has changed its balance date from 30 June to 30 September. It reported a 12 month result to 30 June 2009 and has also reported a 15 month result to 30 September 2009. Its next full year result will be the 12 months to 30 September 2010. Our financial tables show the 15 month result to 30 September 2009 as the FY09 actuals. Our FY10 forecasts are for the 12 months to 30 September

2. Executive Summary

- Elders is one of Australia's leading rural services companies with a strong national franchise and a presence in New Zealand. The company has a long history of association with rural Australia, having been established in 1839. Elders is one of only two rural services businesses with a national distribution capability, with Landmark (owned by AWB Limited) being Elders' key competitor. Both players have well entrenched and difficult-to-replicate positions with well-spread national networks.
- Over the past two years, the company has undergone a major change in direction, necessitated by the deterioration in operating conditions across most of its businesses. In 2008, the company commenced an asset sales program. This continued through 2009, with new CEO Malcolm Jackman moving to reposition the company around its traditional rural services business, away from the previous industrial conglomerate strategy. This change in strategy also involved a name change from Futuris to Elders.
- Following the asset sales, Elders comprises three businesses: Rural Services, which accounts for around 85% of revenue; Forestry, which involves plantation establishment and management, with the establishment of new plantations largely funded from the proceeds of MIS sales; and Automotive, a non-core business that is up for sale.
- Elders is in a much stronger financial position following a major recapitalisation undertaken in 2009, including a A\$550M equity raising. This means the group is now well placed to pursue its transformation program. Debt levels have reduced, with gearing (debt/debt plus equity) around 30% and expected to fall lower; terms have been extended on the core debt facilities; and there is substantial headroom under the company's borrowing covenants. However, under the terms of its recapitalisation, Elders is unable to pay a dividend before March 2012.
- In addition to returning the business to its traditional rural services focus, Elders' transformation involves a number of changes designed to improve the focus and efficiency of the Rural Services business. The initial phase involved a restructure of the business designed to improve Elders' knowledge of its customers and to better service their needs. The next phase of the program focuses on margin improvement through efficiency gains, cost control and improvements to the supply chain. Over the medium term, Elders hopes to increase its EBIT margin to 5%-6%, which is a significant improvement on the 0.5% earned in FY09. We believe an improvement to 3% is relatively easy to achieve, given the significant events that occurred in FY09 and business improvements (FY08 margin was 2.3%), but consider it will take a lot of work to get to the targeted levels.
- Elders has indicated that Forestry remains one of its core businesses and believes it is complementary to the Rural Services business. After the sale of its timber assets in December 2009, Forestry's core business is in plantation establishment and management. The establishment of new plantations is predominantly funded by MIS sales. Elders Forestry is a key participant in the Forestry sector and, in FY09, had around 10% of the agricultural MIS market with a target to increase this to the mid to high teens. The Forestry business also owns a 50% interest in a woodchip handling and loading facility in Albany, Western Australia, which helps ensure it has port access for the export of woodchips from its plantations. The remaining 50% is owned by Timbercorp and, following the collapse of that company, we believe Elders is likely to buy its interest in the port facility. Following its recapitalisation, we believe that Elders is well placed to grow its Forestry business. However, following the collapse of Timbercorp and Great Southern in 2009 the outlook for the agricultural MIS market remains uncertain. In February 2010 Forest Enterprises Australia (FEA) has breached financial covenants and has provided a Certificate of Default to its financiers and following a poor 1H10 profit result, Gunns is considering hiving off its forestry assets into a separate vehicle.
- Elders is expecting to return to profitability in FY10 with a strong rebound in earnings due to improved conditions across most of its core businesses; better inventory management and the absence of volatile fertiliser and chemical prices that adversely impacted FY09; lower interest charges as a result of the equity raising; and reductions in costs and overheads.

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- Despite its recapitalisation and focus on transforming the business, Elders remains a cyclical company, with earnings exposed to seasonal influences, weather patterns and volatile fertiliser and agricultural chemical prices. A poor season for its rural customers will directly impact Elders via reduced sales of crop chemicals, general merchandise and related services. This means earnings are likely to remain volatile and highly leveraged to changes in weather patterns, particularly the occurrence of drought.
- We consider the automotive industry to be a particularly unattractive industry, highly leveraged to changes in economic activity and dependent on government support for survival. While ELD has identified Futuris Automotive as a non-core asset and plans to sell the business, there is a risk it may end up holding the business longer than planned if it is unable to find a buyer at the right price.
- We value Elders on a discounted cashflow basis using a beta of 1.3 and a weighted average cost of capital (WACC) of 11.3%.
- **Our fundamental valuation for Elders is A\$1.81 per share.**
- **We have a 12-month price target of A\$1.66.** In deriving our 12-month price target, we have applied a 15% discount to the target until we see some evidence of an earnings recovery.
- **Our investment recommendation on Elders is ADD.** However, as the company operates in difficult, highly cyclical markets in the agricultural and automotive sectors, the stock may not be suitable for all investors.

3. SWOT Analysis

Strengths

- Elders has a strong, well-established franchise in the provision of rural services in Australia. It has a well-entrenched position with 391 points of representation in Australia and is one of just two full-service rural services providers with a national network.
- Following its 2009 recapitalisation, Elders is in a strong financial position. Pro forma net debt as at 30 September 2009 was A\$388M with a pro forma gearing ratio (net/debt to equity) of 32%. This is expected to fall further following receipt of the proceeds from the ITC Timber sale. The company has a core term debt facility that does not mature until September 2012; a revolving working capital facility maturing in March 2011; and transactional facilities. There is significant headroom under all banking covenants.
- The company has a revitalised management team with a strong focus on reshaping the company around its core Rural Services business and delivering improved shareholder returns.
- Elders has a 40% stake in Rural Bank (formerly Elders Rural Bank). This is an attractive business with stable and growing earnings that help to partly offset the volatility in Elders' more cyclical businesses. Rural Bank was the only business in the Elders' stable to increase earnings in FY09.

Weaknesses

- Elders' earnings remain exposed to highly cyclical industries. The Rural Services division is seasonal and dependent on weather conditions, rural production and fertiliser and agricultural chemical prices, while Futuris Automotive is exposed to the highly cyclical automotive industry, which is strongly dependent on general economic conditions. Forestry is also exposed to changing demand for MIS product, with a significant reduction in demand over the past year.
- Elders' margin in its core Rural Services business is low and below that earned by its key competitor Landmark. However, this does provide the opportunity for improvement.

Opportunities

- The recapitalisation and business restructuring, including efficiency gains and non-core asset sales, mean the group is well placed to take advantage of an improvement in the agricultural sector.
- Elders' transformation program provides opportunities for the group to improve its margins through increased efficiencies, supply chain improvements, better inventory management practices and improved sales capabilities. Elders has a target to lift its Rural Services EBIT margin to 5%-6% over the medium term, considerably higher than the 0.5% margin achieved in FY09.
- The collapse of Great Southern and Timbercorp provide an opportunity for Elders Forestry to increase its share of the forestry MIS market.

