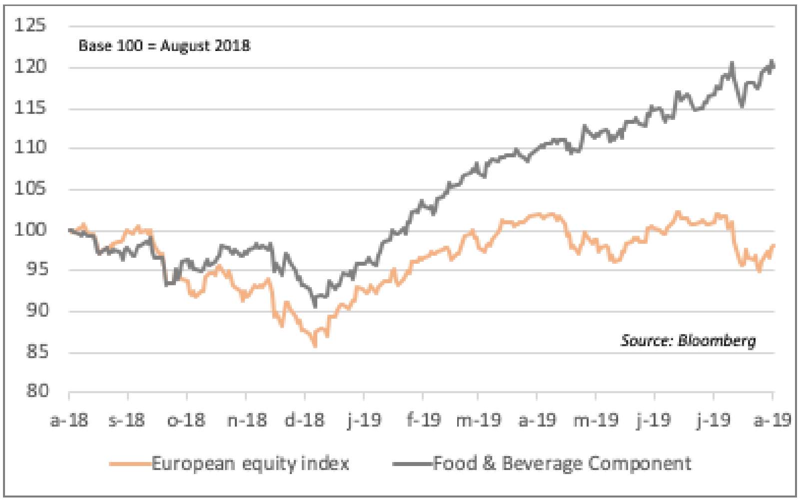
Unigrains – In Brief

Equity markets are driving the agri-food sector ever higher



➢ The robust health of listed agri-food stocks

After a dynamic start to the year, which offset the sharp fall at the end of 2018, European and global equity markets have been flat for several months due to widespread fears of an economic slowdown or even recession, against the backdrop of the United States-China trade war, political uncertainties in Europe and weakened economic indicators in both industrialised and developing countries. And yet, in the meanwhile, stock prices in the agri-food sector are continuing to rise.

Over the past year, the main European equity index, the S&P 600, has fallen by 3% when its Food & Beverage component, which includes the 24 listed European agri-food stocks in the index, has risen by 20% (+10% and +30%, respectively, since 1 January 2019).

The average Price Earnings Ratio of stocks in the Food & Beverage component is currently 28 compared with 18 for all stocks of the European index taken together.

This outperformance by European agri-food stocks had already been mentioned in the 2nd quarter 2019 edition of the Unigrains IAA80 indicator of European agri-food listed companies, but it rose even further during the summer. The analysis of the Unigrains indicator's performance also showed a strong correlation between the stock market performance of listed stocks and their size.

Over the long term, the sector's robust health compared with other sectors of the European economy is even more striking: +7% for the S&P 600 over the past 5 years vs. +50% for its Food & Beverage component!

➢ An attractiveness fuelled by the sector's defensiveness and resilience in a global environment of risk and uncertainty…

In a globally weakened economic and political climate, dominated by high uncertainty and low inflation, financial market investors prefer defensive and counter-cyclical investment strategies. The agri-food sector's resilience, which persisted over the summer given the necessity and regularity of food needs on the one hand and an increasingly marked degree of internationalisation on the other hand, allowing companies to benefit from growing demand in high-growth geographical regions, particularly the United States, in contrast with the gloom in Europe, meets investors' demand for security.

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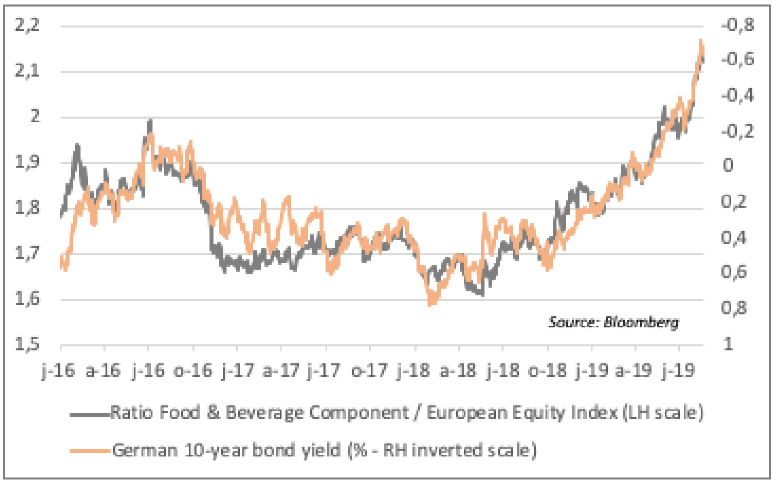
In this respect, it is interesting to note the strong correlation between the relative ratio of the Food & Beverage component and the global index on the one hand, and the German 10-year bond yield, the European benchmark, on the other. The dramatic fall of the latter in recent months, which reflects the surrounding economic fears, was accompanied by an equally sharp rise in the former. Investors' quest for safe haven securities focuses on both the bond market and agri-food equities.



➢ … combined with specific structural support factors

But beyond their resilience, this outperformance of agri-food stocks is also attributable to a structural environment that remains buoyant for the sector.

The sector faces major challenges for the future. The most pressing of these include:

- The increase in world population, which the UN estimates will lead to a 60% increase in the planet's food needs by 2050
- Climate change, with major impacts on the agricultural production system
- Food waste, which represents one third of global food production
- Profound changes in consumer demand and societal demands, particularly from Millennials, whose weight in global consumption and society is constantly increasing

The responses provided by the sector's stakeholders to these major structural challenges offer opportunities, particularly in terms of technological innovation, for both agricultural production and the food industries. These innovations are intended to adapt to ongoing changes, improve agricultural yields to meet the constantly growing global food demand and lead to a more optimal use of resources. The influence of technological innovations on production and the agri-food industry is greater than ever, with growth prospects seen as promising by the equity markets.

In the current economic environment, with equity market investors becoming more edgy and selective, and as a result of these various structural support factors, the stock market outperformance of agri-food stocks still holds attractive potential in a hesitant stock market.