

Webster (WBA)

Initiation of Coverage: In a nutshell, WBA is the best way to play Agriculture

BUY

Risk: HIGH

Key Information

Price (\$ps)	1.26
Target Price (\$ps)	1.80
Market Cap (\$M)	438
Sector	Process Industries
52 week Hi-Lo (\$ps)	2 - 1.05
Daily Vol (M, mth avg)	0.195
Weight of S&P 200 Index (%)	0.032
Cash (\$m)	\$17M
Debt (\$m)	\$197M
Forecast Total Return (%)	42.9

Investment Fundamentals

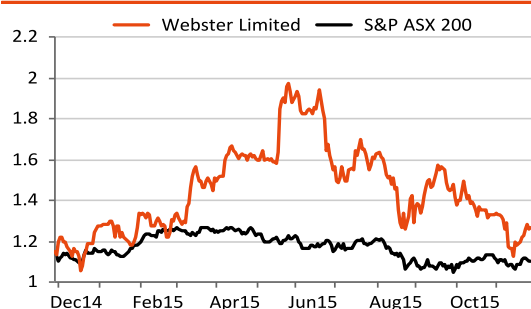
30-Jun	FY14A	FY15A	FY16E	FY17E
Sales (\$m)	54.9	58.3	96.4	149.2
EBITDA (\$m)	14.7	16.1	29.1	59.4
Margin (%)	26.8%	27.6%	30.2%	39.8%
NPAT (\$m)	8.3	8.3	10.9	32.0
EPS (cps)	6.2	3.7	3.1	9.2
EPS Growth (%)	10.5%	-40.4%	-14.9%	192.5%
DPS (cps)	3.50	1.00	1.50	4.50
Franking (%)	100%	100%	100%	100%

Source: Shaw and Partners

Ratio Analysis

30-Jun	FY14A	FY15A	FY16E	FY17E
PE (x)	20.3	34.1	40.0	13.7
EV/EBITDA (x)	30.3	38.4	21.4	9.5
P/CFPS (x)	nm	nm	nm	nm
Yield (%)	2.8%	0.8%	1.2%	3.6%
ROE (%)	6.8%	7.7%	1.6%	2.2%
P / NTA (x)	4.46	4.25	1.61	1.62

WBA vs S&P/ASX 200 Market Index



Performance	1 Mth	3 Mth	12 Mth
Absolute (WBA)	-6.0%	-2.7%	11.0%
Rel to S&P/ASX 200	-4.7%	-1.0%	13.6%

Company Activities

Webster is a large scale producer of agricultural commodities with a focus on walnuts and cotton. The company owns substantial land and water assets across Australia.

Major Shareholders	Shareholding
Australian Food & Fibre Ltd.	14.8%
CORRIGAN CHRISTOPHER DARCY	12.4%
Kaplan Funds Management Pty. Ltd.	9.3%
Verolot Ltd.	9.3%
JOY PETER R	7.0%

Event

We initiate coverage of Webster Limited (WBA) with a BUY recommendation and a \$1.80 price target. WBA is an industry leader with a dominant position in the Australian walnut market, has the largest private portfolio of water assets, and is benefiting from favorable demand and pricing tailwinds in the global market for walnuts.

Highlights

- **Returns to be maximised with the “highest best use of water”.** WBA represents a large water portfolio, maturing walnut orchards, large irrigated row cropping capacity, as well as best in class cotton farming management team with enough scale to make it a worthwhile investment. Simply, WBA will put its water portfolio to the “highest and best use” to irrigate the most profitable production in the WBA portfolio of assets.
- **Dominant market share.** WBA operates four walnut orchards across New South Wales and Tasmania, covering approximately 3,200 hectares. Production is expected to increase to approximately 11,000 tonnes of in-shell walnuts in 2016. Research has now proven the various health benefits of eating walnuts which is resulting in increased global consumption. World demand for walnuts (growing at a faster rate than global production) and a drought in California (majority of production) are driving strong pricing dynamics. Furthermore, improved socio-economic trends in Turkey, China and India are also opening up new markets. WBA produces food in the counter season to the northern hemisphere, so for 6 months of the year Webster has the freshest walnuts in the world.
- **“Cream of the crop” management team.** The WBA management team has some of the most experienced agribusiness executives in the country who bring expertise to the various agribusiness operations that the company is running. Richard Haire (Executive Chairman and CEO), Chris Corrigan (Director), Joe Robinson (Cotton), Derek Goulet (Walnuts) all bring decades of experience from running agribusiness operations and are considered to be among the best in the industry.

Recommendation

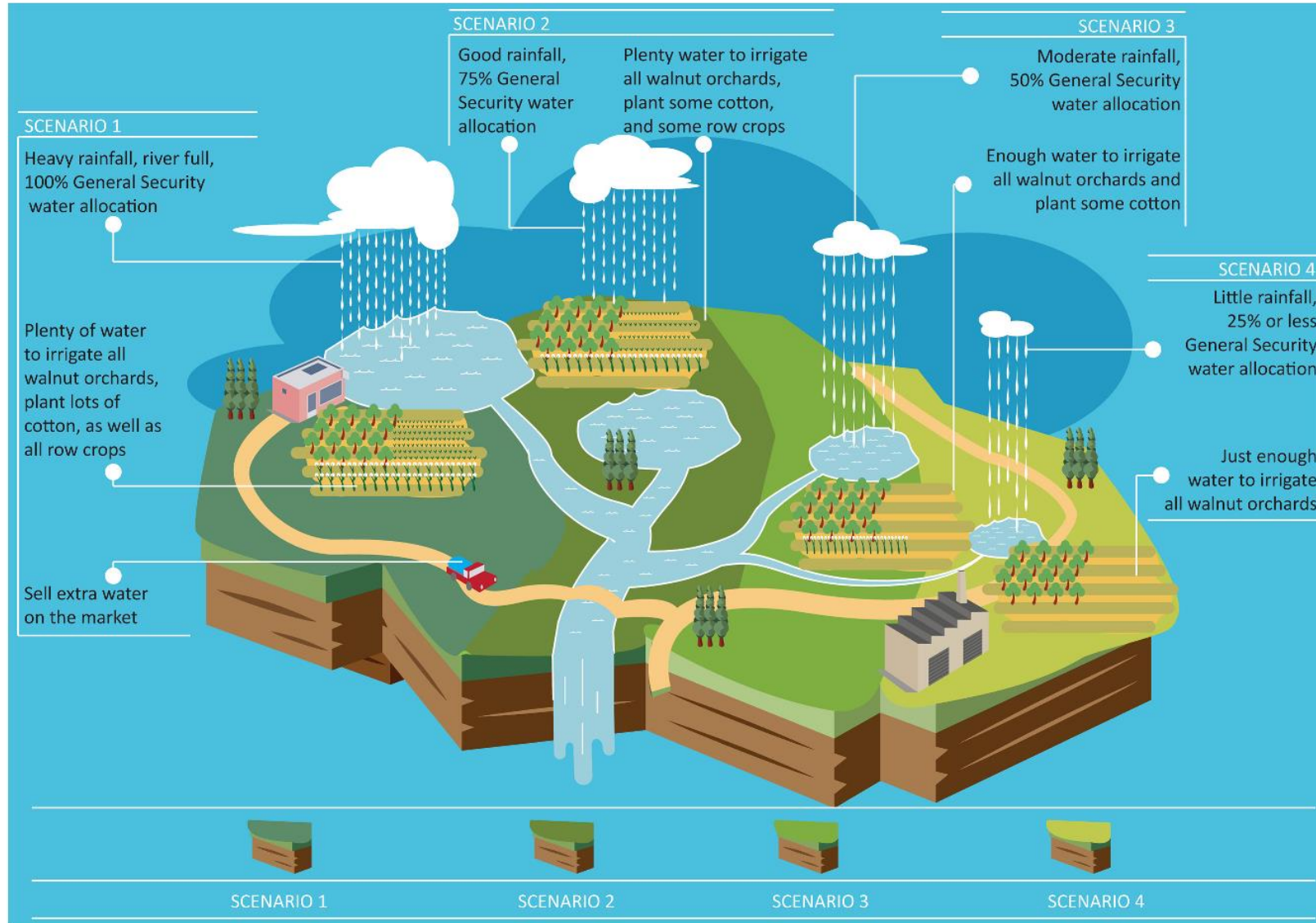
We initiate coverage with a BUY recommendation and a \$1.80 price target. Recent share price weakness (as a result of an announced nut set issue) represents an attractive entry point.