Threats

- If conditions do not improve in the agricultural and automotive sectors, there is the potential for further write-downs in non-core assets. The deterioration in the FEA outlook means that a ~\$30M write-down of Elders 13.5% stake is possible in 1H10, which is the majority of its carrying value.
- Deterioration in rural conditions due to poor weather conditions and volatile commodity prices could adversely impact profitability. While Elders currently has significant headroom under its covenants, it is possible that a worse than expected deterioration in operating conditions could weaken Elders' financial position at some time in the future.
- The persistence of weak conditions across the automotive sector could delay the sale of Futuris Automotive or result in an inability to sell the business at a reasonable price.

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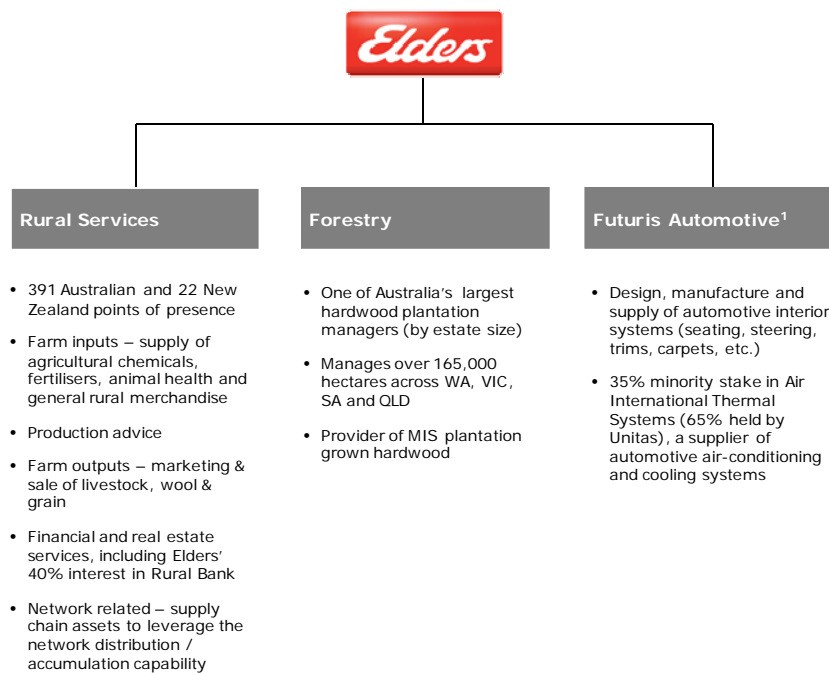
4. Company Overview

Elders is a leading Australian rural services company that provides a range of services to the rural sector through a distribution network comprising 391 points of presence. The company has also recently established a network in rural and regional New Zealand. Primary services offered through the Elders network include the provision of farm supplies; the marketing and sale of livestock, wool and grain; and financial and real estate services, including a 40% interest in Rural Bank and a 25% share in an insurance distribution joint venture with QBE Insurance.

In addition to the Rural Services business, ELD has a forestry division that is one of Australia's largest hardware plantation managers. Elders Forestry establishes and manages the plantations and then harvests and markets the timber on behalf of investors in the plantations. The plantations are funded from the proceeds of MIS offered by the company.

Elders also has interests in the automotive industry and its Futuris Automotive business produces a range of interior parts for motor vehicles, such as seating, steering, pedals, door trims and floor carpets. This business also has a 35% interest in Air International Thermal Systems, which produces air conditioning and Power Train Cooling Systems in Australia, Asia and the US for supply to the global automotive industry. This division is considered non-core by Elders and while it is earmarked for sale, the sale has been suspended pending the improvement of conditions within the automotive industry. Sale is expected to occur some time over the next 18 months depending on conditions in the automotive industry.

Figure 1: Elders Operating Businesses



¹ The Futuris Automotive business has been identified by Elders management as non-core and will be divested once market conditions improve and a sale is achievable at fair value.

Source: Elders

Background

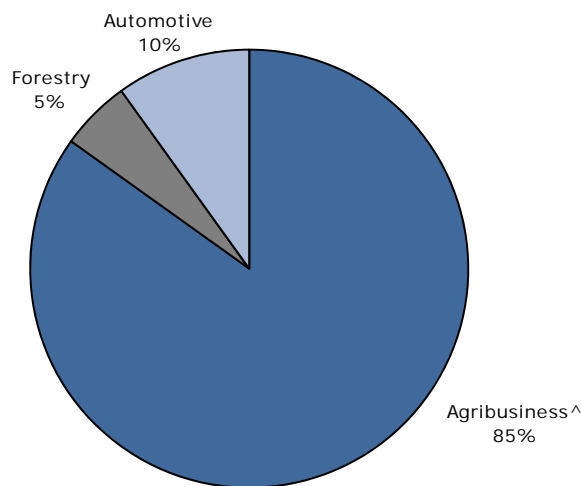
Elders has a long history of association with rural Australia, having been established in 1839. Elders was acquired by an industrial conglomerate, Futuris Corporation, in 1996 and managed as a separate Futuris business. The conglomerate strategy did not work well for Futuris and in 2008 the company was impacted by adverse conditions across a number of its businesses. The company commenced a number of asset sales to refocus the business and to generate cash.

In December 2008, under the leadership of new CEO Malcolm Jackman, Futuris announced a strategy to reposition itself around the traditional Elders rural services business. This involved the divestment of further assets now considered non-core and a plan to rename the business as Elders. This "Agenda for Change" program has seen the company receive around A\$640M in proceeds from a range of asset sales over the past year.

In 2009, the economic and financial impacts of the global financial crisis (*GFC*) and deteriorating operating conditions in most businesses, in part caused by the GFC, severely impacted the Futuris business (renamed Elders in April 2009) and resulted in the company incurring large operating losses and significant asset write-downs. This necessitated a major recapitalisation of the group, including a deeply discounted A\$550M equity raising in September 2009; a restructuring of the group's debt facilities, including significant debt repayment; and ongoing asset sales.

Following the asset sales and recapitalisation, Elders will primarily be a rural services company, with around 85% of revenue derived from this business (Figure 2). The company's core strategy going forward is "to position itself as the most valued commercial partner at the farm gate, where primary production intersects with local and global markets".

Figure 2: Sales Revenue by Operating Business *



^ includes Banking and Insurance

* FY2010 Prospectus Forecast.
Source: Elders

5. Business Operations

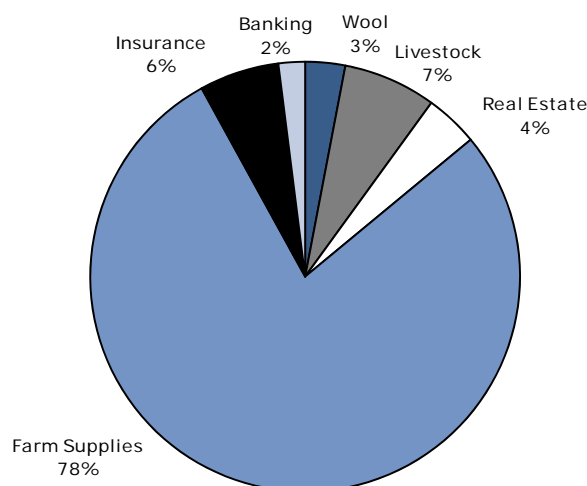
Rural Services

Products and Services

Elders Rural Services offers a range of products and services to rural and regional Australia and New Zealand through a network at 413 locations, including 285 branches. The key products and services are as follows:

