

### Interim result demonstrates resilience across the business

Ricegrowers (ASX: SGLLV) trades as SunRice – the company’s main brand, which is ubiquitous in supermarkets. SunRice is a global fast-moving consumer goods (FMCG) business and one of Australia’s largest branded food exporters with more than 30 brands across 50 countries. The company has reported 1H FY20 revenue of \$542.9m, down 6.8% on the previous corresponding period and NPAT attributable to B Class shareholders of \$14.8m, an increase of 11.1% on 1H FY19. SunRice has guided that it expects its full year FY20 revenue to be materially in line with FY19 but that 2H FY20 NPAT is expected to be lower than 1HFY20 NPAT due to further risks of deterioration of trading conditions in Papua New Guinea and after absorbing the cost of reconfiguring its Riverina assets. The company intends to maintain a fully franked dividend at similar levels to prior years. The company announced an on-market share buyback of its B class shares as part of its capital management program.

### Business model

SunRice is a market leader in both core rice and value-added rice products such as microwave rice meals, rice cakes, rice flour and a growing presence in the healthy snacking category which we believe holds significant opportunity for further growth. SunRice has had a consistent focus on increasing organisational quality and sustainability - both economically and in ESG terms. The company is currently executing a second five-year strategic plan aimed at expanding its presence in the fast-growing healthy snacking category, capitalising on growing global demand for sushi rice, expanding the footprint for its branded low GI rice products and developing new markets for new rice-based value-added ingredients. This plan implies further acquisitions of complementary food brands and products, particularly in the “entertaining and snacking” and animal feed categories.

### Key points from interim results

SunRice reported a 6.8% decline in revenue in 1H FY20 and a 10.2% fall in group NPAT to \$12.5m. NPAT attributable to B Class shareholders (ASX:SGLLV) increased 11% to \$14.8m. In our view the result highlighted the resilience built into the business with its international footprint in rice supply and branded products. The company also announced post results that it had secured supply of milled white rice from a strategic partner in China to supply the Pacific markets for the FY21 financial year, further shoring rice supply alternatives.

### Guidance for FY20 result; dividend/share buyback to underpin

The company has guided that it expects FY20 revenue to be materially in line with FY19. 2H FY20 NPAT is expected to be lower than 1HFY20 NPAT due to the cost of reconfiguring the Riverina assets and the risk of further deterioration of trading conditions in PNG. SunRice intends to maintain a fully-franked dividend at similar levels to prior years. This is in line with our expectations highlighted in our recent initiation report [Quality Income from Branded Products](#) in which we arrived at a Sum-of-the-Parts Compco valuation of \$11.44/share. Please refer to this report for our method and explanation. In our view, maintaining the dividend together with the announced share buyback should help underpin SunRice’s share price over the next 6-12 months.

#### Historical earnings and ratios

Year end	Revenue (A\$m)	EBITDA Adj.* (A\$m)	NPAT Adj.* (A\$m)	NPAT Rep.	EPS Rep. (c)	P/E (x)	DPS (c)	Yield (%)	NTA (\$)
04/15a	1,238.1	111.1	52.5	43.4	77.9	5.7	31.0	7.0%	6.37
04/16a	1,265.9	110.4	52.0	49.1	87.9	5.0	33.0	7.5%	6.84
04/17a	1,109.3	75.3	37.5	34.2	61.3	7.2	33.0	7.5%	7.10
04/18a	1,174.0	94.3	43.6	42.7	75.9	5.8	33.0	7.5%	7.49
04//19a	1,189.5	85.8	40.1	31.5	54.5	8.1	33.0	7.5%	7.64

Source: Company data \*EBITDA and NPAT adj for one-time, non-cash items inc forex costs

FMCG/Agriculture

20 December 2019

#### Share details

ASX Code	SGLLV
Share price	\$4.40
Market Capitalisation	\$262.8M
Shares on issue	59.7M
Net debt at 31/10/19	\$129.9M
Free float	98%

#### Share performance (12 months)



#### Upside Case

- Significant opportunity in Asian rice markets
- Proven ability to develop and expand brands, deliver new product initiatives through cycles
- Significant growth opportunities in healthy snacks low GI and sushi rice

#### Downside Case

- Complicated corporate structure
- Poor harvests limit Rice Pool's ability to absorb fixed costs & overheads
- Competing with other crops for water allocation

#### Board of Directors

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John Bradford	Grower director
Luisa Catanzaro	Non-Executive Director
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Gillian Kirkup	Grower director
Ian Mason	Grower director
Jeremy Morton	Grower director
Leigh Vial	Grower director
Julian Zanatta	Grower director

#### Company contacts

Dimitri Courtelis (CFO)	Ben Walsh (IR)
<a href="mailto:dcourtelis@sunrice.com.au">dcourtelis@sunrice.com.au</a>	+61 452 077 042