Financial Summary

Price (\$)	1.26	Target Price (\$):				1.80	Year End:					June				
Market Capitalisation (\$m)	438.1	Recommendation:				BUY										
No. Shares (m)	347.7	Risk:				High										
Earnings summary		FY14A	FY15A	FY16E	FY17E	FY18E	Valuation Summary					DCF Assumptions				
Normalised EPS (c)	6.2	3.7	3.1	9.2	11.1	11.1	DCF (\$)	1.67	Beta		2.00					
EPS Growth	10.5%	(40.4%)	(14.9%)	192.5%	20.5%	20.5%	Sum of the Parts	1.89	Cost of Equity		14.7%					
PE (x)	20.3	34.1	40.0	13.7	11.4	11.4	Composite Valuation (\$)		1.78		Cost of Debt		5.7%			
Adjusted PE (x)	20.3	34.1	40.0	13.7	11.4	11.4	TSR	44.0%	Risk Free Rate		2.7%					
DPS (c)	3.5	1.0	1.5	4.5	5.5	5.5	Growth Rates					FY14A	FY15A	FY16E	FY17E	FY18E
Dividend Yield	2.8%	0.8%	1.2%	3.6%	4.4%	4.4%	EBITDA	52.1%	9.4%	81.2%	103.9%	7.6%				
Franking	100%	100%	100%	100%	100%	100%	EBIT	56.8%	(11.2%)	50.7%	158.2%	10.1%				
Payout Ratio	56.4%	27.0%	47.7%	48.9%	49.6%	49.6%	Normalised NPAT	74.3%	(0.9%)	32.6%	192.5%	20.5%				
NTA per Share (c)	78.6	144.1	143.5	177.1	197.7	197.7										
Price to NTA (x)	1.6	0.9	0.9	0.7	0.6	0.6										
Operating CFPS (c)	(1.5)	(0.4)	2.7	23.5	19.6	19.6										
Price to CFPS (x)	(85.9)	(285.2)	46.7	5.4	6.4	6.4										
Enterprise Value (\$m)	435.0	420.9	424.5	376.5	342.5	342.5										
Profit & Loss (\$m)		FY14A	FY15A	FY16E	FY17E	FY18E	Half Yearly P&L (\$m)					2H13A	1H14A	2H14A	1H15A	2H15A
Revenue	54.9	58.3	96.4	149.2	187.5	187.5	Revenue	45.6	11.1	43.8	13.2	45.1				
Revenue Growth	3.8%	6.2%	65.3%	54.8%	25.6%	25.6%	Revenue Growth	524.2%	(75.6%)	293.7%	(69.8%)	241.4%				
EBITDA	14.7	16.1	29.1	59.4	63.9	63.9	EBITDA	11.4	(0.4)	15.1	(3.4)	19.5				
EBITDA Margin	26.8%	27.6%	30.2%	39.8%	34.1%	34.1%	EBITDA Margin	25.1%	(4.0%)	34.6%	(26.1%)	43.3%				
Depreciation	(0.3)	(3.3)	(9.8)	(9.6)	(9.1)	(9.1)	Depreciation	(1.5)	(1.6)	(1.6)	(2.2)	(2.2)				
Amortisation	(3.0)	(4.2)	(5.0)	(5.0)	(5.0)	(5.0)	Amortisation	0.0	1.0	2.0	3.0	4.0				
EBIT	14.4	12.8	19.3	49.8	54.8	54.8	EBIT	11.3	(0.5)	14.9	(3.9)	16.7				
EBIT Margin	26.2%	21.9%	20.0%	33.4%	29.2%	29.2%	EBIT Margin	24.8%	(4.3%)	34.0%	(29.4%)	37.0%				
Net Interest	0.3	3.3	9.8	9.6	9.1	9.1	Net Interest	0.6	(0.0)	0.5	(0.4)	(2.6)				
Pretax Profit	12.0	8.6	15.6	45.7	55.1	55.1	Pretax Profit	10.5	(2.0)	14.0	(6.1)	14.7				
Tax	(3.6)	(0.3)	(4.7)	(13.7)	(16.5)	(16.5)	Tax	(3.1)	0.6	(4.3)	1.8	(2.1)				
Tax Rate	30.5%	3.7%	30.0%	30.0%	30.0%	30.0%	Tax Rate	29.8%	30.0%	30.4%	30.0%	14.6%				
Minorities							Minorities	0.0	0.0	0.0	0.0	(0.1)				
Normalised NPAT	8.3	8.3	10.9	32.0	38.6	38.6	Normalised NPAT	7.4	(1.4)	9.8	(4.3)	12.5				
NPAT Margin	15.2%	14.1%	11.4%	21.4%	20.6%	20.6%	NPAT Margin	16.2%	(12.9%)	22.3%	(32.3%)	27.7%				
Significant Items	0.0	0.0	0.0	0.0	0.0	0.0	Significant Items	0.0	0.0	0.0	(0.5)	(2.0)				
Reported NPAT	8.3	8.3	10.9	32.0	38.6	38.6	Reported NPAT	7.4	(1.4)	9.8	(3.7)	14.5				
Balance Sheet (\$m)		FY14A	FY15A	FY16E	FY17E	FY18E	Ratio Analysis					FY14A	FY15A	FY16E	FY17E	FY18E
Cash & Equivalent	2.2	17.2	12.8	60.8	94.8	94.8	EV / EBITDA (x)	29.6	26.2	14.6	6.3	5.4				
Receivables	22.1	34.7	34.7	53.8	67.6	67.6	EV / EBIT (x)	30.2	32.9	22.0	7.6	6.3				
Inventories	18.3	81.5	81.5	126.1	158.4	158.4	ROE	8.9%	1.4%	1.8%	4.9%	5.4%				
Investments	0.8	0.0	0.8	0.8	0.8	0.8	ROA	6.0%	1.1%	1.4%	3.6%	4.0%				
PPE	50.8	218.1	218.1	218.1	218.1	218.1	ROIC	6.1%	1.1%	1.4%	3.9%	4.4%				
Intangibles	5.4	228.9	228.9	228.9	228.9	228.9	ROFE	6.1%	1.1%	1.4%	3.9%	4.4%				
Other	38.5	180.6	194.9	200.2	206.6	206.6	Net Debt (\$m)	7.4	179.5	183.9	126.0	81.9				
Total Assets	138.1	761.0	771.7	888.7	975.3	975.3	Net Debt / Equity	7.9%	29.5%	31.0%	19.1%	11.5%				
Payables	10.3	27.4	39.7	61.5	77.3	77.3	ND / ND + Equity	5.3%	23.6%	23.8%	14.2%	8.4%				
Debt	9.6	196.7	196.7	186.7	176.7	176.7	Net Interest Cover (x)	49.31	3.90	1.96	5.19	6.03				
Provisions	0.1	0.2	0.3	0.3	0.3	0.3	Work Cap / Revenue	40.3%	59.6%	36.0%	36.0%	36.0%				
Other	24.8	(71.1)	(58.5)	(18.0)	5.8	5.8	Dep'n / PPE	0.6%	1.5%	4.5%	4.4%	4.2%				
Total Liabilities	44.8	153.2	178.3	230.6	260.2	260.2	Capex / Dep'n	nm	nm	nm	96.3%	117.1%				
Total Shareholders Equity	93.4	607.8	593.5	658.1	715.1	715.1	Cash Conversion	867.0%	nm	nm	90.1%	92.5%				
							FCF per Share (c)	(5.0)	(34.6)	(105.6)	21.2	18.2				
							FCF Yield	(4.0%)	(27.5%)	(83.8%)	16.8%	14.4%				
Cashflow (\$m)		FY14A	FY15A	FY16E	FY17E	FY18E	Divisional Analysis					FY14A	FY15A	FY16E	FY17E	FY18E
EBITDA	14.7	16.1	29.1	59.4	63.9	63.9	Walnuts Revenue	29.4	34.9	43.4	72.1	74.9				
Tax Paid	(1.2)	(1.3)	(0.3)	(4.7)	(13.7)	(13.7)	Walnut EBIT	15.4	18.1	3.3	29.4	26.8				
Net Interest	0.4	(3.1)	(8.3)	(8.4)	(3.6)	(3.6)	Walnut EBIT Margiin	52.5%	51.8%	7.6%	40.7%	35.8%				
Change in Working Capital	(5.1)	(12.3)	(1.5)	(1.1)	(0.5)	(0.5)	Cropping Revenue	-	6.4	51.5	75.9	107.0				
Other	(10.8)	(0.9)	(9.7)	36.5	22.2	22.2	Cropping EBIT	-	2.0	2.4	8.3	21.6				
Operating Cashflow	(2.0)	(1.5)	9.4	81.7	68.3	68.3	Cropping EBIT Margiin	nm	-31.5%	4.7%	10.9%	20.2%				
Capital Expenditure	(18.8)	(128.4)	(378.3)	(9.2)	(10.6)	(10.6)	Walnut Production (,000t)	5.6	5.8	5.2	9.6	9.7				
Divestments	2.5	9.8	0.0	0.0	0.0	0.0	Cotton Production (,000 bales)	-	-	24.0	104.7	152.4				
Other	0.7	(0.1)	1.6	1.2	5.5	5.5	Walnut Price \$A/kilo inshell	\$ 4.04	\$ 5.22	\$ 6.03	\$ 7.23	\$ 7.56				
Investing Cashflow	(15.5)	(118.7)	(376.7)	(8.1)	(5.1)	(5.1)	Cotton Price \$A/Bale			458	491	498				
Free Cashflow	(17.5)	(120.3)	(367.3)	73.7	63.2	63.2	Cotton Planted (ha)	-	-	2,000	8,724	13,072				
Equity Raised	0.0	17.9	368.1	0.0	0.0	0.0	Walnuts Planted (ha)	2,065	2,245	2,665	2,965	3,365				
Change in Debt	8.9	120.4	0.0	(10.0)	(10.0)	(10.0)										
Dividends Paid	(4.1)	(2.7)	(5.3)	(15.7)	(19.2)	(19.2)										
Other	(0.3)	(0.3)	0.0	0.0	0.0	0.0										
Financing Cashflow	4.5	135.3	362.9	(25.7)	(29.2)	(29.2)										
Net Change in Cash	(13.0)	15.0	(4.4)	48.0	34.0	34.0										

Source: Shaw and Partners

Webster Infographic



Investment Thesis

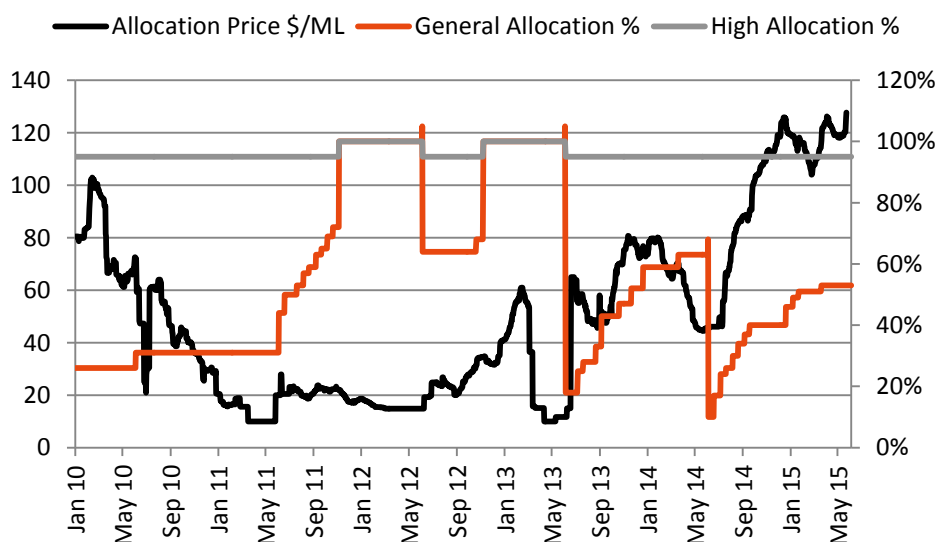
Water is the best way to play agriculture, and in that respect, Webster (WBA) is the best way to play water.

If we look at the inputs into the farming process:

Land is abundant, seed is dominated by Monsanto/CSIRO breeding programs, fertiliser is dominated by Incitec Pivot, pesticide is dominated by Nufarm, labour is difficult to aggregate and leverage, machinery has low utilisation, sunlight is free and abundant, which leaves water, which is limited and rising in value.

Water on its own is sub-optimal particularly when allocations are high.

Chart 1: Murrumbidgee General Security Allocation vs Temporary Water Price



Source: Shaw and Partners

As shown, in times of high allocations, water can trade as low as \$10/ML, versus the peak in recent years and current level of \$130/ML.

So water needs to be partnered with high value per megalitre crops to ensure a decent return when water is abundant.

Table 1: Typical Water Efficiency

Crop	High Usage ML/ha	Low Usage ML/ha	Gross Margin \$/ML
Almonds	14	9	\$1,800 - \$2,200
Pistachios	9	6	\$1,800 - \$2,200
Walnuts	11	8	\$1,500 - \$1,800
Pecans	11	5	\$1,200 - \$1,500
Macadamias	6	3	\$900 - \$1,200
Cotton	12	10	\$200 - \$220
Rice	15	14	\$100 - \$170
Wheat	4.25	2.5	\$70 - \$100

*Yield: based on averages from mature orchards; Gross Margin: based on farmgate prices

Source: The Australian Nut Industry, Department of Primary Industry

Nut trees are the best perennial yield (use water all the time regardless of cost), cotton is the best annual yield. Summer crops and agriculture (pastoral) only make sense when there is plenty of water. Walnut trees take four years to bear fruit and eight years to mature.

The key to allocating water appropriately and getting the best yield per megalitre comes down to management expertise. The acquisition of the Bengarang assets includes a management agreement with Australian Food and Fibre (AFF) aka the Robinson family - who are considered to be the best cotton growers in Australia – scientific approach, new techniques around “tilting” the land, use of siphons etc. Anecdotally, some AFF fields are yielding as high as 17 bales per hectare. Based on our recent site visit, we believe that the AFF management team will run the Kooba and Tandou operations significantly more efficiently than their previous owners.

So WBA represents a large water portfolio, maturing walnut orchards, large irrigated row cropping capacity, well capitalised balance sheet plus best in class cotton farming management team with enough scale to make it a worthwhile investment. Simply, WBA is the “highest and best use” of water.

In years where water is scarce, WBA have ensured that their precious walnut orchards have sufficient water to survive. The economics of the walnut orchards depend as much on global walnut prices as they do on domestic water availability. In times of water abundance, WBA will have sufficient water for not only the walnut orchards, but the capacity to plant a significant amount of row cropping – both cotton and also wheat, corn and other winter crops. WBA also have the option of selling excess water allocations into the market.