- **Farm supplies:** This is the largest revenue generator in the Rural Services business and provides a range of farm supplies, including seeds, fertilisers, agricultural chemicals, animal health products and general merchandise;
- **Livestock:** Sells and supplies livestock in Australia, with sales of 2M head of cattle and 12M head of sheep in the 12 months to 30 June 2009;
- **Wool:** Elders Rural Services is the largest seller of Australian greasy wool. Services include wool handling, buying and selling greasy wool, marketing and selling risk management products;
- **Grain:** Accumulates grain exclusively for Elders Toepfer Grain, a joint venture between Elders and Toepfer International;
- **Real Estate:** Elders primarily operates in the broadacre, rural residential and lifestyle property markets. Elders Real Estate also has a presence in the metropolitan markets via a franchise arrangement;
- **Insurance:** In 2009, Elders sold its insurance underwriting operations to QBE. However, under a joint venture distribution arrangement in which Elders has a 25% share, Rural Services will continue to sell a wide range of insurance products; and
- **Banking:** Rural Services exclusively distributes a range of specialised rural banking products and services provided by Rural Bank. Elders has a 40% interest in Rural Bank (Bendigo and Adelaide Bank: 60%).

Figure 3. Australian Network Sales Revenue Breakdown (12 months ended 30 June 2009)



Source: Elders Prospectus

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Industry Comments

In Australia, there are only two rural services businesses with a national, full service distribution capability. Elders' main competitor in this sector is Landmark, owned by AWB Limited (ASX: AWB). Landmark offers similar services to Elders', including farm supplies, livestock, finance, insurance and real estate. It also has an extensive national distribution network of around 400 locations. Landmark is also well established and has been in existence for 150 years. Graincorp also has a small number of merchandise centres, but given a lack of scale has decided to exit this business through closures and, where possible, branch sales. The listed Ruralco (ASX: RHL) also has a national footprint in the rural services sector via a network of 337 independent, owner/operator stores and 157 corporate locations. Ruralco provides products and services to the independent stores on a wholesale basis.

Given the entrenched positions of the two main incumbents, it would be difficult for a new entrant to succeed in this industry, although we note that Ruralco plans to increase its geographic presence and expand its product and services portfolio. Given the seasonal and cyclical nature of the industry, scale is important, as evidenced by the exit of Graincorp from merchandising. Both Landmark and Elders are focused on improving margins and the profitability of their businesses with an emphasis on efficiency improvements, supply chain and inventory management. We expect both organisations to focus on profitable business and where possible exit unprofitable products and locations.

Figure 4. Comparison of Elders Rural Services and Landmark

	Elders Rural Services		Landmark	
Key Network details				
Australian Network Locations	391		400	
New Zealand Network Locations [#]	22		50	
Total Network Locations	413		450	
Personnel (full time equivalent)	2,400		2,000	
Key Financial metrics				
	FY08	FY09	FY08	FY09
Sales Revenue [*]	2,449	1,919	1,916	1,783
EBIT [*]	57.5	9.6	71.5	31.7
EBIT Margin	2.3%	0.5%	3.7%	1.8%

[#] Landmark holds a 50% interest in RD1 in New Zealand which has approximately 50 stores.

^{*} Sales revenue and EBIT excludes Financial Services division, non-recurring items & discontinued operations.

Source: Elders/Landmark/Aegis Equities Research

Strategy

Elders has implemented a transformation program aimed at significantly improving the performance of the Rural Services business over a three- to four-year time-frame. The first phase, largely complete, focused on restructuring the business aimed at improving Elders' ability to better understand and service its clients, which will ultimately increase the value of its customers through improved sales. The next two phases of the program are to 1) drive business performance and growth and 2) continue to build on the transformed foundation.

Phase II of the program focuses on margin improvement. Elders believes it can increase its Rural Services EBIT margin from the 0.5% achieved in FY09 to a target of 5%-6%, which it considers to be more consistent with industry benchmarks. Strategies to improve the margin include the following:

- A "Go to Market" strategy, designed to achieve better sales performance;
- Improvements to the supply chain including, centralised procurement and controls, better planning, better buying, and better physical logistics;
- Operational excellence, which involves implementing operational best practice to reduce risk, support sales and free up capacity to focus on customers; and

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- **Cost control.** The business has already moved to reduce operating and overhead costs and aims to continuously improve its cost management.

Phase III of the program revolves around building a performance culture; filling gaps in the business, including product and geographic gaps; and indentifying strategic growth opportunities.

Forestry

Products and Services

Following the sale of the ITC Timber processing operations, Elders Forestry comprises the plantation and MIS business; port infrastructure joint ventures; and a 13.5% shareholding in Forest Enterprises Australia (ASX: FEA), a listed forestry and MIS company. Formerly known as ITC Limited, the business changed its name to Elders Forestry Limited in February 2010.

- **Plantation establishment and management services.** This is the core business within Elders Forestry. The business raises funds from investors through MIS, establishes hardwood plantations and then manages the plantations through to harvest. Forestry also manages the harvest and marketing of the timber. The plantations are mainly eucalypt (around 94%), which is chipped and sold to Japanese customers for pulp production; however, the diversified projects of recent years will derive approximately 88% of their income from the higher value red mahogany, teak and sandalwood species.

Forestry has around 170,000ha under management, of which 52,000ha of land is owned and the rest leased. MIS growers and direct clients account for 158,000ha of the plantations, with Forestry owning 8,000ha of plantation. Forestry also manages a small number of plantations for third-party growers.

Elders Forestry revenue comprises establishment income from MIS sales, management fees and land rental income. In FY09, Elders achieved MIS sales of A\$23.7M, a reduction from A\$37.6M in FY08. This resulted in the Forestry division achieving lower revenue. Nonetheless, despite the industry woes, the Forestry division still managed to report positive EBITDA in FY09 of A\$10.6M, down from A\$61.4M in FY08.

Elders also has a small investor loan book, with around A\$20M outstanding at 31 March 2009 with a bad debt provision of A\$0.6M.

- **Port infrastructure.** Forestry has a 50/50 joint venture with Timbercorp in Plantation Pulpwood Terminals, which exports woodchips to Japan via a port terminal at Albany, Western Australia. The terminal comprises a woodchip handling and loading facility capable of handling 1Mt per annum. Having an ownership interest in the port facility helps ensure that Elders has port access for the export of woodchips from its plantations. Following the collapse of Timbercorp, we would not be surprised to see Elders take full control of the facility by buying out Timbercorp's 50% interest.

Elders also holds an interest in a port facility at Bell Bay in Tasmania through its 50% interest in Smartfibre. The Smartfibre interest was originally included in the package of ITC Timber assets to be sold to Gunns. However, due to Australian Competition and Consumer Commission objections, the Smartfibre assets were withdrawn from the sale. We expect Elders to seek an alternative buyer for these assets.

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- **13.5% interest in FEA.** FEA is primarily involved in growing plantation timber. FEA finances and establishes new plantations (primarily through MIS), manages various plantations in Queensland, New South Wales and Tasmania, and harvests and markets the product. The majority of FEA's plantation timber is eucalypt grown for the domestic and overseas woodchip market. FEA manages some native forestry assets for high-end timber products.

