Investor & Satara chairman tussle

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Ructions continue at Satara Co-operative Group as an Auckland institutional shareholder locks horns with chairman Andrew Fenton.

"I will continue my battle," Chris Swasbrook, managing director of Elevation Capital Management, told *MG Business*. Elevation, an Auckland boutique fund manager, owns 6.12% of the NZAX-listed kiwifruit company's investor shares.

Swasbrook founded Elevation in 2006 after being a partner in Goldman Sachs JB Were. Elevation's board includes Fonterra chairman Henry van der Heyden. Craig Stobo, former chief executive of BT Funds Management and influential in changes to the investment tax regime, chairs Elevation. Swasbrook says the fund is marketed mainly by word of mouth.

Satara has a hybrid share structure. Suppliers retain control of the company with their 'transactor' shares which guarantee 60% control. Outside investors (or suppliers) can buy into the other 40% of the business through investor shares. An investor may own no more than 10% of these.

Satara investor shares trade at 98 cents as this written after peaking at $1.60 two years ago.

Swasbrook describes Elevation as a "value investor". It buys into asset-rich companies whose shares trade at a discount to net tangible asset backing.

"In New Zealand, that tends to mean companies that are provincially based, or are exposed to the agriculture sector."

He says Satara owns valuable real estate — such as in Mount Maunganui — that should not have coolstores sitting on it.

"The board, if it was working in shareholders' best interests, would acknowledge that and look to shift those facilities to more peripheral areas."

Instead of divesting properties, directors invested more in plant and machinery, he asserts.

At this year's annual meeting, shareholders accepted Swasbrook's call to block a rise in fees for Satara's directors. They rejected other Swasbrook motions. These included refusing to accept Tom Wilson as a new director, scrapping the 10% investor share cap, making all directors retire each year, forming a sub-committee to consider industry rationalisation and takeovers, searching for a new "independent" chairman, and selling the company if it didn't achieve a return on assets after rebates and tax of at least 5.5%.

In letters to Satara's board, Swasbrook also objected to it lowering its internal capital charge, which goes to investor shareholders. Satara dropped this to 10% from 10.5% while market interest rates rose.

Swasbrook has challenged Satara's loss-making kiwifruit growing on leased orchards.

Satara revenue rose 8% to $59.5 million in its December 31 financial year, but profit before tax and rebates fell 42% to $2.1 million. Operational cash inflow fell 82.7% to $533,309. Cash from orchard and post-harvest activities rose 12%. Cash paid to suppliers and staff rose 13.5% and cash rebates paid to suppliers rose 50.6%.

Chairman Fenton blamed the loss on reduced orchard gate returns, higher operating costs "driven by the Government imposed minimum wage increase", and more expensive compliance costs.

The kiwifruit industry shares some problems with the meat industry, though it has a single-desk exporter (outside Australia) in Zespri. Smaller post-harvest processors compete with Satara, Seeka, and Eastpack (whose shares trade on the Unlisted facility).

Twenty-five years ago, New Zealand was the only country with commercial kiwifruit production and exported about 4.5 million trays a year. Zespri last year exported 80.1 million trays of New Zealand kiwifruit (it also sources fruit from overseas). Zespri distributes about 24% of world kiwifruit. Italy is the biggest grower.

Since the 1982 gate price of about $11 a tray, the return to New Zealand growers has fallen about 75% when adjusted for inflation. The huge increase in world supply and the high kiwi dollar share the blame.

Satara highlights potential conflict between mainstream investors and the co-operative structure which dominates our agriculture exporters. Satara's hybrid, two-shares structure contrasts with that of Seeka, whose normal shares trade on the NZSX. Seeka's half-year result was down 29%. Its full-year result is due for release about now.

Co-operative suppliers tend to see their enterprises differently from the way everyday investors regard companies.

Fenton told the last annual meeting, for example, that volumes handled were set to grow and as supplier shareholders increased in number, "the financial outlook indicates increasing profitability providing increased rebates and dividend growth".

He indicated that Satara's total strategic focus would be to maximise the orchard gate return for growers.

That doesn't parallel the fund manager's strategy of driving for greater returns on assets. Both sides seem to support rationalisation of processing organisations, which means mergers. However, a move to merge EastPack and Satara two years ago failed.

Satara's investor shareholders must wonder whether a kiwifruit mini-Fonterra would welcome them.