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Smaller players to take bigger role in MIS sector

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Smaller-scale agribusiness players are set to take the limelight from their more established peers in 2009, thanks to a forecast decline in demand for traditional pulpwood products and the exit of major players from the managed investment scheme sector.

Research house Adviser Edge expects MIS sales for the 2008-09 year to drop from last year's total of \$1.15 billion to as low as \$650 million, driven both by lower demand in the economic downturn and lower supplies from agribusiness MIS providers.

"The MIS market historically has pretty closely tracked the sharemarket, and the market's come off a long way so that suggests MIS sales will come off too," Adviser Edge managing director Shane Kelly said.

The withdrawal of Timbercorp from the MIS sector in 2008-09 and colleague Great Southern's decision to reduce plantings and offer fewer products means there could be 40 per cent less product on offer to investors this year. Great Southern alone has historically accounted for as much as 35 per cent of total MIS sales.

Timbercorp chief executive Sol Rabinowicz told investors at the group's annual meeting on Friday that Japan, Australia's biggest customer for woodchips, had reduced production as it entered a recession, suggesting a flow-on effect for woodchip prices beyond 2009.

Other issues hitting the sector included regulatory uncertainty in the wake of the Australian Taxation Office's bid to scrap up-front tax deductions for non-forestry managed investment schemes, although the Federal Court's decision in December overruling the tax office has helped to



Sweet success: TFS Corporation staff inspecting sandalwood growing in a plantation near Kununurra.

bring back some surety. Those factors mean listed sandalwood grower TFS Corporation, which last week booked a 66 per cent rise in interim net profit to \$5.2 million on a 61 per cent lift in revenue, is on track to become one of the heavy hitters in the agri-MIS industry after four years of being seen as a fledgling, riskier proposition.

The group last year lifted MIS sales 45 per cent to 814ha and is forecasting that figure to rise to at least 930ha this financial year, which would generate nearly \$65 million in MIS revenue and

give it up to 10 per cent of the sector in Australia.

TFS products represented about 4 per cent of the total market in 2007-08.

"Continuing drought conditions in southern areas and the fact there's going to be less non-forestry (product) in the marketplace means the tropical forestry sector is one of the areas we'd expect to continue its growth," Mr Kelly said.

Prices for Indian sandalwood have soared above \$100,000 a tonne on the

back of a 30 per cent decline in domestic supplies of sandalwood in India in recent years. Australia has become a key exporter of the product, which is used in fragrances such as the famous Chanel No 5, to India to help the country meet demand.

Although it received no MIS sales revenue in the December half because it was awaiting a product ruling on its 2009 project from the tax office, TFS executive chairman Frank Wilson said last week the group was confident of achieving its 930ha target.