FY09 was a difficult year for FEA, as it was for all forestry operators, and the company reported a net loss of A\$14.1M. The decline in profitability resulted in banking covenant breaches and in late 2009, the company raised A\$39.5M via an equity raising, including a 1:1 entitlement offer, to strengthen its balance sheet. Elders did not participate in the capital raising and consequently its stake in FEA was diluted from 31% to 13.5%. Elders said its decision not to participate reflected its new strategy to focus on building the business around its Elders brand and network. The decision resulted in an A\$32.2M write-down in the carrying value of Elders' interest in FEA.

In late 2009 FEA announce that due to profitability issues it was working towards resetting its covenants with its banks. On 26 February the company announced that it had submitted a restructuring plan to its banks on 29 January 2010 but that the banks have rejected this plan and will test its covenants at as at 31 December 2009. FEA advised that it has breached two of these covenants and has lodged a Certificate of Default with its financiers. FEA's shares have been suspended from trading on the ASX and it remains in discussions with its banks.

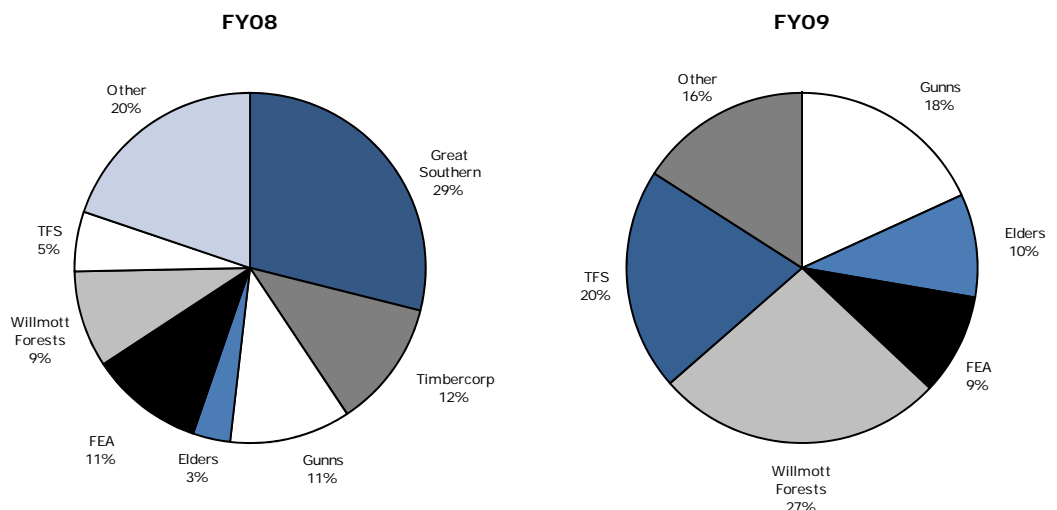
We note that ELD's carrying value of its FEA stake was \$32.4M at 30 September 2009, based on an NTA valuation. Based on the last trading price for FEA this stake now has a market value of ~\$5M. If FEA is unable to reach an agreement with its banks and is put into administration, then this stake is unlikely to be worth anything. Even if FEA survives, it is likely that ELD will need to further write down its FEA stake. If the stake were written down to market value, this would require another ~\$30M write-down, which is the majority of the carrying value.

Industry Comments

The past few years have been extremely difficult for the forestry and agricultural MIS industry due to uncertainty surrounding taxation; a flight to more traditional and more conservative investment classes such as cash as a result of the GFC; and the collapse of MIS operators Timbercorp and Great Southern.

Total industry MIS sales fell from around A\$1.1B in FY08 to A\$250M in FY09, of which A\$225M was related to forestry MIS. Following the collapse of Timbercorp and Great Southern, key participants in the MIS market are Willmott Forests, TFS, Gunns, Elders and FEA. Elders suffered a much smaller percentage fall in sales in FY09, which means that it had a higher share of the much smaller market, as shown in Figure 5.

Figure 5. Total MIS Market Share



Source: Elders/Aegis Equities Research

Collapse of Timbercorp and Great Southern

The collapses of Timbercorp and Great Southern in 2009 had a significant impact on the MIS industry. While there were a number of external factors that contributed to the demise of these companies, it can also be argued that they grew too fast and took on too much debt. This resulted in deteriorating balance sheets, which made it difficult to secure debt refinancing and bank support. The remaining key participants all undertook equity raisings in 2009 to strengthen their balance sheets. The collapse in the share prices of both Timbercorp and Great Southern made this a virtually impossible task for these two companies.

The collapses of Timbercorp and Great Southern will likely have some impact on the Forestry MIS for some time. The bedding down of the Timbercorp and Great Southern assets is a positive for the sector, with the Forestry assets of Timbercorp sold to US company Global Forestry Partners and Gunns taking over as the Responsible Entity for most of the Great Southern schemes. While the balance sheets of most participants were strengthened in 2009 via capital raisings, it is difficult to know whether this will be sufficient should conditions within the sector remain weak or deteriorate further. FEA's position remains uncertain and, following a significant decline in profitability in 1H10, GNS has announced plans for a corporate restructure which appears to involve establishing a separate vehicle for its forestry business.

Taxation Uncertainty

In recent years, the agribusiness MIS industry, particularly non-forestry MIS, has been impacted by uncertainty surrounding taxation arrangements. This followed a 2006 ruling by the Australian Taxation Office (ATO) that amounts invested in MIS were capital and, therefore, not allowable deductions.

Whilst the ATO ruling was subsequently overturned in a court case, in 2007, separate arrangements were made for Forestry MIS that guaranteed up-front deductibility, subject to a test that no less than 70% of payments received by the MIS are to be used for direct forestry expenditure. The special arrangements for Forestry MIS recognise the importance of this sector to the "2020 Vision" strategy of trebling the area of commercial tree crops to around 3M hectares by 2020. The 2020 Vision is a strategic partnership between the Commonwealth, state and territory governments and the plantation timber growing and processing industries¹.

In September 2009, the results of a Parliamentary Inquiry² into agribusiness MIS were released. The report was generally favourable for Forestry MIS, with tax deductibility effectively reinforced.

Industry Outlook

Following the dramatic events of 2009 and the subsequent plunge in forestry MIS sales, we would hope to see the market stabilise in 2010 and resume growth from 2011. The greater taxation certainty, gradual return to more normal investment market conditions and bedding down of the Timbercorp and Great Southern assets should help provide some stability and lay the foundation for future growth. However, the uncertainty surrounding the future of FEA could potentially delay a recovery in the sector. The forestry "2020 Vision" should help to ensure that the regulatory and taxation framework remains favourable for forestry MIS.

In the past, we believe that the main consideration for many investors in agribusiness MIS was the tax deductibility. For this reason, we believe that the returns offered by many schemes were inadequate. Following the collapse of Timbercorp and Great Southern, we believe there will be a much greater focus on the profitability of schemes and adequacy of returns. We also believe there will be a much greater regulatory focus and that regulators will also be focusing on scheme profitability.

