

Ricegrowers Ltd (SunRice)

Delivering profits and dividends through the cycle

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. Built by Australian rice growers, SunRice today generates almost \$1.2bn in sales and owns operations and assets spanning Australia, the Middle East, the US, Papua New Guinea, the Pacific and Asia. SunRice is a diversified business, responsible for the sale of more than 90% of Australia’s crop; sourcing rice from its international supply chains to service a growing portfolio of brands, products and customers; and adding value through rice-based branded products including rice cakes, pre-packed rice meals, premium rice brands, microwave meals and flour. SunRice also has business segments focused on gourmet Mediterranean foods and food service supply and stockfeed production and companion animal feed nutrition. The company has a track record of delivering on its strategic plan with intended expansion into adjacent food businesses, a key reason for its ASX listing in April 2019. SunRice trades at a 65% discount to its peers despite its superior NTA (\$7.82/share) and dividend yield (6.4%).

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 has a growing presence in the healthy snacking category. 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.

Recent company commentary

SunRice delivered its FY20 result in line with its guidance and maintained its 33cps dividend despite the small Riverina crop harvest in 2019 and under-recovery of costs from the Rice Pool segment. FY21 presents similar challenges for the company (with the C20 crop the second smallest on record,) overlaid by COVID-19 challenges. The company noted at its annual general meeting in late August that there was likely to be an under-recovery of the Australian Rice Pool segment in FY21, that COVID-19 continued to impact its food service business and create global uncertainty, and that it continued to monitor international rice prices, deteriorating economic conditions in key Pacific markets and aggressive pricing from competitors. The company has a range of initiatives it will launch in FY21, including a new infant-rice based range for the Australian and China markets and expand its brands into Europe. Longer term, SunRice noted improving conditions ahead of the planting window in October 2020 for the C21 crop which will support the FY22 financial year.

Trading at a ~65% discount to its peers

SunRice is unique in its corporate and business structure. There is no one Australian or New Zealand peer with the same footprint but several can be considered a peer on a sum of the parts basis. The core group of Australian FMCG/agriculture/aquaculture peers we have considered are trading at a substantial premium to SunRice on a PER (median PER of 29.3x) and EV/EBITDA (median EV/EBITDA of 12.4x) basis. This premium, in our view, is unjustified given SunRice’s superior NTA (\$7.82 in FY20) and yield (6.4%).

Historical earnings and ratios

Year end	Revenue (\$m)	EBITDA Adj.*	NPAT Adj*	NPAT Adj.	NPAT rep.	EPS Attrib Adj*	P/E ^A (x)	DPS (c)	Yield ^A (%)	NTA ^A (\$)
04/17a	1,109.3	75.3	37.5	34.2	34.2	61.3	6.4	33.0	7.7%	7.10
04/18a	1,174.0	94.3	43.6	42.7	45.1	75.9	5.1	33.0	8.3%	7.49
04/19a	1,189.5	85.8	40.1	31.5	32.8	54.5	9.4	33.0	5.1%	7.64
04/20a	1,134.8	66.4	28.3	27.0	22.7	45.8	10.7	33.0	6.4%	7.82

Source: Company data *EBITDA and NPAT adj for one-time, non-cash items inc forex costs
^APriced at year end Attributable NPAT and EPS to Class B shareholders

FMCG/Agriculture

4 September 2020

Share details

ASX Code	SGLLV
Share price (3-Sep)	\$5.30
Market Capitalisation	\$323.4M
Shares on issue	59.7M
Net debt at 30/04/20	\$82.6M
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

Catalysts/upcoming events

Interim results FY21, 19 December 2020

Successful launch of new infant rice-based range in Australia and China, international expansion to Europe

Comparable companies (Aust/NZ)

Ridley Corporation (ASX:RIC), Elders (ASX:ELD), Inghams (ASX:ING), Bega Cheese (ASX:BGA), Costa Group (ASX:CGC), Tassal (ASX:TGR), Huon Aquaculture (ASX:HUU)

Top 5 shareholders

Australian Food & Agriculture Company	3.95%
Lollypop Creek	3.60%
Germanico Super.	1.42%
Menegazzo Enterprises.	1.15%
Walsh (Alan David)	0.82%

Company contacts

Dimitri Courtelis (CFO) Ben Walsh (IR)
 dcourtelis@sunrice.co +61 452 077 042
 m.au

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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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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