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Advisors to Australian Agriculture





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Booms, Busts and Farm Economics

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What are the Icebergs Which can cause a bust?

- “Roo in the Stew”
- “Oil Shock”
- “Trade Barriers”
- “Economic Crisis”
- “Animal Lovers”



Current Situation

- Shortage of Sheep
- Strong Demand
- Prices Rising
- Costs will rise



Should You Invest in Sheep?



Our Modelling

- 1000 Breeding Ewes
- 90% Weaning
- 10% Culling
- 2% Deaths
- CFA Sold at 7 Year Old

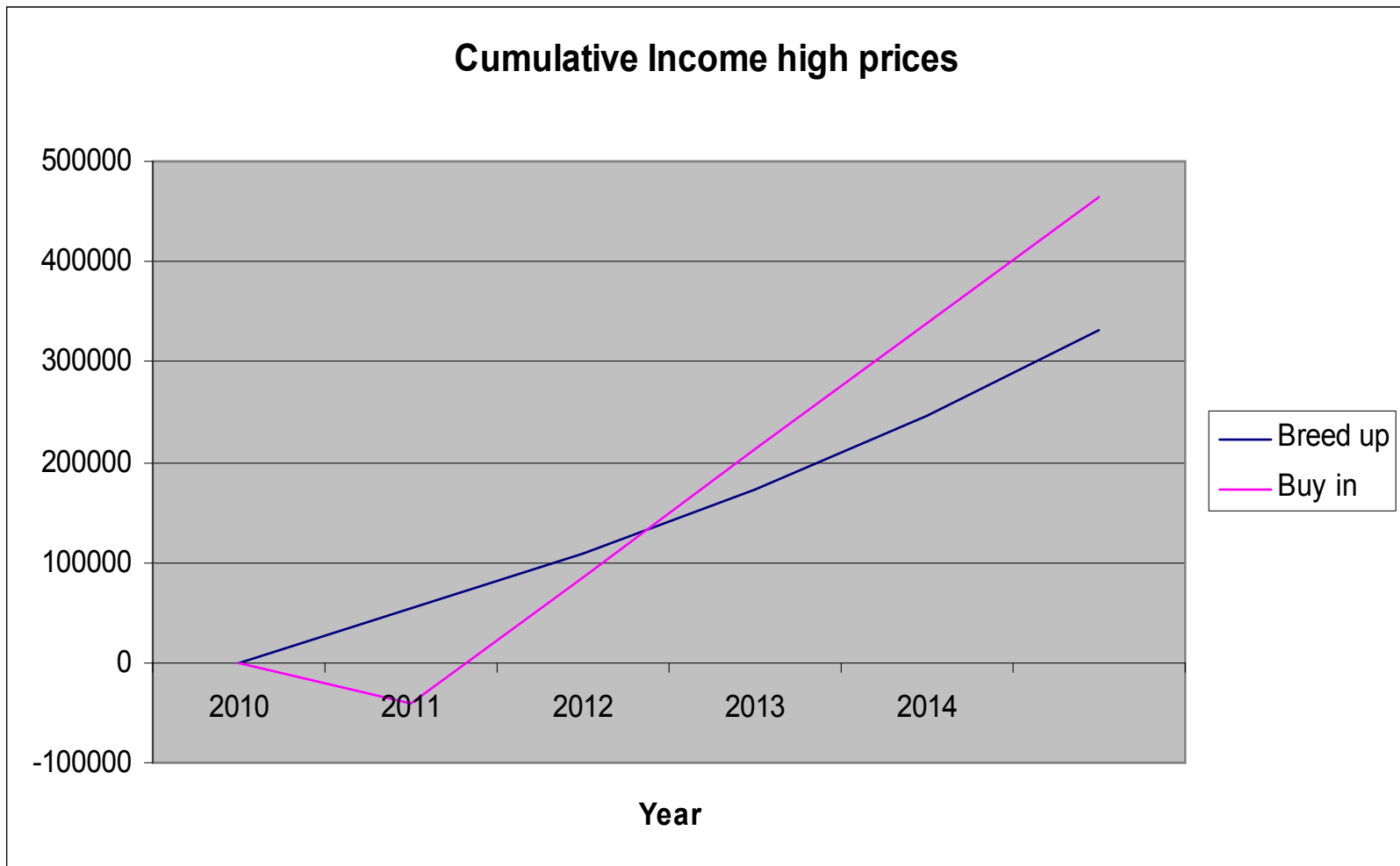
Choices

- Breed up to 2000
- Purchase 1000

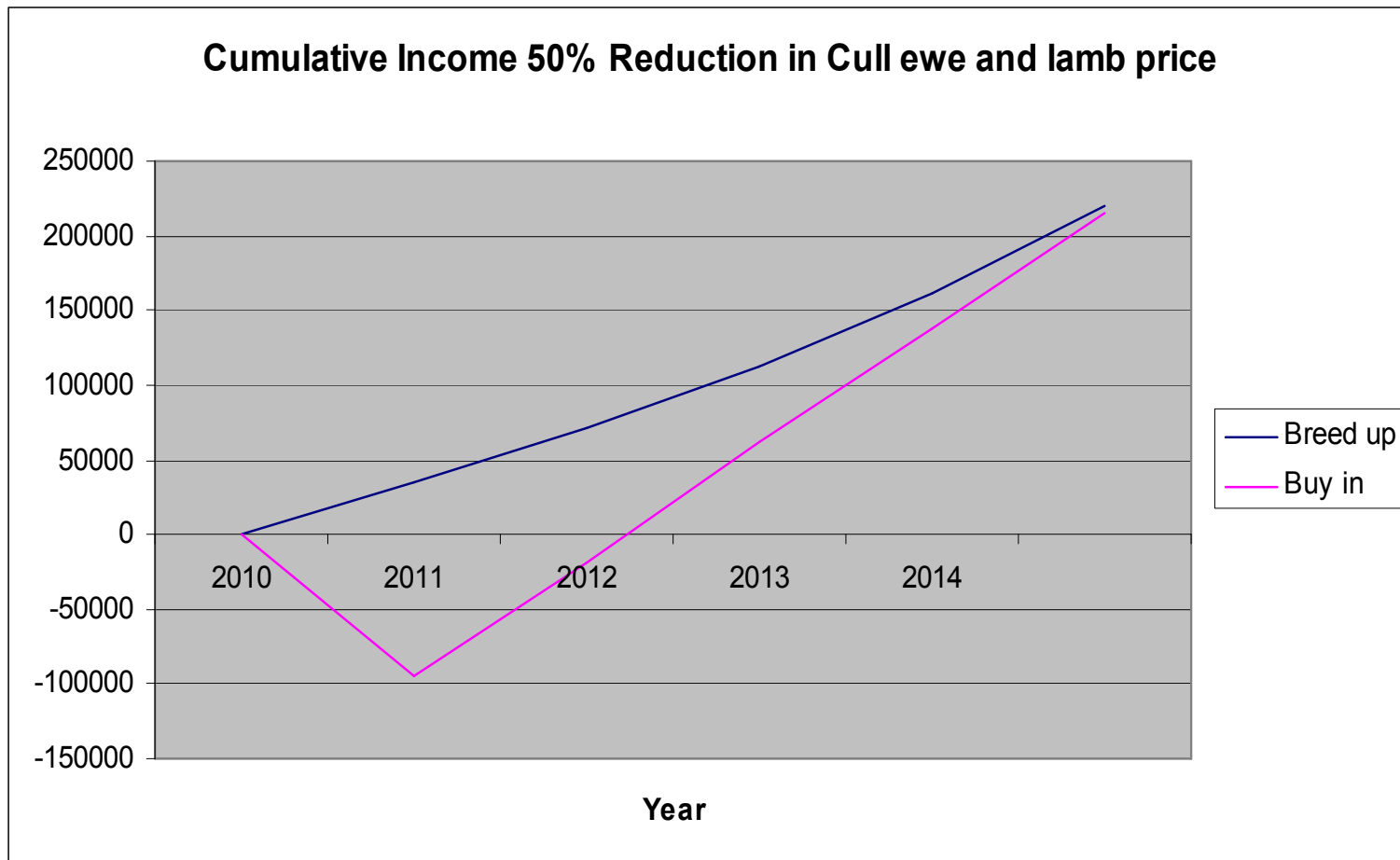
Four scenarios have been modelled

- Scenario one: Steady state market and no borrowing except for the purchase of the extra stock
- Scenario two: Market fall and no borrowing except for the purchase of the extra stock
- Scenario three: Steady state market and \$200,000 core debt plus borrowing for the extra stock
- Scenario four: Market fall and \$200,000 core debt plus borrowing for the extra stock