#### RaaS Advisory contacts

Finola Burke	+61 414 354 712
	<a href="mailto:finola.burke@raasgroup.com">finola.burke@raasgroup.com</a>

## 1H FY20 results discussion and analysis

### Exhibit 1: 1H FY20 versus 1HFY19

In A\$m	1H FY19	1HFY20	% chg
Revenue	582.6	542.9	(6.8%)
EBITDA	35.3	31.8	(9.8%)
EBIT	25.8	19.4	(25.0%)
NPAT	13.9	12.5	(10.2%)
NPAT attrib to B Class shareholders	13.4	14.8	11.1%
EPS	23.3	25.3	8.6%

Source: Company data, RaaS analysis

Key takeaways from the 1H FY20 result include:

- Despite challenging conditions in the Riverina and in PNG and currency headwinds, the company was able to contain its revenue decline to 6.8% in 1H FY20;
- Volume carried over from the C18 crop in the Rice Pool business supported a strong milling program through 1H FY20, enabling the group to contain the Rice Pool loss to \$2.8m. This loss is expected to increase in 2H FY20 as a result of the C18 crop carryover now being exhausted and a greater under recovery of the asset base;
- Strong results in the International Rice division from the Singapore trading business were offset by weak economic conditions and aggressive competitor pricing in PNG. The company expects continued economic volatility in PNG but noted that pricing had stabilised since the end of 1H FY20;
- The Rice Foods division was impacted by headwinds with the Australian dollar which in turn negatively impacted on the cost of globally imported products;
- The Riviana business experienced a 9% increase in revenue and 5% increase in Net Profit Before Tax (NPBT) and includes the integration of the FY19 acquisition of Roza's Gourmet as well as organic growth from the Always Fresh and Riviana brands. This division helped offset the adverse impact of the low Australian dollar on globally imported products;
- CopRice came under margin pressure in 1H FY20 from falling grain prices and the lower availability of rice hulls and other rice by-products due to the lower C19 crop. The ongoing drought also impacted dairy numbers and limited the demand for supplementary feed; offsetting this the dog and equine feed businesses experienced margin growth and sheep and beef traded above historical levels.

We set out a snapshot of the 1H FY20 segment result versus 1H FY19 in the following Exhibit.

### Exhibit 2: Segment results

In A\$m	1H FY19	1HFY20	% chg
<b>Rice Pool</b>			
Revenue	182.5	124.1	(32.0%)
NPBT	0.0	(2.8)	nm
<b>International Rice</b>			
Revenue	208.7	235.1	12.6%
NPBT	(6.0)	(5.7)	(6.2%)
<b>Rice Food</b>			
Revenue	52.6	49.8	(5.4%)
NPBT	3.7	2.0	(46.3%)
<b>Riviana Food</b>			
Revenue	59.1	64.5	9.1%
NPBT	3.5	3.7	4.6%
<b>CopRice</b>			
Revenue	77.9	67.5	(13.3%)
NPBT	6.0	0.9	(84.9%)
<b>Corporate</b>			
Revenue	0.0	0.0	nm
NPBT	15.4	15.6	1.7%
<b>Other revenue</b>	1.9	2.0	nm
<b>Total Revenue</b>	<b>582.6</b>	<b>542.9</b>	<b>(6.8%)</b>
Intersegment eliminations	(1.2)	1.8	nm
<b>Total NPBT</b>	<b>21.4</b>	<b>15.6</b>	<b>(26.9%)</b>

