Change of menu for Crookes Brothers

By Marc Hasenfuss

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The sale by KwaZulu-Natal-based agribusiness Crookes Brothers of its Bredasdorp grain farming operations won't be a surprise to shareholders.

After all, these assets, held under Quarrie Farms, were tagged as "held for sale" assets in the latest annual report.

What is surprising is that Crookes has raised the equivalent of 20% of its market capitalisation with the R160m sale of Quarrie Farms to a group of farmers.

It looks like a very attractive price, since Crookes' latest annual report shows these grain and sheep farms produced revenue of R23m (with grain production up to 6,708t) and operating profit of R9,1m.

That's a heck of a price:earnings ratio in anyone's book, though the firmer grain and mutton prices of late have spurred strong demand for farms in the Bredasdorp area. The annual report valued held-for-sale assets at just over R20m.

Though the sale gives Crookes' already robust balance sheet (gearing is 5%) an even more formidable look, it does crimp the company's operational diversity. The 4,000ha on Quarrie Farms accommodated grain, wheat and canola (on 2,000ha) as well as lucerne (1,200ha) and around 7,000 sheep.

Opportunities in Africa

Crookes' chief executive Guy Clarke says the farms could not be expanded to the size required by the company's operations. "We could not buy additional land at a good price to make it bigger," he says.

It's unlikely shareholders will carp too much about capitulating in Bredasdorp as Crookes has many more growth opportunities.

Clarke says the Quarrie Farm funds will be reinvested in "our many major projects in southern Africa that will require cash in the medium term".

The annual report shows an additional 242ha of irrigated cane (still the company's main concern) were developed on its Swaziland estate and the final 38ha of the deciduous fruit expansion were completed on the Vyeboom farm in the Western Cape.

Crookes also kicked off development of a 300ha macadamia estate near Gurue in northern Mozambique.

In other strategic pushes, the company spent R200m acquiring and developing new production capacity, along with upgrading roughly 265ha of irrigation systems on sugar cane farms.

With Crookes' cash coffers now brimming with an extra R160m, the annual report's reference to being "at present involved in negotiations for several promising prospects" becomes all the more intriguing.

Other options

It seems unlikely Crookes could revisit other grain farming options in the Western Cape. The annual report is quite specific: "The group is of the opinion that better options for investment in grain crops exist in neighbouring countries at lower land prices."

A contention that better yields on capital can be achieved elsewhere in the southern African region in grain (and other crops) underpins Crookes' long-term target of 15% annual growth in headline earnings and a return on equity that is better than 15% a year.

In his annual review Crookes non-executive chairman Guy Wayne conceded these goals were considered aggressive for a farming operation, where single-digit returns are the norm. "In order to achieve these goals we need to identify and implement high-return projects on a continuous basis."

Wayne pointed out that the required rate of investment was estimated at R500m over the next five years, with a targeted nominal internal rate of return (after tax) of more than 20% a year on new capital projects.

Importantly, he noted: "The strategy implementation process is opportunity-driven and opportunities outside our core areas of expertise to expand our range of crops or invest in new countries may still merit consideration."

Considering how the market likes PSG-controlled Zeder Investments' commercial farming foray in Zambia (Chayton), it's a wonder so few punters are paying attention to Crookes.

Source: Financial Mail via I-Net Bridge