

Agribusiness player has potential but lacks drive



Small-cap Spotlight

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Company: Ridley Corporation (RIC)
Recommendation: None

RIDLEY was formed in 1987, and since listing has always been an agribusiness player.

Agribusiness wasn't always the sole focus, and many moons ago it owned several regional radio stations in Victoria.

It took a few years for the company to concentrate its efforts, but over time Ridley has grown to become Australia's largest stockfeed and salt company.

The generated revenue of \$1.5 billion revenue in the 2008 financial year and employed more than 2000 people.

Ridley has been "on the radar" of the wise-owl.com research team for some time, according to analyst Joshua Terlich.

"Ridley has caught our eye, but is not quite attractive enough to get a buy rating at this stage," he says. "We like the wafer-thin margins. Generally this is not something we would go for, however, in the case of a relatively stable business like Ridley, small operational improvements have the potential to drive a dramatic rise in earnings."

Such catalysts appeared to be absent from the latest full-year results, and patient shareholders have been disappointed, with the stock now trading at the same level as in 1992.

"Ridley is viewed as somewhat of a long-term underachiever and despite huge revenues, manages only to eke out small profits," Terlich says. "Its average net profit for the past five years is a meager 1.88 per cent, and the profit result of \$10.5 million in the 2008 financial year yielded a margin of only 0.67 per cent."

Steps have been taken to produce a turnaround but the impact on earnings has not yet been realised.

"An overhaul of senior management has taken place as Ridley strives to lift profitability and reduce costs," Terlich says.

"Costs have been slashed in the head office to generate annual savings of \$3 million annually, and the corporate management team is relocating to Melbourne, bringing it closer to core business operations.

"Of key interest going forward is a venture with Lend Lease that could result in some of Ridley's prime waterfront land holdings being redeveloped into residential projects as part of a strategy to unlock hidden value."

Terlich can see long-term potential in the business, and value at current levels, but he believes the company is lacking the catalysts necessary to drive the share price.

"More solid evidence of a turnaround is required, so for now we are prepared to wait and keep the stock on our radar."