Valuation

Table 2: Sum of the Parts

Water							
	Tandou	Kooba	Webster	Benerang	TOTAL	\$/ML	Valuation
Murrumbidgee	46,174						
Lower Darling	21,901						
Murray - Victoria	5,513						
Goulburn	6,605						
Murray- New South Wales	3,819						
TOTAL	84,012	93,880	4,671	58,169	240,733		
High Security	17,465	1,894	1,974		21,333	\$ 2,900	\$ 61.87
General Security	57,398	45,248	2,595	17,630	122,871	\$ 1,400	\$ 172.02
Supplementary/Groundwater	9,150	25,408		7,917	42,475	\$ 1,200	\$ 50.97
Unregulated		21,330	102	32,622	54,054	\$ 300	\$ 16.22
TOTAL	84,013	93,880	4,671	58,169	240,733		\$ 301.07
Land Assets							
	Irrigated	Orchard	Dryland	Pastoral/Oth Total		\$/,000/ha	Valuation
Walnuts Australia							
Leeton Orchard		869		46	915	\$ 43.61	\$ 39.90
Tabbita		357		622	979	\$ 25.98	\$ 25.43
Avondale West		900		136	1,036	\$ 4.73	\$ 4.90
Swansea		526		704	1,230	\$ 6.85	\$ 8.43
Cranbrook		40		33	73	\$ 3.24	\$ 0.24
Websters							
Bengerang	9,199	-	2,388	13,776	8,177	\$ 9.76	\$ 79.77
Darling Farms					15,771	\$ 2.05	\$ 32.36
Lakeland Downs					1,684	\$ 3.86	\$ 6.50
Tandou							
Bundygoola	21,570			121,510	7,760	\$ 1.19	\$ 9.21
Glenmea					6,223	\$ 1.02	\$ 6.36
Pevensey					1,400	\$ 0.17	\$ 0.24
Tandou Farm					127,337	\$ 0.27	\$ 34.56
Kooba							
	11,836		9,087	25,940	46,863	\$ 1.00	\$ 46.70
Inventory/Plant & Equipment							\$ 30.00
TOTAL	42,605	2,692	11,475	162,767	219,448	\$ 1.48	\$ 324.59
Net Present Value of Walnut Harvest							\$ 216.73
Net Debt							-\$ 179.51
Enterprise Value							\$ 662.89
Fully Diluted Shares on Issue							350.75
Sum of the parts Valuation							\$ 1.89

Source: Shaw and Partners

Company Overview

Webster Limited (WBA) operates as an integrated counter-seasonal food and farming operation with the key product range being walnuts, operating under the Walnuts Australia brand. WBA is Australia's largest walnut grower, currently owning and/or managing approximately 3,200 ha in Tasmania and the Riverina area of NSW as well as owning Australia's only commercial walnut nursery.

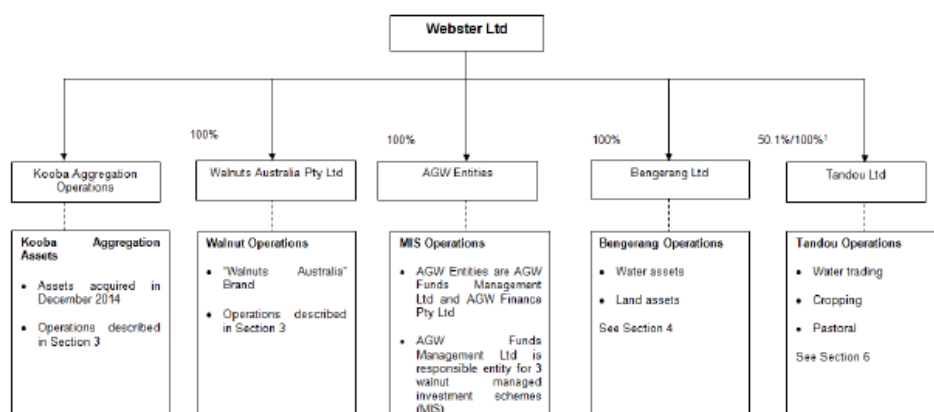
Until recently, WBA also operated an onion growing business, under the Field Fresh Tasmania brand, which was sold to Dandaragan Farms Pty Ltd and North East Equity Pty Ltd, jointly trading as Sumich, on 10 November 2014 (settled on 30 June 2015).

Between November 2014 and February 2015, WBA has acquired three businesses:

1. Kooba Aggregation – acquisition announced 14 November 2014
2. Bengerang Aggregation – acquisition announced 27 February 2015
3. Tandou Limited – takeover bid announced 27 February 2015

WBA has undergone significant change to simplify its company structure, sold off less profitable businesses, and has become a more efficient operation. Now that the abovementioned deals have gone through, WBA will focus on the following farming operations: 1) walnuts, 2) cotton, 3) winter row crops, and 4) pastoral.

Chart 2: Company Structure



Source: WBA

Walnuts Australia

Walnuts Australia Pty Ltd (WA) is a wholly owned subsidiary of Webster Limited and is the operating division which owns and manages all the physical assets associated with walnut production.

WA operates four walnut orchards across New South Wales and Tasmania, covering approximately 3,200 hectares.

Swansea Orchard – 620 ha. WA's first orchard was established in Tasmania.

Leeton Orchard – 765 ha. The Leeton orchard, located in the NSW Riverina, was planted in 2006 and 2009, with 735ha being planted in the first year using seven varieties of walnut trees. This orchard benefits from having access to local labour as it is located in close proximity to Leeton. There are on-farm water storage facilities, a reclaimed water channel, and four storage silos that can hold up to 5,000 tonnes of walnuts.

Leeton Nursery. WBA grew 155,000 trees in FY15 for new orchard development. WBA uses its

own seed and supplements it with imported seed from the University of California Davis (UC Davis). Seeds are grafted using WBA's grafting material and expertise and then planted at the nursery. The Leeton Nursery acts as a barrier to entry for other potential market players and is allowing WBA to scale up for future development.

Image 1: Leeton Orchard



Source: WBA, Shaw and Partners

Tabbita Orchard – 915 ha. Tabbita is WBA's oldest NSW orchard. MIS schemes are planted here. Walnuts Australia manages 250ha of this orchard for Peter Joy. All walnuts (from TAS and NSW) are graded for size and quality and bagged for sale at Tabbita. Both domestic and export sales are dispatched from this facility.

Avondale Orchard – 900 ha. Avondale is WA's most recent development near Griffith, NSW that comprises 1,000ha of new land, 900 ha of which is plantable. An 800 ML dam has been created for on-farm water storage. Avondale will be planted over three years and is expected to produce first commercial yields in 2018, with approximately 5,000 tonnes per annum of production at maturity.

Image 2: Avondale Orchard – Phase 1 Development



Source: WBA, Shaw and Partners

Table 3: Summary of WBA's Orchards

Orchard	Location	Primary Operations
Leeton	Leeton, NSW	Walnut orchard, harvesting, processing, packing, walnut nursery
Tabbita	Goolgowi, NSW	Walnut orchard, harvesting, processing
Avondale	Tabbita, NSW	Walnut orchard under development
Swansea	Swansea, Tasmania	Walnut orchards
Cranbrook	Swansea, Tasmania	Walnut orchards (leased)

Source: WBA

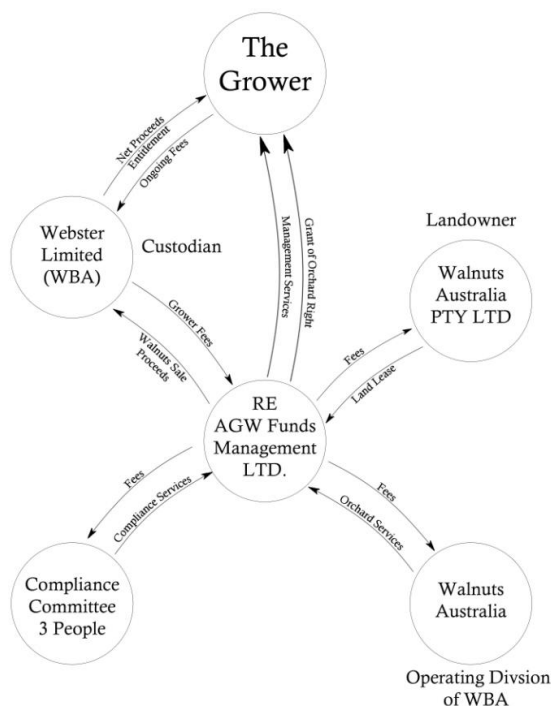
Production from these orchards is set to rise rapidly over the next 4 to 5 years from an actual production of 1,400 tonnes of in-shell walnuts in 2010 to an estimated 11,000 tonnes in 2016. It is anticipated that most of this tonnage will be sold as in-shell walnuts as opposed to kernel.

AGW Funds Management

In January 2011, through its subsidiary Walnuts Australia Pty Ltd, WBA purchased the assets from Gunns Ltd walnut division after Gunns announced its intention to concentrate its operations on its core timber business.

AGW Funds Management was set up to act as the Responsible Entity for the three Managed Investment Schemes (MIS) and WBA assumed all establishment, management and ownership of the orchards.

Chart 3: Managed Investment Scheme Structure



Source: WBA

The three investment schemes comprise of a total of 949ha of walnut orchards and are planted across the Tabbita and Leeton orchards.

The MIS is one of three revenue streams for WBA.

Table 4: Summary of MIS Schemes

MIS	Project 1	Project 2	Project 3
Location	Tabbita	Tabbita	Tabbita & Leeton
Planted (year)	2006	2006 - 2007	2006 -2009
Mature (year)	2013	2013 - 2014	2013 - 2016
Area Planted (ha)	107	558	284

Source: WBA

Kooba

WBA acquired all of AgReserves Australia’s assets, known as Kooba aggregation, in November 2014 for \$123 million.

The Kooba asset consists of four parcels of land across ~40,000 ha:

1. Kooba Station, Darlington Point, NSW
2. Bringagee Station, Darlington Point, NSW
3. Benerembah Station on the Murrumbidgee River at Darlington Point, NSW; and
4. Booberoi Station, on the Lachlan, near Euabalong, NSW

Image 3: Kooba cotton field at harvest (May 2015)



Source: WBA

Kooba was previously purchased from the Church of Jesus Christ of Latter-Day Saints (Mormon church) who underutilised the land and didn’t work it to its full potential. The properties are laser levelled, located in a prime cropping zone on the Murrumbidgee, and have significant water entitlements, ~94,000ML. As well as providing an important portfolio of water rights, the Kooba acquisition will allow WBA to build out an annual large scale multi-crop operation (depending on rainfall in any given year) which will be complementary to the existing walnut operations. The significant land bank also offers potential for additional walnut orchard development after WBA finishes planting at Avondale West.

Outlook for Kooba. *“It is the intention of Webster to further develop the Kooba Aggregation and to grow the size of both the annual cropping and walnut operations. The primary focus of water allocations will be Webster’s walnut tree crops. However, in times of strong water supply Webster will fully exploit annual cropping potential.”*

Table 5: Kooba Water Entitlements

Water Type	Kooba	Bringagee	Booberoi	Total
Surface water				
General security	21,725	13,114	9,009	43,848
High Security	1,416	478		1,894
Supplemental water	4,419	4,961		9,380
Unregulated (Lagoon)	10,668			10,668
Unregulated (Booberoi Creek)			10,658	10,658
Ground Water				
Water access licence	11,222	4,806		16,028
Murrumbidgee Irrigation				
General Security	1,400			1,400
High Security	4			4
TOTAL	50,854	23,359	19,667	93,880

Source: WBA

Bengerang

In parallel with the Tandou Offer, WBA acquired 100% of the equity of Bengerang Limited.

Bengerang consists of three assets across ~25,600 ha:

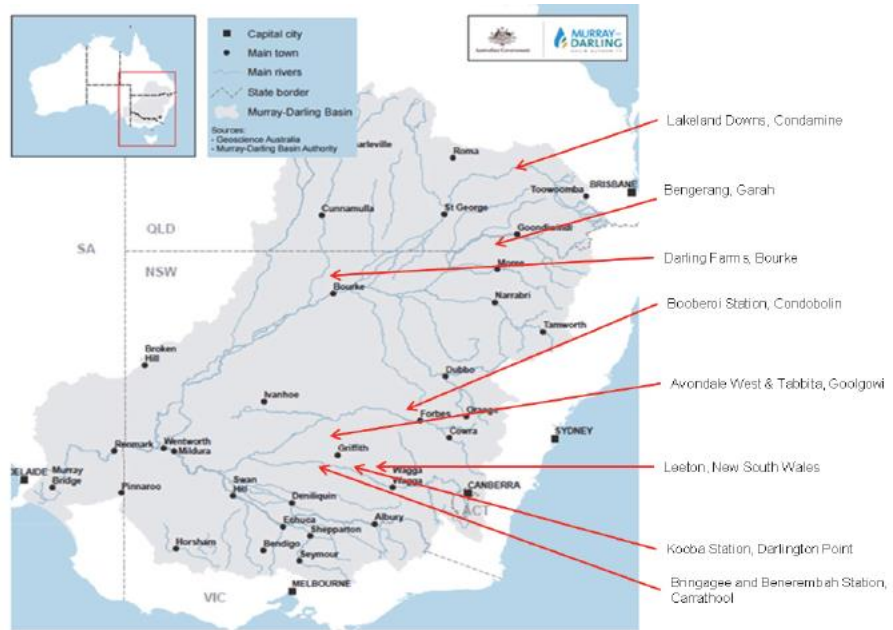
1. Bengerang aggregation, Garah, NSW;
2. Lakeland Downs, Condamine, QLD; and
3. Fort Bourke, Darling Farms and parts of Allambie in Bourke, NSW.