Graph 1: Scenario one Steady state market and no borrowing

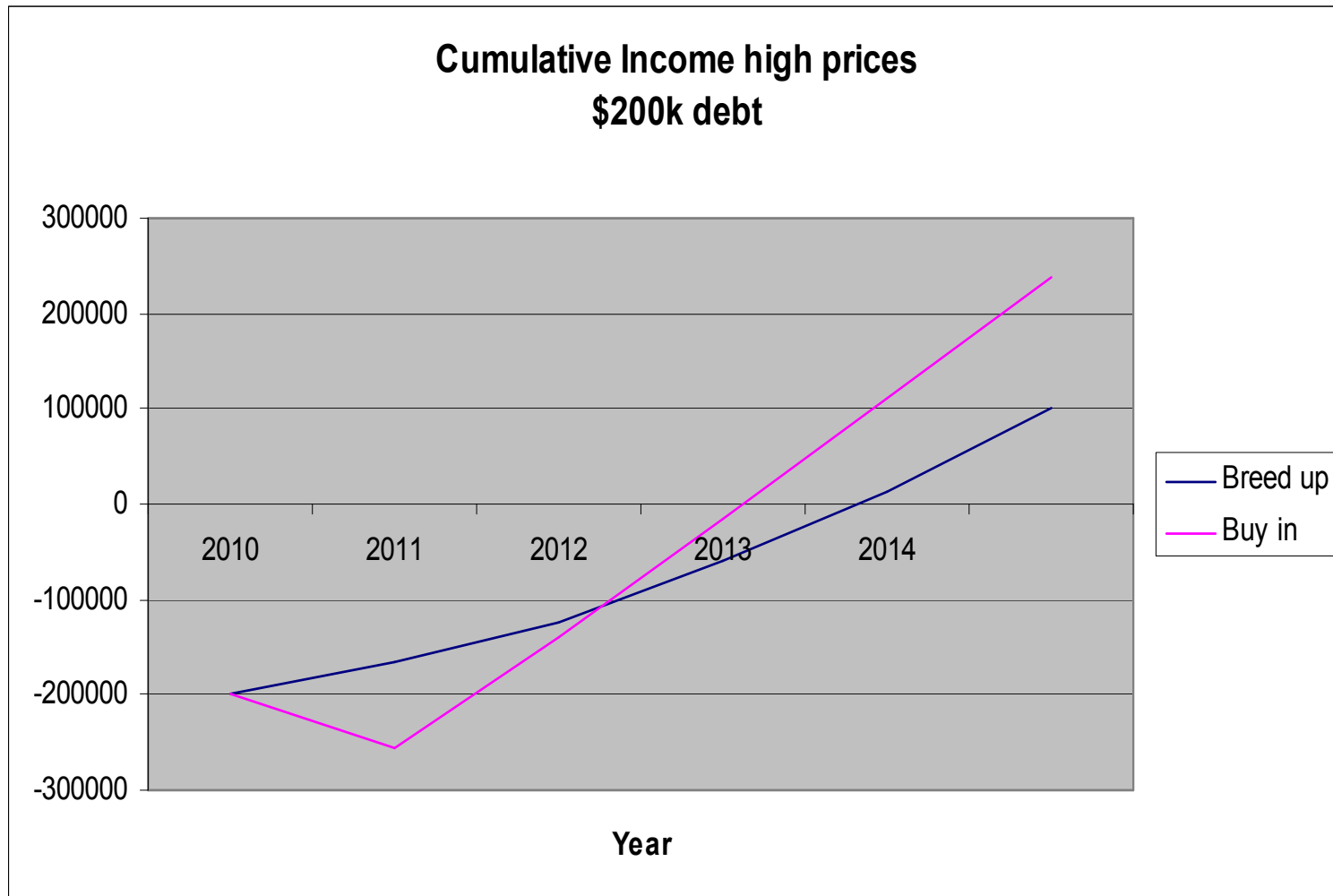


Graph 2: Scenario two Market