Source: Company data, RaaS analysis

### Exhibit 3: Financial Summary

Ricegrowers t/a SunRice						Share price (December 19 2019)						A\$ 4.40
<b>Profit and Loss (A\$m)</b>						<b>Interim (A\$m)</b>						
<b>Y/E 30 April</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>		<b>1H18</b>	<b>2H18</b>	<b>1H19</b>	<b>2H19</b>	<b>1H20</b>	
Total Revenue	1,238.1	1,265.9	1,109.3	1,174.0	1,189.5	Total Revenue	544.7	632.3	582.6	610.0	542.9	
EBITDA reported	102.0	107.5	72.0	93.3	77.2	EBITDA Reported	51.2	42.1	35.3	41.9	31.8	
EBITDA Adjusted*	111.1	110.4	75.3	94.3	85.8	EBIT reported	40.3	32.1	25.8	31.0	19.4	
Depn	(18.0)	(19.5)	(18.8)	(18.9)	(19.5)	NPAT Reported	24.1	21.1	13.8	19.0	12.5	
Amort	(2.3)	(2.6)	(2.6)	(2.0)	(2.2)	Minorities	(0.9)	(1.6)	(0.5)	(0.7)	2.4	
EBIT Adjusted*	90.8	88.4	53.9	73.3	64.1	NPAT attributable to B Class shareholders	23.2	19.5	13.3	18.2	14.8	
Interest	(11.2)	(12.3)	(10.3)	(9.3)	(8.4)	EPS (attributable to B Class holders)	41.4	34.5	23.3	31.8	25.3	
Tax	(21.5)	(21.2)	(6.1)	(17.7)	(15.6)	Dividend (cps)	0.0	33.0	0.0	33.0	0.0	
Minorities	(5.7)	(2.9)	(0.0)	(2.4)	(1.3)	Imputation	30.0	30.0	30.0	30.0	30.0	
Equity accounted assoc	0.1	0.1	0.0	(0.2)	1.3	Operating cash flow	(37.7)	177.1	(56.3)	47.2	29.5	
NPAT Adjusted*	52.5	52.0	37.5	43.6	40.1	Free Cash flow	(50.0)	167.7	(76.9)	47.0	10.4	
Adjustment for one time items	(9.1)	(2.9)	(3.3)	(1.0)	(8.6)	<b>Divisions</b>						
<b>NPAT (reported)</b>	<b>43.4</b>	<b>49.1</b>	<b>34.2</b>	<b>42.7</b>	<b>31.5</b>	<b>1H18</b>	<b>2H18</b>	<b>1H19</b>	<b>2H19</b>	<b>1H20</b>		
<b>Cash flow (A\$m)</b>						Rev - Rice Pool	159.1	219.9	182.5	143.4	124.1	
<b>Y/E 30 April</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	Rev - International Rice	217.4	239.3	208.7	273.7	235.1	
EBITDA	102.0	107.5	72.0	93.3	77.2	Rev - Rice Food	55.3	51.7	52.6	47.1	49.8	
Interest	(10.8)	(12.3)	(10.4)	(8.9)	(8.2)	Rev - Riviana	59.0	61.1	59.1	67.5	64.5	
Tax	(10.7)	(28.9)	(30.6)	(13.2)	(5.4)	Rev - CopRice	52.4	58.7	77.9	76.7	67.5	
Working capital changes	(44.9)	(37.6)	110.8	9.2	(72.7)	Costs - Raw materials	(339.4)	(371.3)	(358.4)	(377.9)	(332.1)	
Operating cash flow	35.7	28.7	141.8	80.5	(9.1)	Costs - Freight and distribution	(57.3)	(59.8)	(56.3)	(53.9)	(52.0)	
Mtce capex	(34.4)	(24.3)	(21.9)	(21.7)	(20.8)	Costs - Employee benefits	(68.9)	(71.4)	(74.1)	(69.4)	(74.2)	
Free cash flow	1.2	4.4	119.9	58.7	(29.9)	Other Operating Costs	(34.0)	(87.2)	(60.3)	(66.6)	(52.8)	
Growth capex	0.0	0.0	0.0	0.0	(20.0)	EBITDA reported	51.2	42.1	35.3	41.9	31.8	
Acquisitions/Disposals	(4.1)	0.3	(2.4)	0.3	(5.7)	Margins, Leverage, Returns	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	
Other	0.0	0.0	0.0	0.0	0.0	EBITDA	8.2%	8.5%	6.5%	7.9%	6.5%	
Cash flow pre financing	(2.9)	4.7	117.5	59.0	(55.6)	EBIT	7.3%	7.0%	4.9%	6.2%	5.4%	
Equity	(2.8)	(1.3)	(4.4)	0.0	0.0	NPAT pre significant items	4.2%	4.1%	3.4%	3.7%	3.4%	
Debt	21.0	72.8	(157.8)	29.5	(46.0)	Net Debt (Cash)	154.1	177.4	84.9	42.5	109.6	
Dividends paid	(18.7)	(14.5)	(23.0)	(16.6)	(13.7)	Net debt/EBITDA (x)	(x)	1.5	1.7	1.2	0.5	1.4
Net cash flow for year	(3.4)	61.7	(67.8)	71.9	(115.3)	ND/ND+Equity (%)	(%)	29.8%	31.3%	17.3%	8.9%	19.1%
<b>Balance sheet (A\$m)</b>						EBIT interest cover (x)	(x)	0.1	0.1	0.2	0.1	0.1
<b>Y/E 30 April</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	ROA	10.1%	9.2%	6.1%	8.0%	6.9%	