Bengerang, formerly named PrimeAg Australia Limited, was previously an ASX listed Australian agribusiness which owned and operated agricultural land and water assets in northern NSW and eastern QLD. Its main crops included cotton, wheat, sorghum and chickpeas. It divested most of its assets in 2012 and was privatised in 2013.

Strong and experienced hands-on team. Bengerang is run by the Robinson family (David and Joe) who are considered to have the best cotton expertise in the country. Bengerang has an impressive cotton production profile (especially when compared to Tandou) – 12 bales/ha last year; harvested up to 15 bales/ha historically.

Outlook for Bengerang. Following the completion of the acquisition, the Board of Directors has been resuffled and the purchase of the Medgun Assets was completed. Going forward, the focus will be on continued planting of existing land, consolidating debt facilities, and making an assessment of the most optimal allocation of water and land assets across Bengerang and Webster.

Image 4: WBA, Kooba & Bengering Asset Locations



Source: WBA

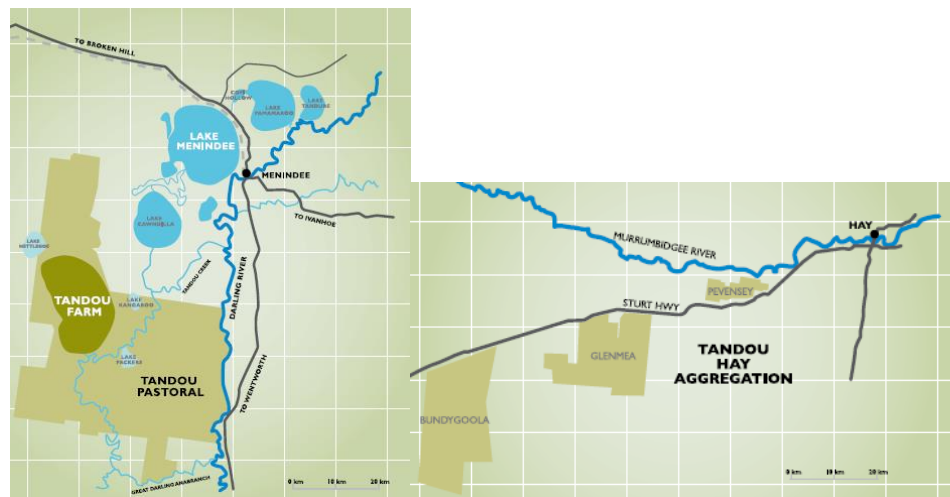
Tandou Limited (formerly ASX: TAN)

In order to fully understand WBA, we must look at the company’s most recent acquisition, Tandou (formerly listed on the ASX as TAN). TAN was an agribusiness company primarily focused on large scale irrigated cotton production and management of an extensive water entitlements portfolio (~1.5% of the total Southern Murray Darling Basin). [Our initiation report on TAN: [TAN Company Report - 17-December-2014](#)]

Tandou comprised of four assets across ~140,000 ha of land:

1. Tandou Farm, Broken Hill, NSW
2. Glenmea, Hay, NSW
3. Bundygoola, Hay, NSW
4. Pevensey, Hay, NSW

Image 5: Tandou Properties



Source: TAN

TAN's corporate strategy was underpinned by its water entitlements and the company invested heavily in water rights over the course of the last decade in order to "protect the profitability and viability of its Farming Operations, but also to capitalise on high water prices when water is scarce."

TAN's strategy has been two-fold:

1. if water is scarce, sell water allocations on-market as demand and hence price will be high (in this case, TAN will make a higher return from trading water than using the water to irrigate crops)
2. if water is abundant, use water to irrigate crops as the demand for water and hence the price will be low (in this case, the return from cropping per ML of water is greater than that achieved by trading water on-market)

Outlook for Tandou. TAN has now been incorporated into the WBA operations. Cotton growing at Tandou Farm and the Hay Aggregation will be overseen by Joe Robinson and his team. Brendan Barry, TAN's water manager, has remained with the company post the WBA acquisition and is in charge of water execution for the broader company.

Fields Fresh Tasmania

This business was sold to carrot grower Sumich in November 2014 and was settled on 30 June 2015. The contracted consideration was \$10.15 million for the sale of the assets, plus the value of stock on settlement, which was slightly in excess of book value.

Based at Forth, Tasmania, Field Fresh Tasmania is Australia's largest exporter of brown and red onions. "Over 50,000 tonnes of brown and 2,500 tonnes of red onions are grown under contract with local farmers. Approximately 100 growers are contracted to grow the 52,500 tonnes of onions annually using 900 hectares in north and northwest Tasmania."

The Water Portfolio

Current Water Portfolio. Following the successful acquisition of TAN and Bengerang, WBA now has a combined portfolio of 240,733 ML of water entitlements:

1. Webster (standalone) – 4,631 ML
2. Kooba Aggregation – 93,880 ML
3. Bengerang Aggregation – 58,169 ML
4. Tandou – 84,013 ML

The combination of Webster, Tandou and Bengerang has resulted in one the largest water portfolios in Australia with the largest walnut and irrigated cropping operations in the nation. The table below highlights the total land and water assets of the enlarged business.

Table 6: Webster + Tandou Profile

Key Assets	Webster (stand alone)	Tandou	Webster + Tandou	Bengerang	Webster + Tandou + Bengerang
Land Assets (ha)					
Irrigated	11,836	19,928	31,764	9,559	41,323
Orchard	2,692		2,692		2,692
Dryland				2,388	2,388
Grazing	33,122	121,195	154,317	11,892	166,209
Other	3,446	1,600	5,046	1,793	6,839
TOTAL	51,096	142,723	193,819	25,632	219,451
Water Assets (ML)					
High Security	3,868	17,465	21,333		21,333
General Security	47,843	57,398	105,241	17,630	122,871
Supplementary/ground	25,408	9,150	34,558	7,917	42,475
Unregulated/other	21,432		21,432	32,622	54,054
TOTAL	98,551	84,013	182,564	58,169	240,733

Source: WBA

TAN is key to WBA's walnut strategy as it provides access to an additional ~84,000 ML of water entitlements and guarantees a water supply to irrigate WBA's walnut orchards in dry seasons with low water allocations. TAN's water portfolio includes significant water entitlements across the Lower Darling, Murray, Murrumbidgee and Goulburn systems.

Table 7: TAN's Diversified Water Portfolio

Volume per River	Size of Water Entitlement (ML)
Murrumbidgee	46,174
Lower Darling	21,901
Murray - Victoria	5,513
Goulburn	6,605
Murray - New South Wales	3,819
TOTAL	84,012

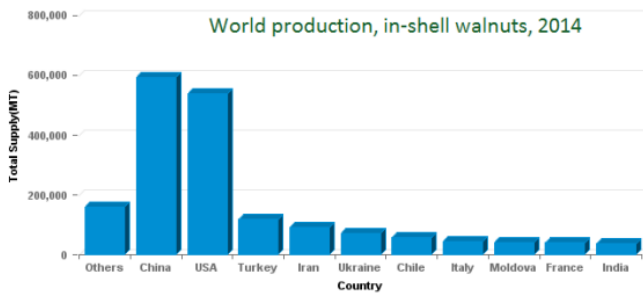
Source: TAN

Global Market for Walnuts

Global Demand – why walnuts? Walnuts are mainly used as an ingredient in salads, cooking and baking. There are numerous claimed health benefits associated with eating walnuts – they include: cancer-fighting properties, cardiovascular benefits, are a good source of antioxidants and omega-3 fatty acids that are good for brain health and development. Globally, growth in demand for walnuts has been steady at 4% per annum. As an increasing amount of people are educated about the health benefits of walnuts and incorporate them into their diet, demand will continue to increase.

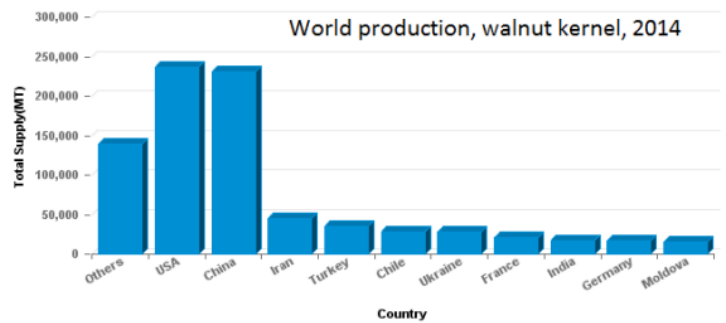
Global Supply – where from? Globally, China is the largest walnut producer with an annual output of ~600,000 tonnes, but it is a net importer. The second largest producer is the US with an output of ~470,000t per annum and it is the biggest global exporter (mostly from California). Australia accounts for less than 1% of total global walnut production, with an output of ~11,000t/ya. Chile and Australia are the dominant players in the Southern Hemisphere, together they represent ~5% of global supply.

Chart 4: World Production (In-shell, 2014)



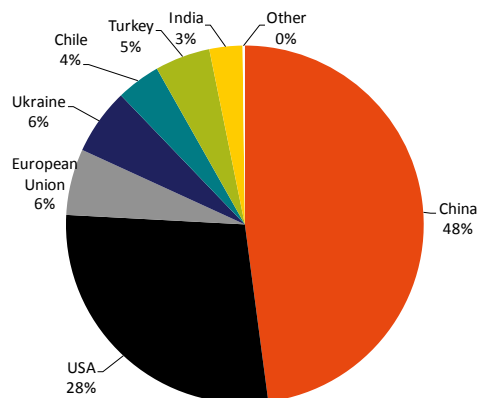
Source: INC International Nut and Dried Fruit Council, USDA

Chart 5: World Production (Kernel, 2014)



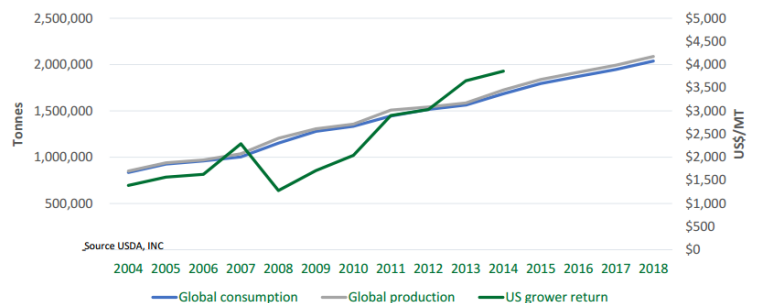
Source: INC International Nut and Dried Fruit Council, USDA

Chart 6: Share of Global Production



Source: USDA

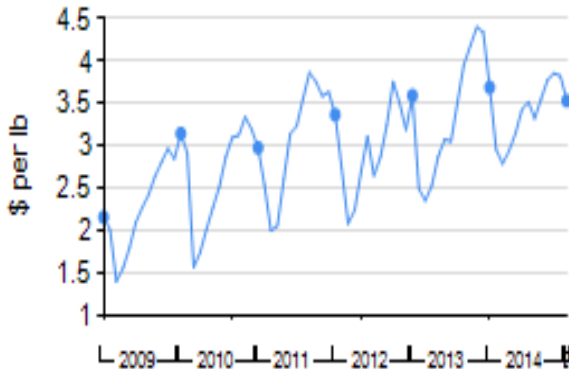
Chart 7: Global Walnut Production vs Consumption



Source: USDA

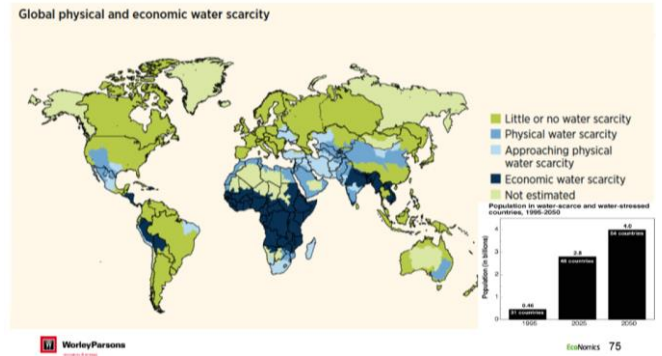
Pricing growth. Global demand is growing and world production is not keeping up. Strong global demand will continue to support pricing.