fall and no borrowing

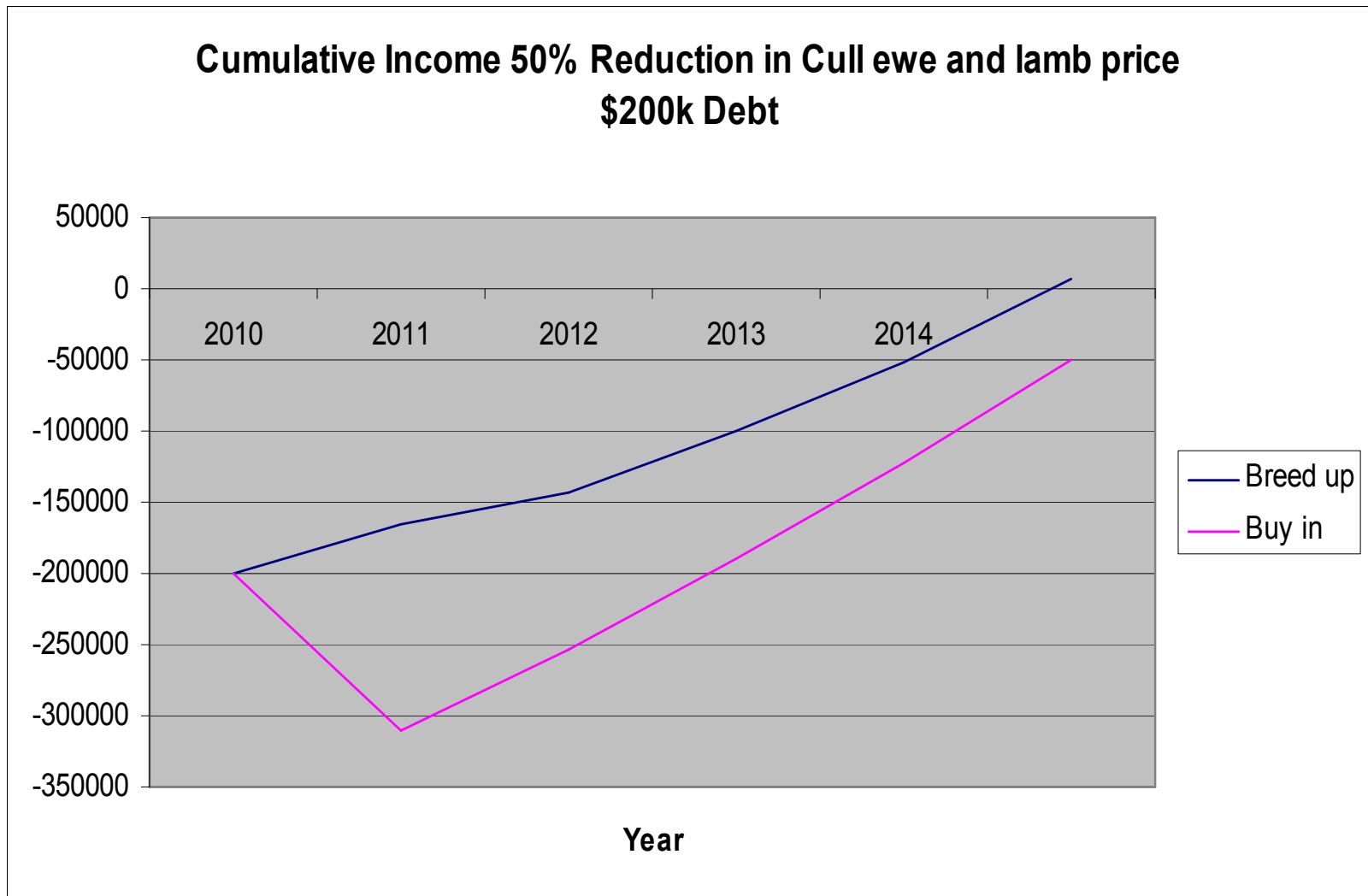


In this situation breeding up gives a better return than buying in.

