Ask the Expert: Roberto Vitón on Reaping Rewards in Peru's Coastal Farms

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For foreign private investors, the direct investment model is proving the best way to access the Peruvian permanent crop opportunity, says Roberto Vitón, managing director at Valoral Advisors, a food and agri specialist advisory firm.

If you recently purchased avocados or asparagus in a European supermarket, it is quite likely they were from Peru: Peruvian fresh fruit and vegetable exports have risen tenfold since the early 2000s to around $2.0 billion today, and they now compete with other major suppliers in markets such as the US, Europe and China.

Peru’s competitive advantage is driven by its unique geography – a mild tropical climate and the Andes mountain range, which produces a natural greenhouse effect along the coast, allowing the country to enjoy some of the best growing conditions in the world for a variety of conventional and tropical fruits, including many healthy superfoods. Peru’s strategic location in the southern hemisphere also allows it to supply off-season products to European and North American markets before competition.

Besides propitious natural conditions, this growth is thanks to a public and private effort to convert Peru into a major fruit production and export hub, with the launch of multiple public irrigation projects to bring thousands of hectares into production. Private companies invested in new propagation and plantations, as well as in the supply chain to deliver fruits and vegetables to export markets. On the commercial side, free trade agreements opened up dozens of new markets for Peruvian export. Today there are more than 400 thousand hectares of permanent crops with irrigation and the production area with organic fruits grows steadily.

However, the investment landscape for permanent crops has been a complex one for foreign private investors. A few investment funds have tried to build portfolios of permanent crop plantations across Chile, Peru and Colombia by working with local operators to build a diversified portfolio of farms which could include a range of commodities such as cocoa and palm oil, and fruits and vegetables. But setting up these portfolios across crops and countries has proved more complex than expected because of the inherent risks of greenfield projects – specially in novel crops – and because of the perceived risk by foreign investors of the operational and commercial challenges and the difficulties to exit these illiquid investments.

For foreign investors looking to access the Peruvian permanent crop opportunity, the direct investment model in established plantations with major crops has proven more successful.

Investing in established companies with ongoing plantations and existing land bank for further expansion can be a win-win opportunity for business owners and investors. Peru has dozens of these companies with semi-integrated or fully integrated models from farming to export of packaged fruit to the end clients, which allows the creation and capture of more value and offers better traceability and quality assurance.

Many of these companies face financial and generational challenges, so private capital has a role to transform their businesses into attractive cash flow generating assets for institutional investors or global fruit companies eager to own larger commercial plantations.

Recent market transactions point towards this exit strategy: Earlier in July 2017 Argentine citrus specialist San Miguel agreed to acquire Peru's largest mandarin producer, Agrícola Hoja Redonda, for $64m. With this acquisition, San Miguel will expand its business by 28,000 tonnes of citrus, avocados and grapes and it will also get better access to the American West Coast and Asian markets.

In 2016, South Africa-based Westfalia Fruit acquired a majority stake in major Peruvian avocado exporter Camet Trading. Earlier in 2015 US pension fund Municipal Employees' Retirement System of Michigan, invested close to $40 million for a minority holding in Agrícola Cerro Prieto, a leading fruit production company in Peru.

The investment in permanent crops in Peru also comes with an impact angle: the poverty rate in the country is twenty-one percent, and many Peruvians rely on agricultural jobs. The expansion of fruit plantations offers formal jobs and can provide new labor skill and investing in companies with conditioning and packaging facilities can also serve to increase purchase of fruits from small farmers, facilitating access market to their production. The associated investments in water irrigation, transportation and port infrastructure are also important drivers for local development.

The prospect for continued growing global fruit demand is likely to generate interesting business and investment opportunities in Peru's fruit sector, both in farming and the broader fruit value chain. Foreign private capital has a clear path into this growing opportunity.

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http://www.quarterra.com/blog/2017/8/10/ask-the-expert-roberto-viton-on-reaping-rewards-in-perus-coastal-farms