

Eureka Report, March 2015

By Alan Kohler

I want to tell you about what Chris Corrigan is up to now, partly because it's also a fascinating story about water trading and investment in Australia, in what has become the world's most sophisticated water market.

Chris, you'll recall, was CEO of BT Australia and then Patrick Stevedores, where he cleaned up the waterfront through the 1998 waterfront dispute and then made a fortune selling the company, unwillingly, to Toll Holdings. He then moved into another stevedoring business called Qube Holdings, which is one of our analyst Simon Dumaresq's favourite companies. Qube's share price has gone from 50c to close to \$3 in five years, outperforming the market five-fold, and Simon believes it has more to go.

Chris's next project is a listed company called Webster Ltd, which grows walnuts. Under his guidance (he owns 15 per cent and is on the board) Webster is doing three things more or less at once: it bought a 46,000 hectare property on the Murrumbidgee River called Kooba for \$116 million; it bought a farming business called Bengenang, which is the remnants of a company called Prime Agriculture (Corrigan himself is one of the vendors of that) and it has made a takeover offer for a cotton business called Tandou Ltd.

At the end of this process, Webster will own entitlements to 230,000 megalitres (ML) of water. That's about half of Sydney Harbour, and will probably make the company either Australia's largest owner of water rights or very close to it.

Chris Corrigan told me yesterday that for him Webster is a "five-year project". The plan is to be a significant owner of water and then to add value to the water through both permanent and annual cropping, the former starting with more walnut planting, which Webster already makes a decent cash flow out of, and the latter largely through cotton. In 2014, by the way, Webster made \$8.7 million in profit from \$55 million in revenue, entirely from walnuts, mostly exported.

Chris says listed agricultural companies in Australia have not had a great track record, although there are plenty of very rich farmers around who know how to manage Australia's water system and turn it into crops.

Tandou is one those listed ag businesses with an ordinary track record: at 44c before the bid from Webster was announced, the stock was trading at exactly the same price as it was 20 years ago. The offer is 1 Webster share for every 2.25 Tandou shares, which makes it worth 58c a share or \$114 million.

Tandou's chairman Rob Woolley told me yesterday that they just couldn't close the gap between the share price and the NTA, which is 59c. The company started as a cotton farming business, which it still is, and became a water trader. Its entitlements portfolio

sits at about 80,000ML and it has also been trading allocations, but it hasn't been getting value for these assets in its share price, so the board has been looking for another plan. Chris Corrigan proposed one: merge with Webster and become part of a much larger water play.

The way to think about water trading is that the entitlements are like the shareholding and allocations are like dividends. Each year the government gives water allocations to entitlement-holders and they can be traded or used to irrigate the farm. Entitlements are also tradable and in fact a lot of farmers sold theirs to the government for cash to pay off debts and are now on a treadmill of buying allocations every year to keep the farm going, and are hostage to the price fluctuations.

Chris Olszak at the research firm, Aither, tells me that the current price for high reliability entitlements (that is, where there's decent storage nearby, such as Eildon Weir on the Goulburn River) is about \$1,800 a megalitre, up from \$1,200 two years ago, while the more volatile allocation price has surged from less than \$10 two years ago to \$120 today.

The water market was established about 20 years ago, after caps were put on how much water farmers could take from the Murray Darling system. It took a long time to mature and settle down as a market, and there was a lot of politics along the way, but it is now orderly -- to the point where investors have now entered it.

As far as I can tell, there is just one vehicle for small investors to gain exposure to water entitlements. It's a listed investment company called Blue Sky Alternatives Access Fund (ASX:BAF), which has \$60.9 million invested, of which \$16.17 million is in a water fund. Here's a link to its most recent [monthly report](#).

Webster is also now a water play, although it's really a farming business that owns a lot of water, rather than simply a water investment.

I also spoke yesterday with Cullen Gunn who runs a wholesale water investment fund (for "sophisticated" high net worth investors and big super funds only) called Kilter. He says water is a "great asset class". "It's like commercial property except there's no problem with impairment or messy tenants. The yield is sold, about 5-8 per cent and if someone doesn't pay you just take the asset back, instead of having to apply to have a tenant evicted."

"Also, it's clear to me that climate change means there is going to be less water in future, so the economic value of it will increase."

Looking at the price growth of water entitlements, I estimate that the compound annual growth rate has been about 10 per cent over 25 years, on top of the yield. Not exactly CSL, but certainly better than either residential property or the ASX 200.

Chris Olszak cautions that allocations can be a volatile market because, as Dorothea Mackellar wrote:

I love a sunburnt country,

A land of sweeping plains,

Of ragged mountain ranges,

Of droughts and flooding rains.

In the past 10 years or so, the price of water allocations has fluctuated from \$500/ML during the drought, to \$5/ML during flooding rains, so it's a market that requires a strong stomach.

Nevertheless, Australia is a dry place and the key to success in agriculture, and many other things, is water so long term it's probably a good investment.

Finally, I have not done any detailed analysis of Webster or modelled its future, either with or without the three acquisitions mentioned, so this is definitely not a recommendation to buy it. I just thought you might like to know what Chris Corrigan is up to, perhaps as a thought-starter on the subject of water.