Trend 2018: Lower profitability, but continued diversification

Amid an improving but more volatile economic outlook, valuations are rising in high-value markets. Next year will likely prove that agri is capable of both resilience and innovation, says Valoral's Roberto Vitón.

Europe **Matthieu Favas** – December 28, 2017

As far as 2018 is concerned, economic forecasters have both good and bad news.

The good news is that economic growth is gathering pace, in both developed and emerging markets. Roberto Vitón, managing director at Valoral Advisors, thinks this offers "a constructive outlook for continued growth in consumer demand, for all the spectrum of food and agricultural products."

Now the bad news. "2018 will see persisting uncertainty in global geopolitics, a tightening monetary cycle in some of the largest economies, a likely revival in consumer price inflation and potential increased volatility in financial assets, amid high valuations across nearly all asset classes," Vitón told *Agri Investor*.

Emerging edge

Against this backdrop, he reckons some multi-year trends affecting the ag industry will continue to disrupt the entire food and agriculture value chain. "In recent years, lower farm income and lower trading profitability pushed investors and managers to expand into higher-value markets and integration opportunities – think about permanent crops, animal feed, food ingredients, consumer brands," he said.

This shift has boosted valuations in those sectors, in particular in North America and Europe, he noted. "We continue to see opportunities in these areas – particularly in emerging markets – through private equity strategies."

"DESPITE THE CURRENT LOW CASH YIELDS, A WELL-DIVERSIFIED PORTFOLIO OF FARMLAND ASSETS OFFERS RESILIENCE AND DOWNSIDE PROTECTION"
ROBERTO VITÓN, VALORAL ADVISORS

After the drops seen in recent years, he argued, agricultural real assets will also offer long-term value. That will particularly be the case in geographies with low marginal costs of production and are capable of hosting crop and animal protein production and value-added integrated models. "Despite the current low cash yields, a well-diversified portfolio of farmland assets offers resilience and downside protection in numerous ways to private and institutional investors," Vitón said.

Squeezed margins in several parts of the value chain, he added, would probably drive opportunities for innovation, making it possible to "expand into the farm-centric and consumer-centric industries."

“Besides the mainstream developments in digitalization and precision agriculture, we see technologies and businesses that address i) soil improvement and water efficiency, ii) sustainable and healthy food and beverages, and iii) the wide range of bio solutions for a circular economy in the food and agriculture sector.”

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The original article can be found on: http://www.agriinvestor.com