¹ Source: Australian Government, Department of Agriculture, Fisheries and Forestry

² Parliamentary Joint Committee on Corporations and Financial Services: Inquiry into aspects of agribusiness managed investment schemes

Strategy

Although smaller than the key Rural Services business, the Forestry division remains one of Elders' core businesses. Elders sees it as being complementary to Rural Services and considers there are opportunities to cross-sell between the two businesses.

Following the recapitalisation of Elders, we believe the group has adequate financial resources to maintain and grow its core businesses.

The key strategies revolve around returning the Forestry business to pre-GFC levels and growing market share in a smaller market. For 2010, ELD expects the total MIS sales market size to be between A\$300M and A\$350M and is forecasting that it will achieve sales of A\$45M, which implies a market share of between 13% and 15%, up from around 10% in FY09.

Future directions are likely to include seeking alternative funding sources other than the standard MIS financing; expanding mahogany and teak estates; and increasing distribution capabilities.

The smaller boutique financial planner market is one of Elders' key distributions channels. Many of these planners have a greater focus on niche products rather than the mass product offerings sold through the larger planning groups. However, Elders has indicated that it has also formed a number of strategic partnerships with national boutiques and expects support to come from this source. Over time, we would expect Elders to grow its distribution capabilities through national boutiques and also target self-managed superannuation funds. Increasing the distribution network will be key to growing its market share.

Management

The senior management of Elders Forestry have significant experience in the forestry and financial services industries. Mr Vince Erasmus has been CEO of Elders Forestry since 2006 and prior to that time accumulated two decades of experience in the South African forestry industry. Ockert Le Roux, General Manager Forestry, also has more than two decades experience in forestry, primarily in South Africa, while Linda Pickering, General Manager, Funds Management, has 25 years experience in the financial services sector.

Refer to Section 8, Board and Management, for more details on the management of Elders Forestry.

Futuris Automotive

Products

Futuris Automotive comprises its own interiors business and a 35% interest in Air International Thermal Systems.

The interiors business produces a range of products for car interiors, including, seating, steering, pedals, window regulators, door trims headliners, floor carpets parcel shelves, NVH (noise, vibration, hardness) acoustics and aftermarket. The business also comprises a number of joint ventures and partnerships. The company has production facilities in Australia, China and South Africa. The products produced by the division are supplied to the major car makers, including GM Holden, Ford and Toyota.

Air International produces HVAC (air conditioning) and Power Train cooling systems in the US, Asia and Australia. Products are supplied to the global car industry, including General Motors, Suzuki, Ford Mitsubishi and Mazda.

Industry Comments

The automotive industry is highly cyclical and heavily influenced by broader economic conditions. It is a capital-intensive industry and, in many countries, is dependent on government support for survival. The automotive components sector is hostage to the fortunes of the car industry and is highly susceptible to deteriorating economic conditions. Such conditions mean that the earnings of industry participants can vary significantly, with many participants incurring significant losses during downturns and struggling to make adequate returns on capital at the best of times.

Strategy

Under its new business strategy, Elders considers Futuris Automotive to be a non-core business. The business has been restructured to align with weaker industry conditions and is being managed to restore profitability and cashflow. Elders will only sell the business when it believes it can receive fair value and thinks a sale could be achievable over the next 18 months. However, this is very much dependant on a recovery in the global automotive industry.

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6. Key Financial Issues

Profit & Loss

Figure 6. Earnings Summary

\$M	FY08 12 months to 30 June	FY09 12 months to 30 June	FY09 15 months to 30 Sept	Qtr 5 3 months to 30 Sept	Qtr 5 Prospectus (Adj) *
Sales Revenue - Continuing Operations	3,274.7	2,627.6	2,853.9	226.3	
Sales Revenue - Discontinued Operations	37.5	274.4	686.2	411.8	
Total Sales Revenue	3,312.1	2,902.0	3,540.1	638.1	
Underlying EBIT - Continuing Operations	171.7	16.8	12.8	-4.0	-7.8
Net Interest	-56.9	-51.8	-90.6	-38.8	
Profit Before Tax - Continuing Operations	114.8	-35.0	-77.9	-42.8	
Minority Interests	-9.6	1.9	1.5	-0.4	
Tax	-21.0	6.2	24.6	18.4	
Adjusted NPAT	84.2	-26.9	-51.8	-24.9	-27.5
Non-recurring Items After tax	-47.7	-388.5	-414.7	-26.2	
Reported NPAT (Loss)	36.5	-415.4	-466.4	-51.0	

*Note: Prospectus forecasts adjusted to reflect discontinued businesses and tax losses unlikely to be used.
Source: Elders/Aegis Equities Research

In 2009, Elders changed its balance date from 30 June to 30 September. In September 2009, the company reported a 12-month result to 30 June 2009 and then followed this up with a 15-month result to 30 September 2009 released in November 2009. In Figure 6 above, we show the 12-month results to 30 June 2008 and 30 June 2009 and the 15-month result to 30 September 2009 as well as the 3-month result to 30 September 2009.

For the 12 months to 30 June 2009, Elders reported a large loss of A\$415.4M, which was the culmination of a weak operational performance across most divisions and A\$388.5M (net) in write-downs taken against a plethora of non-core assets and minority holdings. The adjusted result after stripping out write-downs and other non-recurring items was a loss of A\$26.9M. As highlighted in Figure 7 below, Financial Services was the only division to report an increase in earnings, with all other divisions reporting significant earnings declines. The losses continued to mount in the three months to September with further write-downs and a continuation of the weak operating conditions; however, the adjusted NPAT was slightly better than forecast in the capital raising prospectus.

Figure 7. Divisional Results

\$M	FY08 12 months to 30 June	FY09 12 months to 30 June	FY09 15 months to 30 Sept	Qtr 5 3 months to 30 Sept	Qtr 5 Prospectus (Adj) *
Rural Services	57.5	9.6	8.9	-0.8	-2.5
Financial Services	22.4	22.7	23.7	1.0	2.5
Forestry	61.4	10.6	6.0	-4.7	-5.4
Automotive	26.2	-15.5	-15.1	0.4	0.2
Corporate & Other	4.3	-10.6	-10.6	0.0	-2.6
Underlying EBIT	171.7	16.8	12.8	-4.0	-7.8

*Note: Prospectus forecasts adjusted to reflect discontinued businesses and tax losses unlikely to be used.
Source: Elders

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In FY09, Rural Services experienced a decline in revenues, and margins were impacted by the write-down of fertiliser and agricultural chemical inventories. The division suffered from weak sales across the entire network, as weak demand across all regions and product lines, combined with lower average selling prices for key farm inputs, weighed on performance.

The Financial Services division was the only operational unit to report increased earnings in FY09. The insurance operations were impacted as lower discount rates inflated the cost of incurred claims, while distribution costs were generally higher. However, Rural Bank delivered a strong performance with A\$22.2M in equity-accounted NPAT versus A\$20.5M in FY08.

Forestry suffered a significant decline in earnings due to a number of factors, including: lower MIS sales; higher forestry management costs; lower woodchip sales; higher lease costs; a reduction in investment properties; and lower equity accounted earnings from FEA.

The automotive division suffered around 30% decline in revenue and broke even at the EBITDA line in FY09 due to the continued deterioration across the global automotive manufacturing sector.

