

## Our #1 stock pick for 2019

December 2018 – Blake Henricks, Deputy Managing Director & Portfolio Manager

Nufarm is an Australian company that specialises in chemical crop protection globally. It produces products to help farmers protect their crops against damage caused by weeds, pests and disease.

There are two key reasons we believe Nufarm is one of the most compelling opportunities in the Australian equity market today:

1. Industry consolidation
2. Omega 3 opportunity

This article explains why Nufarm is undervalued today and why we believe it will be a future winner for our investors over the medium term.

### Why Nufarm is undervalued

If you invested in Nufarm at the start of the year it has been a tough investment. The share price has fallen almost 30% and Nufarm is trading at a substantial discount to its global peers.

The underperformance has been driven by two key issues:

1. Australian drought - The Australian drought in 2018 significantly impacted Nufarm's Australian earnings (~15% of total company earnings). The drought was a one in fifty year event. But investors need to remind themselves that droughts are cyclical in nature. They are not structural issues and whilst we do not know when it will rain, we like to take the contrarian approach of buying in drought and selling in rain.
2. Glyphosate concerns - Glyphosate is the world's most commonly used herbicide. It has come under controversy this year following a US law suit against Monsanto, which ruled that 'RoundUp' (which contains glyphosate) caused a former school gardener's cancer. Glyphosate products currently account for almost 20% of Nufarm's earnings so this is an issue we are monitoring closely. To date there are no glyphosate cases against Nufarm.

Whilst controversial, we don't believe there is any reasonable scenario where chemical crop protection is banned globally. Doing so could reduce global crop yields by 40% which would result in a global food shortage. The issue is multi-faceted, but we believe Nufarm is well-placed in any reasonable outcome from the controversy.

The Australian drought and glyphosate concerns have created a buying opportunity for medium to long term investors. Below we explain why we believe Nufarm will be a future winner for our investors.

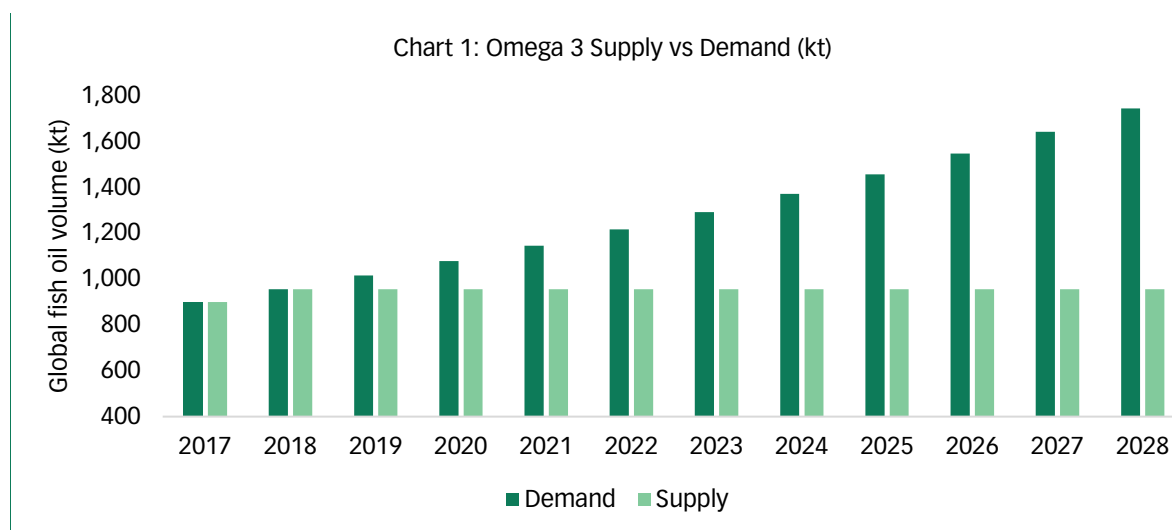
### Industry consolidation

The Global crop protection market is a US\$50bn industry. The industry has traditionally been dominated by six large players including multinational brands such as Bayer, Syngenta, Monsanto and BASF. However, the crop protection industry has been going through a major period of consolidation over the past two years. Since 2016, the six largest players have consolidated to four.

Nufarm is a big beneficiary from industry consolidation. Less competition means a better pricing environment across the market. In addition, the frenzy of mergers and acquisitions across the industry has resulted in forced asset sales, giving Nufarm a once in a lifetime opportunity to buy high quality assets directly from competitors at great prices. With competitors distracted and internally focused, we believe Nufarm has an opportunity to gain market share as a focused, independent alternative supplier of crop protection to its customers.

## Omega-3 opportunity

Fish oil is a rich source of Omega-3 fatty acids. It is derived from sustainably caught unpalatable fish such as anchovies and other fish by-products and used predominantly as aquaculture feed in fish farms. Omega-3 is required to meet the world's growing appetite for fish. However, as Chart 1 highlights, the world is short natural sources of Omega-3.



Source: Firetrail

Nufarm has developed the World's first plant-based source of Omega-3 in partnership with the CSIRO. Whilst there are competitive technologies being developed, Nufarm will be first to market, with patents beyond 2030 and regulatory approval for commercialisation expected in 2019.

In our view, the Omega-3 opportunity represents 40% additional upside to the current share price despite earning nothing today.

## Conclusion

Nufarm has fallen over 30% this year and is currently undervalued versus its global peers. Whilst there are issues regarding the Australian drought and glyphosate concerns, we believe there is material upside to today's share price. In our view, industry consolidation and the Omega-3 opportunity will provide significant earnings growth for the company. We believe Nufarm is one of the most compelling investment opportunities in the share market today.

---

Firetrail Investments Pty Limited ABN 98 622 377 913 ('Firetrail'), Corporate Authorised Representative (No. 1261372) of Pinnacle Investment Management Limited ABN 66 109 659 109 AFSL 322140.

Any opinions or forecasts reflect the judgment and assumptions of Firetrail and its representatives on the basis of information at the date of publication and may later change without notice. Any projections contained in this article are estimates only and may not be realised in the future. The information is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. This communication is for general information only. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice relevant to their particular circumstances, needs and investment objectives. Past performance is not a reliable indicator of future performance.

Interests in the Firetrail Absolute Return Fund (ARSN 624 135 879) and Firetrail Australian High Conviction Fund (ARSN 624 136 045) ('Funds') are issued by Pinnacle Fund Services Limited ABN 29 082 494 362 AFSL 238371. Pinnacle Fund Services Limited is not licensed to provide financial product advice. A copy of the most recent Product Disclosure Statement ('PDS') of the Funds can be located at [www.firetrailinvest.com](http://www.firetrailinvest.com). You should consider the current PDS in its entirety and consult your financial adviser before making an investment decision.

Pinnacle Fund Services Limited and Firetrail believe the information contained in this communication is reliable, however its accuracy, reliability or completeness is not guaranteed and persons relying on this information do so at their own risk. Subject to any liability which cannot be excluded under the relevant laws, Firetrail and Pinnacle Fund Services Limited disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information.