Chart 8: US Walnut Price (\$/lbs, in-shell)



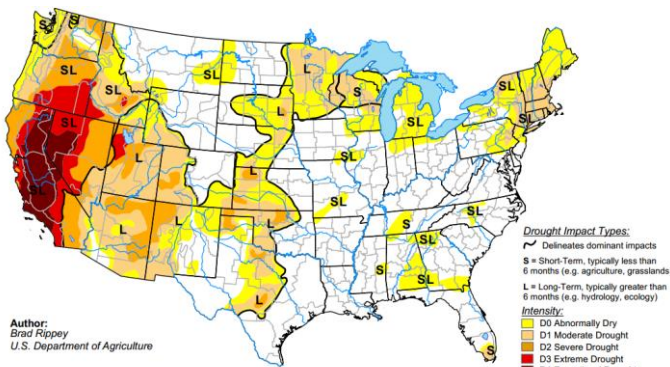
Source: USDA

Chart 9: Water Supply – Scarce in Walnut Producing Areas



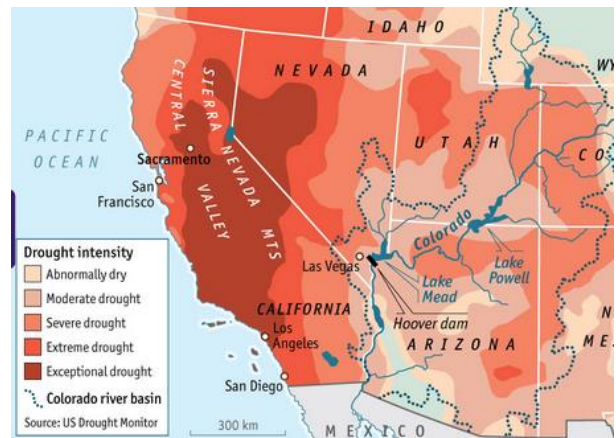
Source: Worley Parsons

Chart 10: US Drought Monitor



Source: US Department of Agriculture

Chart 11: Drought in California



Source: US Drought Monitor

Drought in California. Since April 2015, California has started imposing mandatory limits on water use. Considering that agriculture uses ~80% of California’s water, farmers are struggling to water thirsty crops such as nut trees which is affecting production.

California sets the price. Global walnut pricing dynamics are dictated by Californian production. Considering that California is in drought and the US walnut supply is under pressure, it is contributing to price growth. As Australian walnut prices are benchmarked on the Californian price, there has been a steady uplift in Australian walnut prices.

Top quality Australian product attracts a premium. Australia produces some of the best quality walnuts in the world that are “clean and green”. Australia’s isolation and strict customs regulations mean that it is free of many of the pests and diseases affecting walnut production in other parts of the world. On average, Australian walnuts attract a 5% premium to Californian walnuts.

Australian Walnut Industry

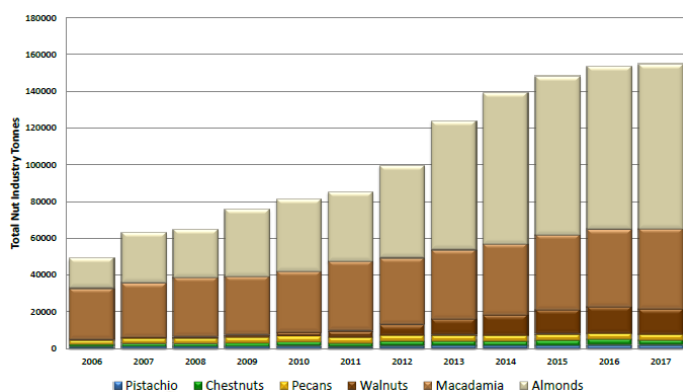
Australian Walnut Industry. According to the Australian Walnut Industry Association, “The Australian walnut industry currently comprises ~3,000 hectares of planted area with over 170 growers, which produced approximately 11,000 tonnes of in-shell walnuts in 2014, worth approximately \$44 million. The 2015 harvest produced ~12,000t. The total planted area is expected to increase to around 4,600 hectares by 2020, by which time production is expected to increase to approximately 16,000 tonnes in-shell”.

Counter-seasonal Net Exporter. Australia is a net exporter of walnuts and supplies fresh walnuts to the northern hemisphere during the counter-season. This provides Australia with an advantage in the global export market as Australian producers are able to market fresh walnuts during the six-month offseason to northern hemisphere consumers, and achieve a premium in the export market.

Weakening AUD boosts competitiveness. The recent weakening of the AUD against the USD is likely to increase Australia’s price competitiveness in export markets to further consolidate margins and ease pricing pressures from imports.

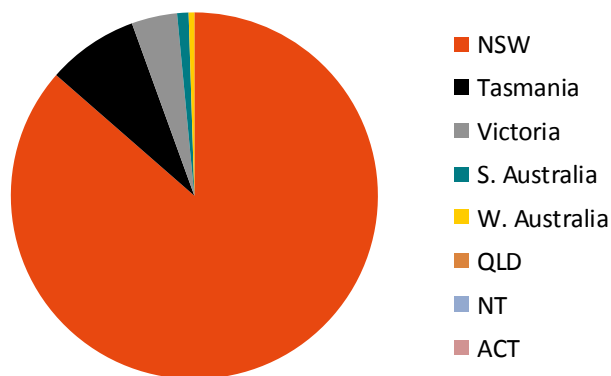
Domestic Consumption. According to the Australian Nut Industry Council, Australian domestic consumption of in-shell walnuts is ~800 tonnes per year. Domestic consumption of kernel currently averages ~9,110 tonnes of in-shell, sold through major retail chains and into bakery and confectionery industries.

Chart 12: Australian Nut Industry



Source: ANIC

Chart 13: Australian Walnut Production by State



Source: Australian Walnut Industry Association

SWOT Analysis: Strengths

The Australian walnut industry benefits from:

- Counter-season fresh exports to Northern Hemisphere
- Limited scope for walnut production in Southern Hemisphere (lack of suitable climatic conditions, water, soil types, topography & capital raising ability) favours Australian growers
- Mechanical harvesting
- Relatively free from exotic pests & diseases
- Continuing strong global demand
- Increasing awareness of health benefits
- Wind pollination - more reliable fruit set than bees
- New varieties, improved propagation, orchard management & irrigation techniques have reduced time to bearing, increased nut yield

Threats/Weaknesses

Some potential threats and weaknesses include:

- Potential Climate change
- Market access
- Blight control
- Quality storage control
- Year round supply
- Food safety and food labelling claims
- Biosecurity

Opportunities

There are a number of opportunities for the industry as well as Walnuts Australia:

- Large plantings by Walnuts Australia in 2010 should lift future production to ~17,000t by about 2025 as new plantings come into production: 900 ha (200,000 trees) in Riverina
- Riverland SA development
- Increased interest from US and China
- Based on current plantings, 90% of national production will be from Walnuts Australia.

Competitive advantage. WBA has a fully integrated business model. It has modern high quality assets, is the largest grower, processor and exporter of walnuts in the Southern Hemisphere, and there are no other large scale walnut growers in Australia. It is difficult for others to enter due to capital requirements (for critical infrastructure), timeframe (first crop in year four, maturity in year eight), and there is no scalable nursery capability outside of Walnuts Australia.

Supply and demand. Increased consumption on the back of consumer awareness of health benefits. Strong demand leading to improving price trend. Counter seasonal geographical supply positioning. Increasing Asian demand. USA drought/Chile frost.

Growth outlook. Domestic import replacement. Further orchard expansion opportunities.

Expertise. Dedicated walnut focused R&D Team. 20 years' experience.

Environment. Trees still maturing. Price and currency favourable.

Webster on a Global Stage

International Sales (export) ~78%. WBA currently exports predominantly to Europe and China – Italy (34%), China (22%), Hong Kong (10%), Germany (5%), Netherlands (3%), Turkey (3%), UK (1%). The FTA with Korea and Japan should be expanded to include walnuts and should provide additional export markets for WBA.

Domestic Sales ~22%. Currently, WBA sells directly to only one major retailer – Woolworths. Coles purchases WBA's walnuts, but through a distributor. We see further opportunity for WBA to access additional retail channels in Australia as domestic demand grows.

Product Offering. WBA packages in-shell walnuts and kernels for Woolworths at the Leeton processing facility. Vacuum sealed in 5kg bags are also packed at the facility in Leeton and are sold to distributors which supply supermarkets with various nuts for their scooper bins.

WBA exports in-shell walnuts in branded 10kg sacks – green denoting Tasmania and red denoting New South Wales origins.

Image 6: Woolworth's 500g packs



Source: WBA, Shaw and Partners

Image 7: Generic 5kg vacuum sealed bags



Source: WBA, Shaw and Partners

Image 8: TAS in-shell walnuts – 10 kg bags



Source: WBA, Shaw and Partners

Image 9: NSW in-shell walnuts – 10kg bags



Source: WBA, Shaw and Partners

Walnut Orchard Lifecycle

Walnut trees are perennial crops and are expected to have a 25 year commercial life. On average, it takes ~8 years for a walnut tree to reach maturity and produce a maximum yield; however a crop can be harvested from year 4 onwards.

After they are planted, walnut trees go through a four stage cycle every year – Dormancy, Blossom, Walnut Formation and Harvest.

Table 8: Walnut Orchard Timeline

Dormancy			Blossom			Walnut Formation					
MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR
Harvest			Blight Control						Harvest		
Irrigation			Irrigation								

Source: Shaw and Partners

Planting. WBA mainly plants grafted rootstock and sources everything from California. The two main types of rootstock used is “Black” and “Paradox”. As the rootstock is genetically modified, the trees become more resistant to disease and adverse weather conditions.

Image 10: Rootstock – “Black” vs “Paradox”



Source: WBA, Shaw and Partners

Growing. During the year, regular soil and foliar analysis is performed, nutrients are tracked by variety, and tailored nutrient solutions are developed to maximise growth potential.

Irrigation/fertigation. Dedicated irrigation managers monitor soil moisture levels and tree requirements on a daily basis in an automated way.

Mechanical harvesting. WBA has a sophisticated fleet of American walnut handling equipment that can harvest up to 340 tonnes per day.

WBA owns all its orchard maintenance, harvesting, and irrigation equipment.

Webster (WBA)

Processing (hulling and drying). WBA has 20t+/hr hulling lines at each orchard which removes green hull from walnuts and over 500 tonnes per cycle of walnut drying capacity. Fully automated drying facilities which control temperature and moisture are based at the Leeton and Tabbita Orchards.

Tasmanian walnuts are hulled and dried in Tasmania and then shipped to the Tabbita orchard where all walnuts are graded for size and quality and bagged for sale. Both domestic and export sales are dispatched from this facility.

Infrastructure. Automated optical colour sorting; Multi-stage aspiration; Rock and debris separation; Drying bin automation.

Orchard maintenance. Once the harvesting season concludes, regular maintenance work commences. Canopy management involves pruning which allows for tree rejuvenation, increased future yields, improved access, and sunlight penetration. Disease management involves daily monitoring of blight pressure and consulting a dedicated spray team. Other orchard maintenance that must take place includes weed control, mulching, as well as road and access maintenance.

