

11th April 2019

Ricegrowers Ltd trading as SunRice

Resilience in vertical integration

Ricegrowers Ltd (ASX:SGL) trades as SunRice and is the dominant rice marketing and manufacturing company in Australia. It operates in the Riverina region of New South Wales, trades with more than 50 countries and has offshore operations in Singapore, PNG, the Solomon Islands, the Middle East (UAE and Jordan), the US and Vietnam. SGL listed its 58.7m Class B shares on the ASX on 8th April 2019. The stock opened at \$7.05, rising to \$8.45 a share before closing at \$8.30 a share. The company has defined its 2022 growth strategy which is focused on expanding SunRice's footprint in the healthy snacks, low GI and sushi rice markets, increasing its exposure to non-rice products both organically and through acquisition and expanding its product range internationally.

Business model

SGL operates five divisions; Rice Pool, which, with CY17's improved crop, generated around 37% of group revenues in FY18; International Rice contributed 39%, and Rice Food, Riviana and CopRice, each contributed around 9% of revenues. Rice Pool and International Rice are focussed on the manufacturing, marketing and distribution of rice respectively from Australia and international sources. Rice Food manufactures value-added consumer products such as rice cakes, rice chips, ready-to-go foods, rice flour, and microwave rice, with 50% of its revenues generated by microwave rice products. Riviana imports, packages, distributes and sells both rice-based and non-rice-based food products under a range of brands to supermarkets and food service outlets while CopRice manufactures, distributes and sells a range of pet foods and stockfeeds.

H119 result and FY19 outlook

SGL reported a 7% increase in revenue to \$583m for H119 (balance date October 31, 2018) but a 42% decline in NPAT to \$13.9m due to both foreign exchange headwinds and a 30% increase in international rice prices which impacted on the profitability of some of SunRice's product lines. Increased profits were reported from CopRice, Rice Food and Riviana, which helped offset the impact from the international rice division. SGL has provided guidance that it anticipates NPAT in the range of \$30-35m in FY19. The company has also flagged that it is expecting a significantly reduced domestic rice crop of 50,000 tonnes for CY19 due to the drought and low water availability which will be reflected in its FY20 results. SunRice has taken steps to mitigate against this reduced crop by restructuring its mill output. The company will supplement the domestic rice shortfall by buying more internationally produced rice and focussing on expanding its product range.

Trading at a discount to comparable peers

At the current intraday price of \$7.00, the implied forward PER based on SGL's FY19 guidance range is 11.7-13.7x. We note that the comparable companies to SGL (see the right-hand table) are all trading well above this range with the exception of MG Unit Trust. The median 12 months rolling PER for this comparable group is 24.3x. If we were to apply this multiple to SGL's guidance range, we would have a compco valuation range of \$12.40 to \$14.48.

Earnings history (A\$m)

Y/E	Revenue	EBITDA	NPAT	EPS (c)	DPU (c)	Paddy Rice (\$/t)*	P/E (x)	Div Yield
Apr-15	1,246.2	102.0	51.2	77.9	31.0	395	5.9	6.7%
Apr-16	1,270.2	107.6	52.0	88.0	33.0	404	4.8	7.9%
Apr-17	1,112.8	72.1	34.2	61.3	33.0	415	7.0	7.7%
Apr-18	1,177.3	93.2	45.1	75.9	33.0	379	9.2	8.3%

Source: Company data *medium grain paddy rice price paid to Class A growers

Share details

ASX Code	SGL/SGLLV
Share Price (intraday)	\$7.00
Market Capitalisation	\$411.0M
Number of shares (BClass restricted)	58.7M
Enterprise Value	\$592.5M
Sector	FMCG/Agriculture

RaaS RAP 5-point score* = 5/5

Revenue increasing (1); EPS increasing (1), Return on Capital Employed [ROCE] (1); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90% (1)

Upside Case

- Most efficient rice producer in the world
- Proven ability to manage adversity while delivering grower and shareholder returns
- Significant growth opportunities in healthy snacks, low GI and sushi rice and non-rice products

Downside Case

- B Class shareholders have limited voting rights and cannot own more than 10%
- Competing with other crops for water allocation
- Pressure from international players such as China flooding the lower returning markets

Board of Directors

Chairman	Laurie Arthur
CEO/Executive Director	Rob Gordon
Non-Executive Director	Glen Andreatza
Non-Executive Director	John Bradford
Non-Exec Independent Dir	Luiza Catanzaro
Non-Exec Independent Dir	Dr Andrew Crane
Non-Exec Independent Dir	Ian Glasson
Non-Executive Director	Gillian Kirkup
Non-Executive Director	Ian Mason
Non-Executive Director	Mark Robertson
Non-Executive Director	Dr Leigh Vial

Catalysts

- Drought breaking, increased crop, continued product expansion and downstream processing

Comparative companies (Australia & NZ)

A2M, BGA, CVT.NZ, FNP, FCG.NZ, GNC, ING, MGC, SM1

RaaS Advisory contacts

Finola Burke +61 414 354 712
finola.burke@raasgroup.com

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd
ABN 99 614 783 363
Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD
ABN 92 168 734 530
AFSL 456663

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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