Balance Sheet and Capital Structure

The significant deterioration in operating performance and substantial write-downs severely strained the Elders' balance sheet and put the group's key financial metrics under pressure. At 30 June 2009, the group's gearing ratio was a perilous 131%. The deterioration in Elders' financial position resulted in the group undertaking a major recapitalisation to ensure its survival. The recapitalisation plan comprised a A\$550M equity raising, debt restructure and asset sales.

Capital Raising

The capital raising comprised a A\$400M institutional placement, including a A\$55M placement to QBE and a A\$150M share purchase plan, and was highly dilutionary to existing shareholders. The raising was undertaken at a price of A\$0.15 per share, a significant discount to the prevailing market price of A\$0.39 per share. The capital raising resulted in 3.7B new shares being issued. Subsequent to the capital raising, Elders' shares were consolidated on a 10:1 basis and the company now has around 451M shares on issue. QBE is the largest shareholder with a stake of around 8.3%.

Borrowings

The recapitalisation also included a reduction in the group's borrowings and a restructure of its core term facilities. The group now has a core term facility of A\$178M with a maturity date of September 2012; a revolving working capital facility of A\$117M, maturing in March 2011; and A\$198M in transactional facilities. Elders also has A\$320M in an off-balance sheet receivables securitisation program, which has been ring-fenced. The company is reviewing whether to bring this program onto its balance sheet or not.

The debt restructure included revised terms with covenants that will be tested quarterly on a rolling 12-month basis, commencing on 30 June 2010. The gearing covenant is to be tested quarterly, and was first tested on 31 December 2009. ELD will also be subject to a capex limit covenant, where the annual capex spend is not to exceed the aggregate of 120% of budget and the amount of NPAT not distributed as a dividend or applied in the permanent repayment of the debt facilities or notes. The covenant package provides headroom to enable the group to grow the business and at the same time cater for the group's variable seasonal cashflow requirements.

Given that Elders will not be paying dividends before March 2012, a substantial part of the group's cashflow will be available for further debt repayments, in the absence of any acquisitions. Additional asset sales will also allow the group to further reduce debt. On the basis of these assumptions, and in the absence of a significant deterioration in trading conditions, we would expect Elders to remain comfortably within its covenants, as set out in Figure 8. The main caveat of course is that a significant deterioration in operating conditions could see Elders bumping up against these covenants.

Figure 8. Bank Covenants and Credit Metrics

Covenant*	First Test Date	FY10 Aegis Forecast	FY10 Sep Quarter	FY11 Sep Quarter	FY12 Sep Quarter
Gross Debt/EBITDA	30 Jun 2010	2.0x	6.0x	3.75x	2.5x
EBITDA/Interest	30 Jun 2010	3.7x	1.2x	2.5x	3.25x
Gearing (Gross Debt/Equity)	31 Dec 2009	14%	60%	55%	45%

*Covenants apply to the referenced quarter only and will change over time.
Source: Elders

Asset Sales

In addition to the capital raising, Elders has also raised a substantial amount of cash from the sale of assets that are non-core on the basis of its new strategy to structure its business around the rural services activities. Since December 2008, the company has realised more than A\$600M in asset sales. With the proposed sale of Elders' 50% stake in Hi-Fert and the potential sale of Futuris Automotive, we expect the company to receive further cash from asset sales over the next 12-18 months.

Figure 9. Asset Sales

Asset	Completed	Proceeds A\$M	Details
Amcom	Dec-08	38.8	50.1% shareholding divested
Webster	Dec-08	13.0	33.7% shareholding divested
AACo	May-09	185.6	43% shareholding divested
Rural Bank	May-09	33.9	10% shareholding divested - retains 40%
Elders Insurance	Sep-09	270.0	Elders insurance underwriting and distribution operations Holds a 25% interest in distribution joint venture post sale
Timber	Dec-09	88.5	ITC timber processing business
Other		2.8	Includes Harvey Beef (abattoir) horticulture and fodder
		632.6	

Source: Elders

Earnings Outlook and Forecasts

Elders is forecasting a substantial improvement in earnings in FY10 based primarily on a recovery in the Rural Services business. The key factors expected to drive the recovery in Rural Services are as follows:

- Lower price volatility, especially for agricultural chemicals such as fertilisers. FY09 was impacted by significant inventory write-downs due to high price volatility;
- Better inventory management and procurement practices;
- Better rural conditions driving increased demand for products and services; and
- Reductions in costs and overhead expenses.

Futuris Automotive is also forecast to achieve a major turnaround due to a stabilisation in car production and the benefits of a profit improvement program, including lower direct costs.

Forestry is also projected to deliver improve returns due to higher MIS sales, increased sales of woodchips through harvests of third-party plantations and cost-saving initiatives.

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At the company's AGM in December 2009, Elders advised the market that trading conditions since 1 October had been consistent with its expectations of subdued activity levels and soft prices for the opening period of the year. It said that it expects earnings to be weighted to 2H10 due to seasonal factors and a gradual improvement in market conditions.

We have taken a more conservative approach to our FY10 forecasts than Elders and would like to see some solid evidence of a marked turnaround in the key Rural Services and Automotive businesses. Our forecast is for adjusted group NPAT of A\$45.4M in FY10 compared with the company's forecast of A\$55.7M. We do expect a significant improvement in the Rural Services business, with the absence of large inventory write-downs being a major factor in the turnaround. We also expect to see some improvement in Futuris Automotive results, given the rising consumer confidence levels in Australia. We note that Australian new car sales for December 2009 were 17.2% higher than those in December 2008, indicating a solid recovery in domestic car sales, in part driven by government incentives.

Figure 10. Earnings Forecasts

\$M	12 months ended	3 months ended	12 months ended	12 months ended
	30-Jun-09 Actual	30-Sep-09 Actual	30-Sep-10 Prospectus*	30-Sep-10 Aegis
Sales revenue	2,627.6	226.3	2,336.4	
Rural Services	9.6	-0.8	55.5	
Financial Services	22.7	1.0	17.9	
Forestry	10.6	-4.7	14.1	
Automotive	-15.5	0.4	6.5	
Corporate & Other	-10.6	0.0	-9.0	
Intercompany Eliminations	0.0	0.0	-0.7	
Underlying EBIT	16.8	-4.0	84.2	
Net interest Expense	-51.8	-38.8	-26.7	
PBT continuing operations	-35.0	-42.9	57.5	
Minority interests	1.9	-0.4	-2.3	
Tax Expense	6.2	18.4	0.5	
Adjusted NPAT	-26.9	-24.9	55.7	45.4
Discontinued operations	-165.4	11.6	-1.6	-1.6
Non-recurring items	-223.1	-37.8	-4.0	-4.0
Reported NPAT (Loss)	-415.4	-51.0	50.1	39.8

*Elders' forecasts as published in the capital raising prospectus.
Source: Elders/Aegis Equities Research

Dividend Policy

The balance sheet recapitalisation resulted in the suspension of distributions on hybrids for the next two years, and dividends on Elders ordinary shares will not be paid until after 31 March 2012 subject to satisfaction of several conditions, including the resumption of distributions on the hybrids. The non-payment of dividends means that a substantial part of the company's cashflow can be directed towards further debt repayment.