Image 11: Harvesting Equipment



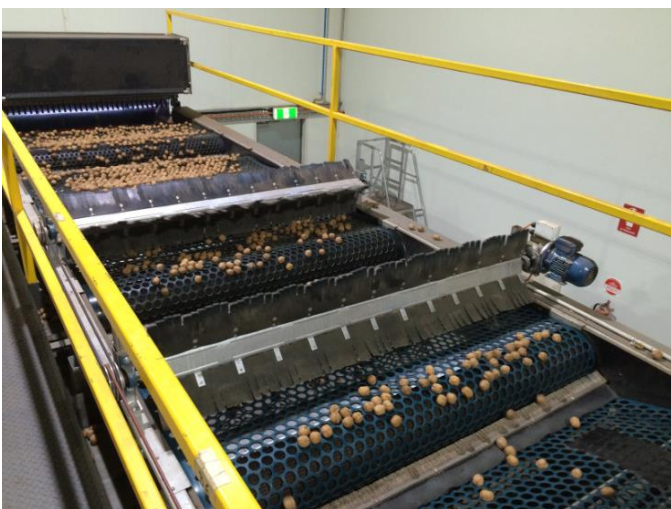
Source: WBA, Shaw and Partners

Image 12: Harvesting Equipment



Source: WBA, Shaw and Partners

Image 13: Sizing Equipment



Source: WBA, Shaw and Partners

Image 14: Processing Facility



Source: WBA, Shaw and Partners

Image 15: Cracking Facility



Source: WBA, Shaw and Partners

Image 15: Storage Silos



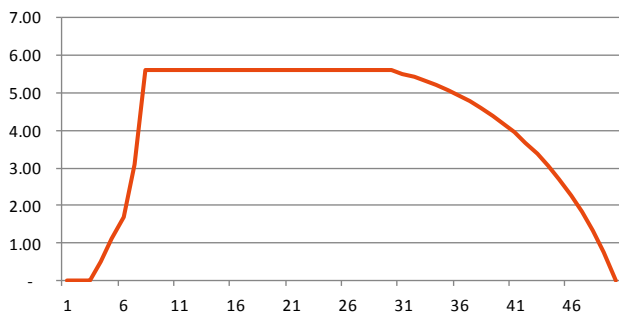
Source: WBA, Shaw and Partners

Operational Overview

Walnut Economics

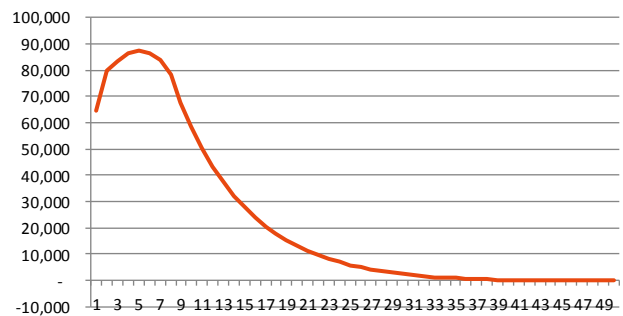
WBA is the largest vertically integrated walnut business in the southern hemisphere, managing all aspects of the lifecycle (from plantation to marketing of the walnuts) and currently contributing approximately 90% of Australia’s annual walnut production. Webster produces approximately 7,000 tonnes (nut in-shell) annually with a plan to increase these levels to around 16,000 tonnes within the next decade, once newly planted orchards reach full maturity.

Chart 14: Yield Profile of a Walnut Orchard (T/Ha vs Age)



Source: Shaw and Partners

Chart 15: Net Present Value of a Walnut Orchard

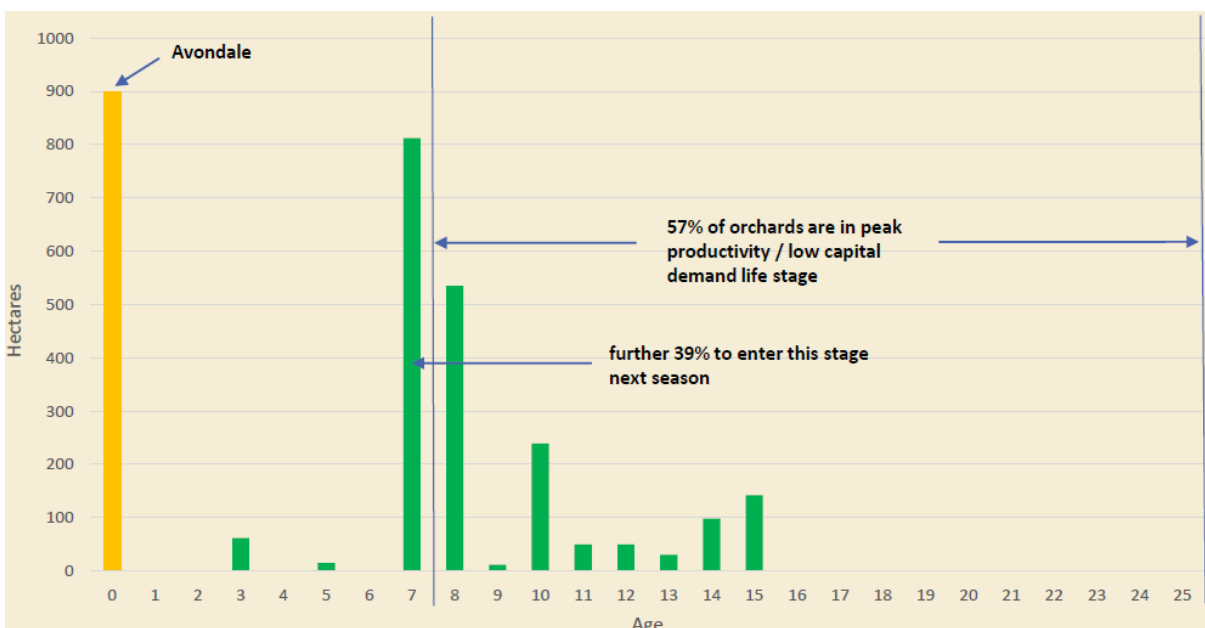


Source: Shaw and Partners

Orchard Profile. Approximately 57% of WBA’s orchards are in peak productivity and at a low capital demand life stage. A further 39% will enter this stage next season, as shown in the chart below.

Orchard Maturity. Generally, it takes approximately eight years for walnut trees to reach full maturity, although commercial crop can be harvested from the fourth year. As depicted in the chart below, 39% of existing orchards are still to reach full maturity. As those orchards grow, approximately 95% of existing orchards (excluding Avondale) will be fully mature by FY16.

Chart 16: Walnut Orchard Age Distribution (as of March 2014)

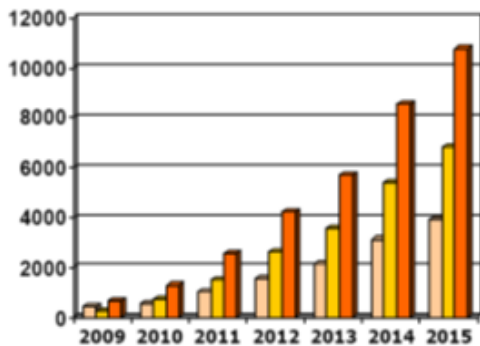


Source: WBA

Orchard Expansion. WBA is currently in the process of developing a new 1,000ha parcel of land at Avondale West, near Tabbita, NSW which will be WBA’s second largest walnut orchard with an 800 ML on-farm water storage dam as well as local power and electricity supply.

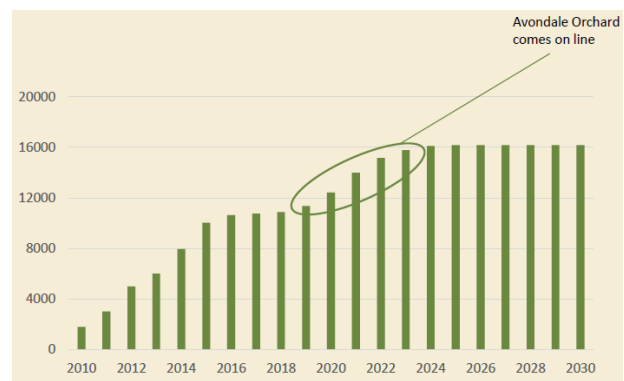
The site has been prepared by laser levelling, injection of soil nutrition, and the installation of 300m of drip irrigation. Once fully planted, the total planted orchard size will be ~900ha with ~921,000 walnut trees. Planting will be completed over three years, with phase 1 of 300ha already planted in July 2014. Phase 2 will see 140ha planted and phase 3 will conclude with a 460ha plantation. All rootstock is currently being grown at the Leeton nursery. First commercial yields are expected to be produced in 2018 and maximum capacity of the orchard will not be fully realised until 2025 when all planted trees reach maturity. The fully matured Avondale orchard is expected to produce ~5,000t of in-shell walnuts per annum.

Chart 17: Orchard Production Profile (Owned, Managed, Total)



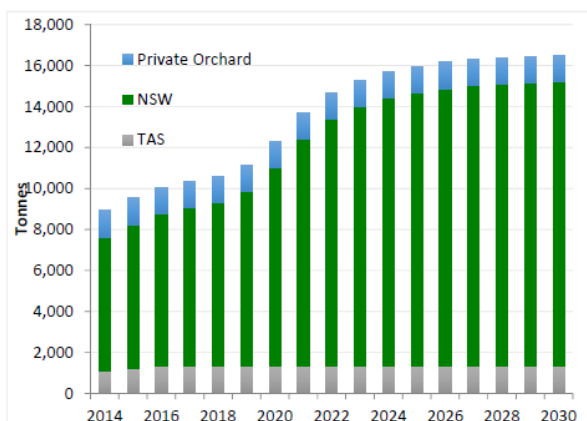
Source: WBA

Chart 18: Orchard Production Outlook



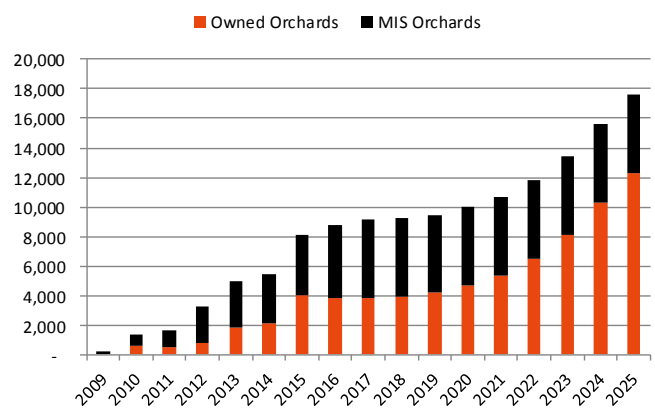
Source: WBA

Chart 19: Orchard Production – Existing + Planned



Source: Shaw and Partners

Chart 20: Production Profile – Owned Orchards vs MIS



Source: Shaw and Partners

Cotton Economics

Cotton Field Profile. Following the successful acquisition of Bengerang and TAN, WBA will now become one of the largest cotton producers in Australia. WBA will have ~220,000 ha of land assets, ~40,000 ha of which is irrigated and will be suitable for growing cotton.

The Whole is Greater than the Parts. On its own, TAN lacked the scale and diversity to optimally manage operating risks given its geographical concentration and exposure to external factors such as the water storage levels at the Minindee Lakes (water trading was a good backup strategy). Significant rainfall was required to provide substantial flows into the Minindee Lakes, which Tandou Farm relies on in order to grow a cotton crop. Bengerang on its own also had geographical risk. Together, TAN, Kooba and the Bengerang aggregation of cotton farms will provide scale and geographic diversity reducing overall risk for the cotton crop in any given year.

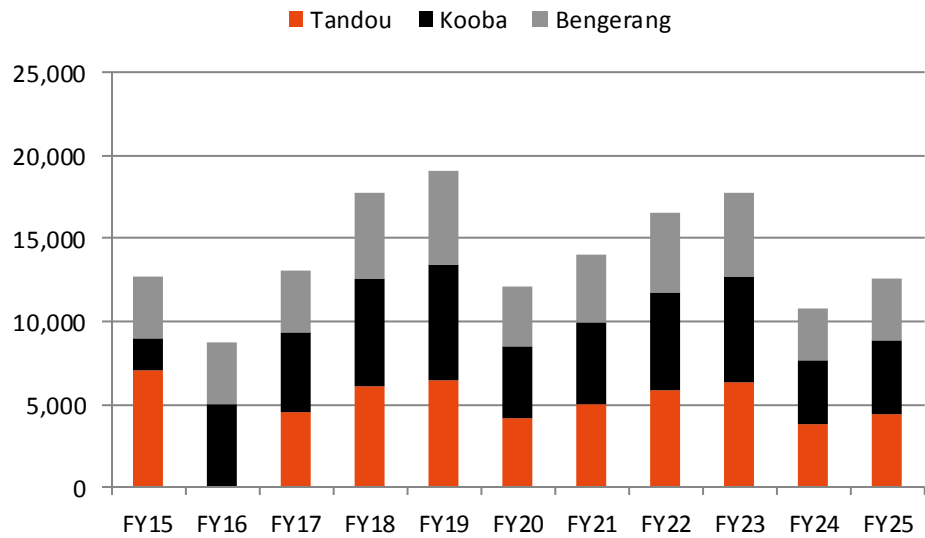
Image 17: Cotton Crop at Kooba (May 2015)



Source: WBA, Shaw and Partners

Expertise and New Horticultural Techniques. By utilizing a more scientific agricultural process and benefiting from better seed genetics, the Robinson family who manages the Bengerang Aggregation have been consistently successful in achieving some of the highest yields of cotton in Australia. We expect the Robinsons to apply their farming expertise to the Tandou cropping operations and forecast a steady increase in yields per hectare at Tandou from 10 bales/ha up to 12 ba/ha by FY19.