Cash	68.4	120.1	60.0	122.9	22.4	ROE	13%	13%	9%	10%	7%	
Accounts receivable	142.6	144.1	123.1	151.2	168.3	ROIC	13%	11%	7%	11%	9%	
Inventory	495.1	453.5	371.6	506.8	361.4	ROCE	12%	18%	11%	14%	12%	
Other current assets	0.4	0.0	8.6	4.0	3.4	<b>NTA (per share)</b>	<b>\$ 6.37</b>	<b>\$ 6.84</b>	<b>\$ 7.10</b>	<b>\$ 7.49</b>	<b>\$ 7.64</b>	
<b>Total current assets</b>	<b>706.6</b>	<b>717.7</b>	<b>563.3</b>	<b>784.9</b>	<b>555.4</b>	NTA per share growth	12%	7%	4%	5%	2%	
PPE	217.6	218.0	218.0	217.7	239.7	NTA premium (discount) to price	45%	55%	61%	70%	74%	
Intangibles/Goodwill	8.5	8.8	9.1	9.0	14.1	<b>Working capital</b>	534.7	478.3	393.2	528.9	395.6	
Investments	3.0	2.8	2.9	2.6	5.7	<b>WC/Sales (%)</b>	<b>43%</b>	<b>38%</b>	<b>35%</b>	<b>45%</b>	<b>33%</b>	
Deferred tax asset	14.5	23.2	17.3	19.9	14.9	<b>Revenue growth</b>	8.8%	2.2%	(12.4%)	5.8%	1.3%	
Other non-current assets	0.0	0.0	0.0	0.0	0.0	<b>EBIT growth pa</b>	41.8%	8.1%	(36.9%)	45.0%	(12.5%)	
<b>Total non current assets</b>	<b>243.6</b>	<b>252.8</b>	<b>247.2</b>	<b>249.3</b>	<b>274.5</b>	<b>Pricing</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	
<b>Total Assets</b>	<b>950.2</b>	<b>970.6</b>	<b>810.5</b>	<b>1,034.2</b>	<b>829.9</b>	No of shares (y/e)	(m)	55.8	55.8	55.8	56.2	57.8
Accounts payable	103.0	119.3	101.5	129.1	134.1	Weighted Av Dil Shares	(m)	55.8	55.8	55.8	56.2	57.8
Short term debt	117.6	218.0	65.8	86.2	39.5	EPS Reported	cps	77.9	87.9	61.3	75.9	54.5
Tax payable	22.8	22.2	0.8	1.1	5.7	<b>EPS Normalised/Diluted</b>	<b>cps</b>	<b>94.2</b>	<b>93.2</b>	<b>67.3</b>	<b>77.6</b>	<b>69.4</b>
Other current liabilities	197.5	123.6	132.5	272.9	89.6	EPS growth (norm/dil)		76.8%	19.7%	(23.5%)	26.7%	(10.6%)
<b>Total current liabilities</b>	<b>440.9</b>	<b>483.1</b>	<b>300.6</b>	<b>489.4</b>	<b>268.9</b>	<b>DPS</b>	<b>cps</b>	<b>31.0</b>	<b>33.0</b>	<b>33.0</b>	<b>33.0</b>	<b>33.0</b>
Long term debt	104.9	79.6	79.1	79.2	92.5	DPS Growth		35%	6%	0%	0%	0%
Other non current liabs	40.5	17.7	25.9	31.5	5.6	Dividend yield		7.0%	7.5%	7.5%	7.5%	7.5%
<b>Total long term liabilities</b>	<b>145.4</b>	<b>97.2</b>	<b>105.0</b>	<b>110.7</b>	<b>98.1</b>	Dividend imputation		30.0	30.0	30.0	30.0	30.0
<b>Total Liabilities</b>	<b>586.3</b>	<b>580.4</b>	<b>405.6</b>	<b>600.0</b>	<b>367.0</b>	Dividend payout ratio		32.9%	35.4%	49.1%	42.5%	47.6%
<b>Net Assets</b>	<b>363.9</b>	<b>390.2</b>	<b>404.9</b>	<b>434.1</b>	<b>462.9</b>	<b>PE (x) based on EPS reported</b>		<b>5.7</b>	<b>5.0</b>	<b>7.2</b>	<b>5.8</b>	<b>8.1</b>
Share capital	107.8	107.8	107.8	111.9	122.9	PE market		16.6	16.6	16.6	16.6	16.6
Accumulated profits/losses	219.3	253.8	269.6	293.9	306.6	Premium/(discount)		(66.0%)	(69.8%)	(56.7%)	(65.1%)	(51.4%)
Reserves	17.4	9.4	4.6	4.0	7.4	EV/EBITDA		3.9	3.9	4.6	3.1	4.7
Minorities	19.4	19.2	22.8	24.4	26.1	FCF/Share	cps	2.2	7.8	214.9	104.4	(51.7)
<b>Total Shareholder funds</b>	<b>363.9</b>	<b>390.2</b>	<b>404.9</b>	<b>434.1</b>	<b>462.9</b>	Price/FCF share		202.9	56.1	2.0	4.2	(8.5)
						Free Cash flow Yield		0.5%	1.8%	48.9%	23.7%	(11.8%)

Source: RaaS Advisory



# 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**

**Effective Date: 26<sup>th</sup> November 2018**



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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](mailto:finola.burke@raasgroup.com)

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