Our forecasts assume that dividend payments will recommence in 2H12.

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7. Valuation and Investment View

Valuation Assumptions

We value Elders using a discounted cashflow methodology. Our key WACC discount rate assumptions are presented in the following table.

Figure 11. WACC Discount Rate

Risk Free Rate	6.3%
Risk Premium	6.0%
Sector Beta	1.0
Analyst Beta Adj	0.3
Beta	1.30
Cost of equity	14.1%
Debt Cost Margin	2.5%
Cost Of Debt	8.8%
Tax Rate	30%
Post-tax cost of debt	5.8%
Target D/(D+E)	35%
WACC Discount Rate	11.3%

Source: Aegis Equities Research

Other key assumptions we have used in our valuation include the following:

- A recovery in earnings in FY10, but not to the same extent as the company's own forecasts. We have assumed the recovery will take a little longer and have allowed for further strong growth in FY11;
- We have assumed that the Rural Services margin will rise over the next few years, given the company's focus on driving improvements through the business. We have assumed the margin will recover to 3%, which is below the company's aspirational medium-term target of 5%-6%. If the company is able to achieve its medium-term target, then there is obviously upside to our valuation;
- Some improvements in working capital in FY10, given the greater focus on inventory and working capital management;
- No dividend payments until 2H12 with a payout ratio of 50% thereafter; and
- Our WACC discount rate assumes a target debt/debt plus equity target of 35%. Whilst the actual ratio is likely to be much lower than this in the short term, our forecast allows for resumption in growth in the business over the longer term.

Based on our assumptions, we value Elders at A\$1.81 per share.

Our 12-month price target is A\$1.66.

In deriving our 12-month price target, we have applied a 15% discount to the target. Whilst the worst appears to be over for Elders and the company is in a much stronger financial position, we maintain a cautious approach, given the difficulties the company has been through, and would like to see some evidence of an earnings recovery before removing our discount. We believe the market will also wait for evidence of a turnaround before rerating the stock.

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Comparison of Valuation Metrics Between the Listed Agricultural Stocks

Figure 12. Valuation Metric Comparison With Other Agricultural Stocks

	Market Price	EPS Growth		PE		Dividend Yield		ROE	
		FY10F	FY11F	FY10F	FY11F	FY10F	FY11F	FY10F	FY11F
Elders	\$1.43	n.a.	39.30%	13.4	9.6	0.00%	0.00%	4.10%	5.10%
AWB	\$0.945	-53.20%	17.30%	10.2	8.7	0.00%	5.30%	6.10%	6.40%
Graincorp	\$6.11	35.90%	24.30%	12.8	10.3	3.80%	4.90%	8.00%	8.50%

Based on closing prices as at 19 March 2010
Source: Aegis Equities Research

It is difficult to compare the three main listed agricultural stocks, given the difference between each business. However, our comparison above does highlight the relatively low PE ratios on which these stocks trade. This discount to the market PE probably reflects a number of factors, including the earnings volatility and exposure to weather patterns, which are out of the companies' control; poor seasonal conditions and earnings losses of the past few years; and the financial stress experienced by AWB and Elders. We note that the industry is also characterised by low returns on equity.

Outlook and Investment View

- Elders has undergone a difficult period over the past two years as progressively deteriorating operating conditions decimated the company's earnings, led to significant write-downs and placed the company in a perilous financial position. However, decisive action to refocus the company and recapitalise the business has placed the company in a strong position to move forward as its key markets recover.
- Operationally, conditions are expected to improve across all of Elders' remaining businesses in FY10. The rural sector is experiencing better conditions and FY10 is unlikely to see the significant inventory write-downs of FY09. The Forestry division should start to stabilise as the fallout from the Great Southern and Timbercorp collapses subside, and the automotive industry is showing tentative signs of a turnaround. Nonetheless, conditions remain fragile across the economy and recovery may take longer to achieve than expected.
- Financially, Elders is a much stronger business following the recapitalisation and the repayment of debt from asset sales and equity raising proceeds. The company is now in a much stronger position to participate in a recovery in market conditions. Gearing is low, key borrowing facilities have been restructured and extended and the group has significant headroom under new banking covenants. We expect Elders' financial position to remain strong and further improve as additional non-core assets are sold and cashflow is used to repay debt rather than pay dividends.
- From a business transformation perspective, management has a strong focus on turning Elders into a more efficient business focused on achieving growth in its core Rural Services and Forestry operations.
- There are still a number of risks surrounding Elders, not the least of which is that its exposure to cyclical industries that can lead to earnings volatility. There is also a risk that the turnaround in earnings may take longer to achieve than expected.
- From a valuation perspective, Elders looks reasonable value at current prices. However, the company operates in difficult, highly cyclical markets in the agricultural and automotive sectors and the stock may not be suitable for all investors. We also note that the stock will not be paying any dividends before March 2012.
- **At current prices, we have an ADD recommendation on Elders on both 12-month and long-term horizons.**

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8. Board and Management

The Elders board has a broad range of experience, including directors with experience relevant to Elders' core business operations. With the exception of the CEO, all directors are non-executive, which we view favourably.

Directors

Stephen Gerlach, Chairman: A non-executive member of the board since November 1996 and Chairman since July 2003. Mr. Gerlach chairs the company's Nomination & Prudential and Remuneration Committees. Formerly Managing Partner of Adelaide legal firm Finlaysons, Mr. Gerlach has extensive experience as a corporate advisor and company director. He also holds directorships at Santos Limited (chairman) and Santos Finance Ltd (chairman). He is the Chairman of Foodbank SA Inc., a director of Foodbank Australia Ltd and a trustee of the Australian Cancer Research Foundation. Mr. Gerlach was previously a director of Southcorp Limited (1994-2005). Mr Gerlach has indicated that, once a successor is found and settled onto the Board, he will step down as Chairman and retire from the board.

Malcolm Jackman, Chief Executive Officer and Managing Director: Malcolm Jackman joined Elders Limited as Chief Executive Officer in September 2008. Prior to joining Elders, Mr. Jackman was Chief Executive of Coates Hire, an ASX 200 company, from 2003 until its acquisition early in 2008. His previous roles include appointments as Chief Executive of Manpower Australia and New Zealand and General Manager of Adia (now Adecco). Prior to entering commerce, Malcolm served as an officer in the Royal New Zealand Navy.

Charles Bright, Non-executive Director: A non-executive member of the board since May 2002. Mr. Bright is a member of the Nomination & Prudential Committee and a director ITC Ltd, APT Projects Limited, ITC Project Management Limited and Chairman of BWK AG Supervisory Board. Mr. Bright has over 30 years' experience in investment banking, with positions including Chairman of Potter Warburg Securities and Head of Corporate Finance for HSBC in Australia. Mr. Bright is also acting Chairman of Australian Agricultural Company Limited and a director of Tassal Group Limited and Webster Limited. Mr. Bright served as a director of Australian Plantation Timber Limited from 2002 to 2005.