Chart 21: Cotton Crop Projections (hectares planted)



Source: Shaw and Partners

New Opportunities. The 40,000ha Kooba Aggregation provides a great deal of optionality for future cropping activity. The property has all the necessary infrastructure installed, including a state of the art pumping station, and 11,800ha of irrigated land. Kooba fits in well with TAN’s Hay aggregation as the combination brings substantial development opportunities and a large portfolio of water entitlements. A section of the property has already been tilled and prepared for planting (after 15 years of idle existence).

Image 18: Water Pumping Station at Kooba



Source: WVA, Shaw and Partners

Water Economics

Potential Returns to be Maximised with the “Highest and Best Use” Strategy. WBA’s strategy going forward is to use the combined water portfolio and apply it to the “highest and best use.” This means that the water will be used to irrigate the most profitable production in the WBA portfolio of assets. Perennial walnut trees will be given first priority, annual crops like cotton would be given second priority, and everything else would be of lesser priority (i.e. row crops, etc).

“Overall, a more strategic use of water should enable Enlarged Webster to expand walnut, cotton and other annual cropping production and decrease volatility in crop yields. In particular, the acquisition of Tandou provides Webster with strategic water procurement expertise demonstrated by Tandou’s long standing track record in acquiring and divesting water entitlements.”

Table 8: Water Efficiency

Crop	High Usage ML/ha	Low Usage ML/ha	Gross Margin \$/ML
Almonds	14	9	\$1,800 - \$2,200
Pistachios	9	6	\$1,800 - \$2,200
Walnuts	11	8	\$1,500 - \$1,800
Pecans	11	5	\$1,200 - \$1,500
Macadamias	6	3	\$900 - \$1,200
Cotton	12	10	\$200 - \$220
Rice	15	14	\$100 - \$170
Wheat	4.25	2.5	\$70 - \$100

*Yield: based on averages from mature orchards; Gross Margin: based on farmgate prices

Source: Australian Nut Industry

Irrigation Requirements: Walnuts. Water requirements for walnut trees start at 2 ML/ha per annum at the time of planting and increase to 9-10 ML/ha/annum for mature orchards.

WBA’s NSW orchards use water from the Murrumbidgee Irrigation area and the Tasmanian orchards have access to the local river system. All orchards benefit from modern irrigation equipment, are fitted with a drip irrigation system utilising lift pumps and have access to on-farm water storage dams.

Irrigation requirements: Cotton. The cotton industry accounts for approximately 15% of total water use in agriculture in Australia. Cotton’s average irrigation requirement is 5.2 ML/ha.

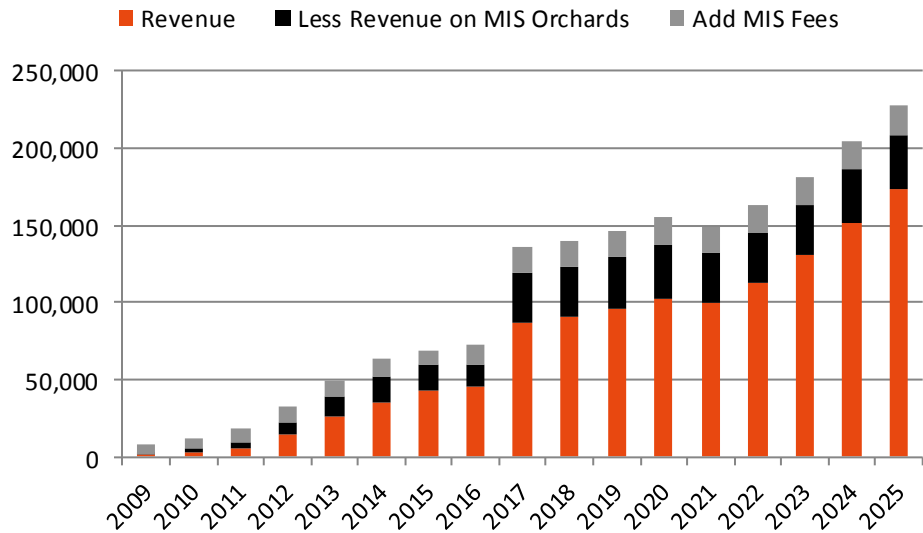
Still Short Water. Taking into account the recent Kooba acquisition and even with the addition of TAN’s water portfolio, WBA still needs to address a water requirement shortfall in low allocation years. It is estimated that WBA needs an additional 20,000 ML of water to meet its long term water requirements in low allocation years, especially as the demand for irrigation will increase as the new Avondale West development matures.

WBA management is aware of this shortfall in low allocation years and is the reason why the company pursued large scale acquisitions like Kooba, Bengorang and TAN that have secured water access.

Financial Overview

Revenue Drivers. Walnuts Australia has three separate revenue streams from its walnut operations – 1) income from 3 Managed Investment Schemes, 2) management fees from a 250ha orchard managed for Motspur Park Pty Ltd and 3) revenue from owned orchards.

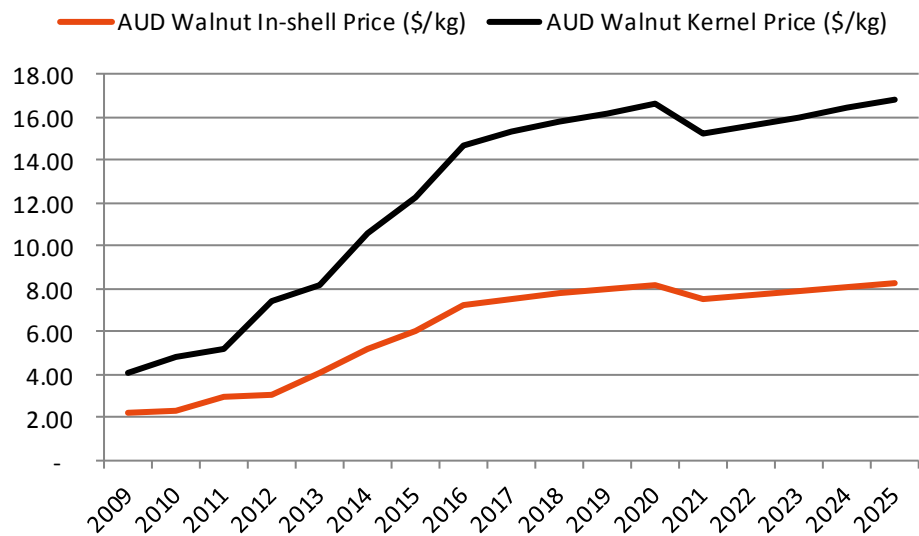
Chart 22: Revenue Projections – 3 streams



Source: Shaw and Partners

Pricing. We forecast Australian walnut prices (on an in-shell and kernel basis) based on US pricing.

Chart 23: Walnut Price Projections

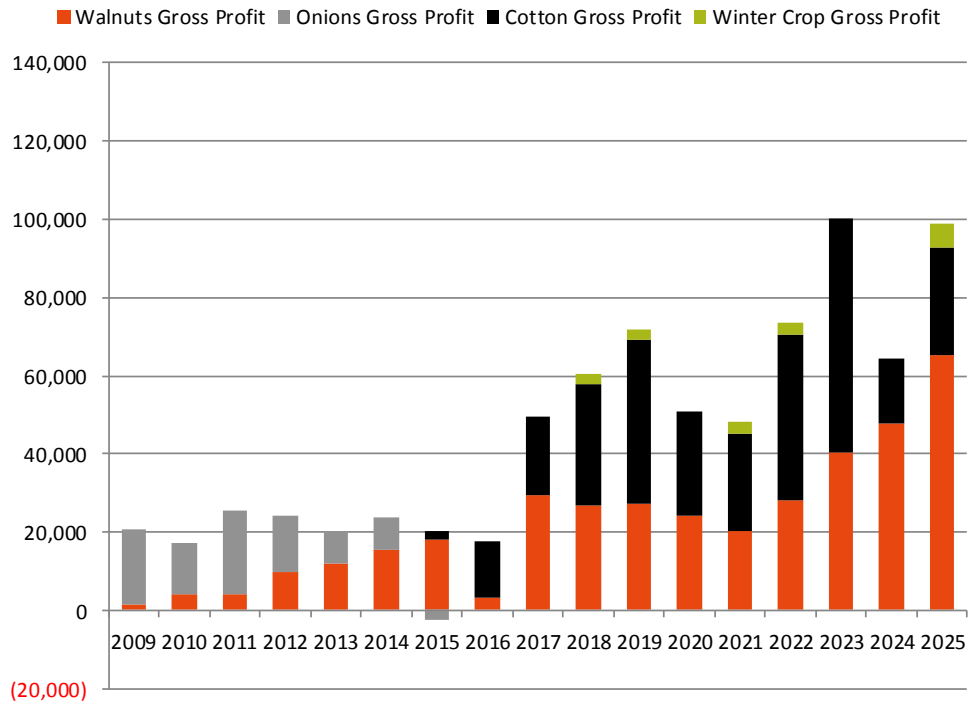


Source: Shaw and Partners

Cost Drivers. WBA mainly has two types of costs – on-farm and corporate overhead. On-farm costs are mainly associated with the walnut operations which include growing and maintenance costs, as well as harvesting, hulling, drying, cracking and packaging costs.

Cash Flow. Revenue recognition is skewed towards the second half of the year as walnuts are harvested between March and April and are sold in the following months.

Chart 24: Divisional Gross Profit



Source: Shaw and Partners

Table 9: Walnuts – Pricing, Production & Cost Profile

Pricing Profile	2015E	2016E	2017E	2018E	2019E	2020E
US walnut prices (\$/kg)	7.01	7.45	7.64	7.83	8.02	8.23
US In-shell (\$/kg)	4.47	4.75	4.87	4.99	5.12	5.24
US Kernel (\$/kg)	9.06	9.63	9.88	10.12	10.38	10.63
AUDUSD	0.78	0.69	0.68	0.67	0.67	0.67
Aus Walnut prices (\$/kg)	9.46	11.34	11.86	12.19	12.53	12.89
AUD In-shell Price (\$/kg)	6.03	7.23	7.56	7.77	7.99	8.21
AUD Kernel Price (\$/kg)	12.23	14.66	15.33	15.76	16.21	16.66

Production Profile	2015E	2016E	2017E	2018E	2019E	2020E
Owned Orchards (ha)	1,963	2,256	3,809	3,895	4,129	4,621
MIS Orchards (ha)	2,780	2,004	4,203	4,203	4,203	4,203
Total Walnut Production (t)	5,835	5,170	9,591	9,677	9,911	10,403
Hectares Planted	180	420	300	400	400	400
Hectares Growing	2,245	2,665	2,965	3,365	3,765	4,165
Hectares Harvested	1,905	1,965	1,965	2,065	2,245	2,665
Yield (t/ha)	2.6	1.9	3.2	2.9	2.6	2.5
Water Use	21,793	23,272	24,849	27,012	29,689	32,804
ML/ha	9.7	8.7	8.4	8.0	7.9	7.9
Production - In-shell	80%	80%	80%	80%	80%	80%
Production - Kernel	20%	20%	20%	20%	20%	20%
Sales - Domestic	20%	20%	20%	20%	20%	20%
Sales - Export - Europe	41%	41%	41%	41%	41%	41%
Sales - Export - Asia	39%	39%	39%	39%	39%	39%

