Are Cargill and Glencore as Smart as Conagra and Blackstone?
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Dear Fellow Investors:

Back in late March of 2008, the US stock market was struggling. At the same time, those with great confidence in the ability of China and other emerging market nations to thrive were bidding up commodity prices to ridiculous levels. Oil hit $145 per barrel in June and wheat hit $14 per bushel. How could you have known to sell those commodities back then and get out of the way?

Conagra did. They agreed at that time to sell their commodity trading unit for $2.1 billion. In retrospect, it was a stroke of genius. With speculators rabid, they got a lofty price for the unit. The enormous sale towers economically over the hedging benefits which the unit had provided to one of the world's largest food producers. In 2008, Conagra was the definition of smart money. Within the following 12 months, Oil corrected all the way down to $32 per barrel as commodity prices fell across the board.

Commodity markets are rabid again. Copper, oil, wheat, cotton and coffee have all had huge runs since the early 2009 low. This week Cargill announced that they are divesting their 64% stake in Mosaic. Cargill is an international producer and marketer of food, agricultural, financial and industrial products and services. Founded in 1865, this privately held company employs 131,000 people in 66 countries. They are the largest privately-owned food company in the US.

Mosaic is the world's leading producer and marketer of concentrated phosphate and potash, two of the primary nutrients required to grow the food the world needs. Its business engages in every phase of crop nutrition development, from the mining of resources to the production of crop nutrients, feed and industrial products for customers around the globe. In other words, Mosaic is one of the companies which have benefitted the most from the "blistering pace" of food commodity price increases in the last year described recently by CFTC Commissioner Brad Chilton.

Here is how The Street.com reported Cargill's transaction.

Cargill, the privately-held agribusiness giant, plans to divest its majority stake in fertilizer producer Mosaic, the companies announced after the close Tuesday. The move comes as agriculture stocks have rocketed higher amid a boom in crop prices.

Cargill, which spun off Mosaic in an initial public offering six years ago, intends to distribute its 64% stake in Mosaic to Cargill's own shareholders and creditors, effectively buying back some equity and retiring debt. The swap is tax free, the company said.

This leads us to the recent news reports that Glencore, the largest commodity trading company in the world, is planning to go public with an IPO for dual listing on the London and Hong Kong Exchanges. Here is what the Wall Street Journal's Dave Kansas wrote in his blog on Jan. 27th:

News that Swiss commodities giant Glencore has plans to go public has raised a big question: When a long-time private player decides to go public, are they signaling a top in their field of expertise?

As the old Street saw goes, Glencore's move may be "ringing a bell" that the top in commodities is upon us. Previous examples are private-equity firms going public as the private-equity boom peaked. Nowhere to go from a peak except down, of course.

We decided to do a little research on how those private equity companies which went public in 2007 did for their public investors. They were Blackstone, Och-Ziff and Fortress. Here are the results through January 27, 2011:

<u>*Blackstone - BX*</u>:
IPO price: $31 on 6/22/07
Closed on that day at $35.06 (+13.1%)
Closed on January 27, 2011: $16.12

<u>*Fortress Inv Group - FIG*</u>:
IPO price: $18.50 on 2/9/07 (priced at the high of its offering range)
Shares priced: 34.2 million shares…which was ~8.6% of the company (tracker stock, really)
Price action 1st day: intra-day high of $37…opened trading at $35. Closed on that day at $35.06 (+13.1%)
Closed on January 27, 2011: $5.58

<u>*Och-Ziff Cap Mgmt – OZM*</u>:
IPO price: $32 on 11/14/07 (priced near high end of $30-$33 range)
Shares priced: 36 million shares…which was ~9.9% of the company (tracker stock, really)
Closed on that day at $30.65 (-4.2%)
Closed on January 27, 2011: $16.19

If Dave Kansas is correct, and we believe he is, then Glencore is signaling the kind of commodity market top that private equity was signaling for the stock market in 2007. From peak to trough in March of 2009, it was a decline of over 50% in the S&P 500 Index and one of the worst bear markets since the 1930s. As you can see, the results were even worse for those who bought what the smart money was selling. As China and India tighten credit to fight inflation this year, we at Smead Capital Management are watching for commodity prices to buckle severely. We believe that Cargill and Glencore are as smart now as Conagra was back in 2008 and Private Equity firms were in 2007!

Best Wishes,

William Smead

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