Raymond George Grigg, Non-executive Director: A non-executive director of the company since February 2004. Mr. Grigg is also a non-executive director of Futuris Automotive Group of companies and a member of Futuris Audit committee. He has extensive experience and leadership in senior management within the automotive industry, having joined the board following a 47-year career with General Motors Corporation where Mr. Grigg held a number of senior positions, both in Australia and overseas. At retirement, Mr. Grigg was President and Representative Director, General Motors Asia Pacific (Japan) as well as Chairman, CEO and Representative Director of GM Japan. Previous positions held include General Manager-Operations at GM Holden in Australia and Executive Director, GM International CKD Operations in Germany. Mr. Grigg is also a non-executive director of Adtrans Group Limited and Vice President of the Royal Automobile Association of SA Inc and Bedford Industries Ltd.

Ian McDonald, Non-executive Director: A non-executive member of the board since November 2006. Mr. McDonald is a director of Elders Rural Bank Ltd, Elders Insurance Ltd, Elders Insurance Agencies Pty Ltd, Elders Trustee Ltd and Elders Financial Services Group Pty Ltd. He is also a member of the Australian Institute of Company Directors and a Senior Fellow of the Financial Services Institute of Australasia. Mr. McDonald has had an extensive career in banking, both in Australia and internationally, having served National Australia Bank Ltd for 34 years, including performance of a number of senior management roles, including Chief Operating Officer, Yorkshire Bank, Executive General Manager, Financial Services Australia, and Group Chief Information Officer. Mr. McDonald is a director of Arab Bank Australia Ltd and CPT Global Ltd.

Graham Walters, Non-executive Director: A non-executive member of the board since January 2002. Mr Walters retires as a director of Elders effective 31 March 2010.

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James Hutchison (Hutch) Ranck, Non-executive Director: Mr. Ranck was appointed a non-executive member of the board on 24 June 2008. He is Managing Director of DuPont Australia & New Zealand and Group Managing Director for DuPont operations in ASEAN. Mr. Ranck has had a long and distinguished career with DuPont where he has held senior management positions in Australia and overseas finance, chemicals, pharmaceuticals and agricultural products. He is currently Chair of the BCA Education, Skills and Innovation Task Force and a director of the Australian Bush Heritage Foundation.

Rob Wylie, Non-executive Director: Mr. Wylie was appointed a non-executive director of the company in November 2009. Mr. Wylie is a chartered accountant with over 30 years of experience in accounting, audit and corporate governance. His previous roles include Executive Partner (Office of the Chief Executive Officer) and National Managing Director Corporate Governance Services (New York); Deloitte and Touche USA; Deputy Managing Partner, Deloitte Asia Pacific; and Chairman; Director – Board of Partners, Chief Executive Officer, Deloitte Australia.

Mark Allison, Non-executive Director: Mr. Allison was appointed non-executive director of the company in November 2009. Mr. Allison has 25 years of experience in the Australian agribusiness sector, with a particular expertise in senior management of rural distribution networks. This includes appointments as Managing Director of Wesfarmers Landmark Limited and Wesfarmers CSBP Limited and prior to Wesfarmers in senior positions within Orica as General Manager of Crop Care Australasia and with Incitec as General Manger- Fertilisers.

Key Management

Malcolm Jackman, CEO and MD: Refer to "Directors" section.

Mark Hosking, Chief Financial Officer: Mr Hosking joined Elders as the Chief Financial Officer in April 2009 and is responsible for the overall financial management of the Elders group. Prior to joining Elders, Mark held various positions within the Financial Services industry where he gained extensive knowledge, qualifications and experience in finance roles at Ernst & Young, BHP Ltd and Senior finance roles at ConAgra Wool and NAB Ltd. Mark was later appointed to CFO responsibilities at Bank of New Zealand and AWB Pty Ltd.

Mr Hosking holds a Bachelor of Commerce and MBA and is a fellow of CPA Australia and of the Australian Institute of Company Directors.

Michael Guerin – Chief Operating Officer: Mr Guerin joined Elders as the Chief Operating Officer in March 2008 with over 20 years experience in the financial services industry. Prior to joining Elders he held positions in Branch Banking, Credit, Legal, District and Regional Management and was later appointed to roles such as General Manager and Managing Director at ANZ and Elders Rural Services. Mr Guerin holds a Bachelor of Commerce and MBA as well as a Post Graduate Diploma in Banking.

Elders Forestry Senior Management

Vince Erasmus, Manager Director – Elders Forestry: Mr Erasmus was appointed Chief Executive Officer of Elders Forestry Limited in February 2006. He has two decades of experience in senior management positions in the South African timber industry and extensive experience in both the management and processing of hardwood timbers. A qualified forester and seasoned saw miller, Mr Erasmus has had extensive exposure in maximizing forest product yields and returns through investment in and management of various processing options ranging from sawmilling, veneer and plywood production through to the production of fibre based panels. He is currently a director of Forest Enterprises Australia Limited (FEA), Forest Stewardship Council (FSC) Australia, Forest and Wood Products Australia Limited (FWPA), National Association of Forest Industries (NAFI), World Forestry Centre in Portland, Oregon, and leads price negotiations for plantation woodchip with Japan, Australia's largest export market, on behalf of producers throughout mainland Australia.

Andrew Bendall, Chief Financial Officer: Mr Bendall was appointed Chief Financial Officer of Elders Forestry Limited in May 2006. Previously Finance Director (Oceania) with consumer goods business Whirlpool, Mr Bendall is a qualified accountant with significant corporate experience in the consumer goods, chemical and agricultural sectors. He has also held senior positions with Orica Limited and Incitec Pivot Limited, primarily in finance, treasury and commercial roles, with business operations in Australia and overseas.

Linda Pickering, General Manager - Funds Management Mr Pickering joined Elders Forestry Limited in January 2007 as National Sales Manager and was appointed General Manager – Funds Management in July 2008. Ms Pickering has management responsibility for the design, development and distribution of forestry Projects and management of investor relations. Ms Pickering brings extensive financial services experience to the role, gained in senior positions over a career of 25 years. Prior to joining Elders Forestry Limited, she held various positions with AXA culminating in her appointment as AXA's Sales and Business Solutions Manager.

Ockert Le Roux, General Manager – Forestry Mr Le Roux was appointed General Manager - Forestry in November 2008. Mr Le Roux is an experienced, qualified forester with a career in the industry spanning more than 20 years and was previously General Manager of Forestry at South Africa's largest forestry company, Sappi Limited, where he managed a harvesting and logistics program of more than 5 million tonnes each year, and initiated an extensive land acquisition program to allow forestry plantation expansion. Mr Le Roux also plays a key role in the negotiation of export plantation woodchip prices with Japan, Australia's largest woodchip export market.

Marie Connett, Forestry Research and Development Manager Dr Connett joined Elders Forestry Limited in May 2009. Her role is to build on the Elders Forestry Limited Group's existing research and development work with a focus on research, technology transfer into forestry operations, and to provide expert advice and services to forestry operations groups. Dr Connett has a doctorate from Cornell University in plant genetics, ecology and plant physiology and an MBA from the University of South Carolina in International Business Marketing, Project and Systems Management. Prior to joining Elders Forestry Limited, Dr Connett was Chief Executive Officer of A Rocha International, a conservation NGO operating in 18 countries, and brings to Elders Forestry Limited three decades of work experience across forestry, paper, carbon, bioinformatics, intellectual property, timber processing, research, and academia.

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