Graph 3: Scenario three Steady state market and \$200,000 borrowed



Graph 4: Scenario four Market fall and \$200,000 borrowed





Sheep Purchasing Decision Tool

Assumptions:	
Lambs sold in wool	
Ewes purchased	300
Years retained	4
Discount rate	12%

NPV	\$8,151.48
IRR	20%

Year	1	2	3	4	5
Lambing % Ewes	100%	100%	100%	100%	80%
Death Rate Mature Ewes	2%	2%	2%	2%	2%
Death Rate Lambs	4%	4%	4%	4%	4%
Interest Rate	8%	8%	8%	8%	8%
Sale Value of Ewes				\$ 50.00	
Purchase price Ewes	\$150				
Sale Value of Lambs	\$80	\$80	\$80	\$80	\$80
Sale Value of Wool	\$5.50	\$5.50	\$5.50	\$5.50	\$5.50
Kg Wool / Hd	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00
Drench, Fly, Vac	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
Comm, Levies	\$5.00	\$5.00	\$5.00	\$5.00	\$5.00
Labour	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00
Cartage	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Shearing, Crutching	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00

Schedule

Ewes	Sales				277	
	Losses	6	6	6	6	0
	Trans out	300	294	288	282	0
	Closing	294	288	282	0	0
	Total	600	588	576	565	-1
	Opening		294	288	282	0
	NI	300	294	288	282	0
	Purchase	300				
	Trans in					
	Total	600	588	576	565	-1

Lambs	Sales	288	282	277	271	0
	Losses	12	12	12	11	0
	Trans out					
	Closing	0	0	0	0	0
	Total	300	294	288	282	0
	Opening		0	0	0	0
	NI	300	294	288	282	0
	Purchase					
	Trans in					
	Total	300	294	288	282	0

Income					
	\$	\$	\$	\$	\$
Sheep	-	-	-	13,850	-
	\$	\$	\$	\$	-\$
Lambs	23,040	22,579	22,128	21,685	18
	\$	\$	\$	\$	-\$
Wool	9,900	9,702	9,508	9,318	10
Total	\$ 32,940	\$ 32,281	\$ 31,636	\$ 44,853	-\$ 27
Expenses					
	\$	\$	\$	\$	-\$
Drench, Fly, Vac	1,746	1,711	1,677	812	2
	\$	\$	\$	\$	-\$
Comm, Levies	1,440	1,411	1,383	2,740	1
	\$	\$	\$	\$	-\$
Labour	1,200	1,176	1,152	1,129	1
	\$	\$	\$	\$	-\$
Cartage	576	564	553	1,096	0
	\$	\$	\$	-\$	-\$
Shearing, Crutching	882	864	847	1	1
	\$	\$	\$	\$	\$
Interest	3,600	3,600	3,600	3,600	3,600
	\$	\$	\$	\$	\$
Depreciation	7,788	7,788	7,788	7,788	7,788
Total	\$ 17,232	\$ 17,115	\$ 17,000	\$ 17,165	\$ 11,383
	\$	\$	\$	\$	-\$
Net Income	-\$45,000	15,709	15,167	14,635	27,688
					11,410



Conclusion

- History tells us price shocks do happen, are unpredictable and often are caused by unforeseen (unknown unknowns) events.
- Use good business sense. It's the decisions made in good times that impact on a business in a downturn.
- The impact of market changes is integrally tied to the debt position of the business. Those businesses with high debt levels are particularly vulnerable to down turns in prices and increases in costs.

Conclusion

- Know what the effect of the worst case scenario is on any business decision.
- Remember that profits dissipate and losses accumulate.
- Fundamentally the future is very positive for sheep.
- Use the current boom to increase equity in your business and accumulate some profits.



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