Cost Profile	2015E	2016E	2017E	2018E	2019E	2020E
Land	5,000	5,000	5,000	5,000	5,000	5,000
Land Prep & Planting (\$/ha)	15,225	15,606	15,996	16,396	16,806	17,226
Growing (\$/ha)	3,806	3,901	3,999	4,099	4,201	4,306
Water Price (\$/ML)	130	150	100	60	30	166
Harvesting (\$/ha)	660	676	693	710	728	746
Processing - In shell (\$/kg)	0.30	0.31	0.32	0.33	0.34	0.34
Processing - kernel (\$/kg)	1.83	1.87	1.92	1.97	2.02	2.07
Exporting - Europe (\$/kg)	0.36	0.36	0.37	0.38	0.39	0.40
Exporting - Asia (\$/kg)	0.16	0.17	0.17	0.17	0.18	0.18
Trees Planted (312/ha)	56,160	131,040	93,600	124,800	124,800	124,800
Total Trees	756,700	889,000	983,500	1,109,500	1,235,500	1,361,500
Tree Valuation	34,197	40,176	44,447	50,141	55,836	61,530
Cost of Planting	2,538	5,922	4,230	5,640	5,640	5,640
On Farm Costs						
Land Prep & Planting Cost	2,741	6,554	4,799	6,558	6,722	6,890
Growing Cost	8,545	10,397	11,857	13,793	15,818	17,936
Irrigation Cost	2,833	3,491	2,485	1,621	891	5,431
Harvesting Cost	1,257	1,329	1,362	1,467	1,635	1,989
Processing Costs						
Processing - In shell cost	1,421	1,291	2,455	2,539	2,665	2,867
Processing - kernel cost	2,132	1,936	3,682	3,808	3,997	4,301
Exporting cost - Europe	850	772	1,468	1,518	1,593	1,714
Exporting cost - Asia	370	336	638	660	693	745

Source: Shaw and Partners

Table 10: Cotton – Pricing, Production & Cost Profile

Pricing Profile	2015E	2016E	2017E	2018E	2019E	2020E
\$AUD/bale	457.84	491.14	497.55	508.22	510.15	510.15
Production Profile	2015E	2016E	2017E	2018E	2019E	2020E
Planted Land (hectares)						
Tandou	7,000	-	4,510	6,050	6,490	4,125
Kooba	2,000	5,000	4,838	6,490	6,962	4,425
Bengerang	3,724	3,724	3,724	5,257	5,640	3,585
Yield (bales/hectare)						
Tandou	10.0	10.5	11.0	11.5	12.0	12.0
Kooba	12.0	12.0	12.0	12.0	12.0	12.0
Bengerang	12.0	12.0	12.0	12.0	12.0	12.0
Cost Profile	2015E	2016E	2017E	2018E	2019E	2020E
Planting costs (\$/hectare)						
Seed	1,000	1,000	1,000	1,000	1,000	1,000
Fertiliser	1,425	1,425	1,425	1,425	1,425	1,425
Planting (fuel/labour)	1,500	1,500	1,500	1,500	1,500	1,500
Ginning	1,700	1,725	1,750	1,775	1,800	1,800
Water (\$155ML @ 9.5ML/ha)	2,945	2,945	2,945	2,945	2,945	2,945

Source: Shaw and Partners

Risks

Potential Risks

- Disease
 - walnut blight
- Sunburn
- Wet harvest
- Frost
- Drought

Advantages

- No significant insect or virus pests
- One key disease risk with proven management strategies
- Wind pollinated, no bees required
- Proven region
 - Reliable water
 - Chill units
 - Heat units
- Scale
- Proven varieties
- Wide harvest window

With a good portion of the company's older trees soon to reach maturity and maximum yield, that upward growth curve would continue.

Board of Directors and Management

Richard Haire – Executive Chairman. Mr Haire was appointed Executive Chairman in June 2015. Mr Haire has 30 years experience in the international cotton and agribusiness industry, including 26 years in agricultural commodity trading and banking. He was appointed as a director of the Bank of Queensland in April 2012. Mr Haire formerly held the position of Australian and New Zealand Managing Director and regional head of Olam International. He has also held the offices of director for the Cotton Research and Development Corporation, Open Country Dairy (NZ), New Zealand Farming Systems Uruguay, SunWater Limited and the CSIRO Advisory Board for Field Crops.

Rod Roberts – Non-executive Director. Mr Roberts was appointed Managing Director in October 1996 until 2001 and Chairman from October 2001. Mr Roberts has previously held roles including Head of Corporate Finance at Bain & Co, Director of County NatWest Australia Limited, Chairman of Harris & Company Ltd, Director of Tassal Group Ltd and Deputy Chancellor of University of Tasmania.

Chris Corrigan – Non-executive Director. Appointed in November 2007 until July 2010 and again from 15 October 2012. Mr Corrigan was Managing Director of Patrick Corporation Ltd, Australia's largest stevedore company with interests in rail transportation and aviation from March 1990 to May 2006. Prior to that, he had a career with Bankers Trust spanning 20 years, including periods as MD of Bankers Trust in Australia and for the Asia-Pacific region. In September 2011, Mr Corrigan was appointed Chairman of Qube Logistics Holdings Ltd. **Simon**

David Cushing – Non-executive Director. Appointed on 31 October 2012. Mr Cushing is Executive Chairman of Rural Equities Ltd, one of New Zealand's largest rural property companies, and is also the MD of the private investment company H&G Limited. Mr Cushing was formerly an investment banker with NAB's subsidiary, Bank of New Zealand. Mr Cushing has considerable experience in the agricultural sector having previously been a director of horticultural company Fruitfed Supplies Ltd, rural services company Williams & Kettle Ltd and New Zealand Farming Systems Uruguay Ltd.

Chris Langdon – Non-executive Director. Appointed on 14 March 2013. Mr Langdon is a major shareholder and CEO of Langdon Group Pty Ltd, a 160 year old company, primarily involved in food ingredient distribution, and herb & spice processing. Mr Langdon's early career was in investment banking with roles in Australia, London and New York. Since the early 1990s, apart from his corporate role at Langdon Group, Mr Langdon has been involved in various external corporate directorships. He is a current non-executive director of ASX listed Panoramic Resources Ltd and of Touraust Corporation Pty Ltd.

David Robinson – Non-executive Director. Mr Robinson was appointed non-executive director in June 2005 until November 2008 and again from December 2014. He held the role of Chairman of Webster Limited from August 2007 to November 2008. Mr Robinson has 30 years' experience in large irrigated and broad acre farming as principal of Red Mill Pastoral Company and Moreton Pastoral Company. He is the Executive Chairman of Australian Food and Fibre Limited. Mr Robinson has also held the offices of Chairman of Bengerang Limited and Deputy Chairman of Cotton Australia Limited.

Joseph Corrigan – Alternate for Chris Corrigan. Mr Joseph Corrigan was appointed alternate for Mr Chris Corrigan on 14 October 2013. Mr Corrigan holds a bachelor and masters in creative arts and has interests and experience in the agricultural industry particularly wheat, canola and beef. Mr Corrigan is also the managing director of an entertainment production company.

Major Shareholders

Substantial Shareholders. Australian Food and Fibre Limited and associates 15.40%, Christopher Corrigan & Belfort Investments 12.29%, Kaplan Equity 9.26%, Verolot Limited 9.18%, Peter Joy 6.97%, and Bevan Cushing (as trustee of the KD Cushing Family Trust) 5.77%.

Table 11: Twenty Largest Shareholders

Shareholder	No. of Shares	%
Australian Food and Fibre Limited	51,111,913	14.57
Verolot Limited	32,215,862	9.18
National Nominees Limited	30,631,576	8.73
HSBC Custody Nominees (Australia) Limited	29,018,199	8.27
Mr Peter Joy	24,436,089	6.97
Belfort Investment Advisors Limited	18,602,191	5.30
Eagle Securities Limited	17,538,050	5.00
Sir Selwyn John Cushing & Mr Bevan David Cushing	11,431,136	3.26
REL-Trust Management Limited	5,559,529	1.59
Mr Andrew Roy Newberry Sisson	5,490,452	1.57
The Tasmania Gifts Company Pty Ltd	5,133,699	1.46
Sandhurst Trustees Ltd <JMFG Consol A/C>	5,018,961	1.43
Citicorp Nominees Pty Limited	4,991,476	1.42
Rathvale Pty Ltd	4,286,936	1.22
Ashfield Farm Limited	3,253,748	0.93
UBS Nominees Pty Ltd	2,709,600	0.77
PF Agriculture Pty Ltd	2,669,925	0.76
Custodial Services Limited	2,659,454	0.76
JP Morgan Nominees Australia Limited	2,366,833	0.67
Mr Zhiwei Lin	2,339,925	0.67

Source: WBA

Recommendation

We initiate coverage with a BUY Recommendation and a \$1.80 Price Target. Recent share price weakness (as a result of an announced nut set issue) represents an attractive entry point.

Appendix 1: Company History

Webster Limited - a potted history

Webster Limited is Australia's fourth oldest business. It commenced operating in 1831, just 28 years after the settlement of Van Diemen's Land, as a traditional pastoral house. One hundred and eighty years on, it is now a diversified food and agribusiness with a growing reputation locally and internationally for the quality of its produce.

The Company saw many changes during the 19th and 20th centuries. In particular, Webster played a part in the historical development of the dairy, energy and paper making industries by supplying generators, refrigeration equipment, pumps and motors to these sectors over a period of more than 100 years.

In the 1960s, Webster also established itself as a specialist in bearings and engineering supplies. These industrial businesses operated as Webster Trucks & Machinery, and Webster Bearings and Engineering Supplies.

Webster Limited listed on the Australian stock exchange in 1974 (ASX:WBA).

Using its traditional rural services, merchandising and heavy equipment segments as a base, Webster entered the horticultural industry with the acquisition of leading onion exporter, Vecon Pty Ltd in 1996. Rationalisation of the onion industry then saw 3 former competitors combine their resources to form Field Fresh Tasmania (FFT) with Webster holding 50%. Subsequently, Webster acquired the other 50% of FFT and this business is one of Webster's two operating divisions today.

Webster broadened its interests in the food sector with the 50% acquisition of Aquatas in 1999 and the remaining 50% in 2001, adding to its long and vibrant history as an innovative Tasmanian company. In 2005, Webster positioned itself in a strong strategic position in the salmon industry through the merger of wholly owned subsidiary Aquatas, with the ASX-listed Tassal Group Limited (ASX:TGR). Webster emerged from that transaction as the largest shareholder in Tassal Group Ltd with a 25% stake.

During the late 1990's and early 2000's, Webster continued the pioneering work done by Vecon in the fledgling walnut industry through the establishment of a 540 hectare walnut orchard at Swansea on the east coast of Tasmania. Then in 2004, the company expanded its walnut operations to Griffith in the Riverina irrigation district of NSW and established a 250 hectare orchard on behalf of private investor, Motspur Park Pty Ltd. The next year Webster entered into a Heads of Agreement with Gunns Limited to establish walnut orchards using funds raised by Gunns via the Managed Investment Schemes.

From 2006 to 2009, 1,365 hectares were established and maintained by Walnuts Australia, Webster's walnut operating division, on two properties (Tabbita and Leeton) on behalf of Gunns Limited.

In October 2007, Webster sold both industrial businesses to focus on its horticulture and aquaculture interests, being Field Fresh, Walnuts Australia and its strategic interest in Tassal Group Ltd.

In late 2010, Webster sold its shares in Tassal and used the funds generated to acquire the Gunns' walnut assets in the Riverina. Webster is Australia's and the southern hemisphere's largest walnut grower through its ownership and/or management of more than 2,200ha of orchards in Tasmania and the Riverina in NSW. Walnuts Australia also has a grafted walnut tree nursery at Forth on Tasmania's North-West Coast.

Today, the Company has an enviable reputation as Australia's largest onion grower and exporter, and is rapidly becoming known as a reliable, high quality producer and exporter of in-shell walnuts.

Webster sees its major marketing advantage as being a reliable producer of safe food products backed by stringent quality and traceability systems and produced in the counter season to the major markets in the world across the northern hemisphere.

Source: Shaw and Partners

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Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market.

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