

RFM Poultry

H1 19 operational challenges

RFM Poultry (RFP) operates large scale chicken broiler farms under long term growing contracts with poultry processors Baiada Poultry and Turi Foods. Its structure is that of a registered managed investment scheme governed by Rural Funds Management Ltd. RFP listed on the National Stock Exchange in March 2014 after a demerger with RFM Chicken Income Fund.

Business model

RFM Poultry is one of Australia's largest chicken farmers, producing around 30m birds annually for processing by Baiada Poultry and Turi Foods. It operates poultry farms owned by Rural Funds Group with 13 farms in Griffith, New South Wales, supplying Baiada's processing plant and 4 farms in Lethbridge Victoria supplying the Turi Foods' processor. RFP is managed by Rural Funds Management, a group with \$1.2bn in assets under management. RFP pays RFM a fee which is normally 5% of annual farm operating expenses. The fee was reduced by 50% for FY 19 in light of the operating issues noted below.

H1 19 result

RFP reported a loss after tax of -\$0.165m, substantially lower than the previous corresponding period report of a profit of \$0.259m. The FY18 result was also lower than expected due to higher operating expenses - since addressed by power supply and water sanitation equipment upgrades. During the half, three of RFP's operated farms suffered a disease outbreak which required remediation to the property and has resulted in a reduction in guidance for the full year - now expected to be below FY18.

FY 19 Outlook Guidance

Expected distribution in H2 19 is lowered 50% to 1.3011 cents, giving an expected full year distribution of 7.88 cents, the dividend will be fully franked providing an additional 3 cents benefit at a 30% tax rate. The manager forecasts a loss of \$0.32m after tax for the full year. FY20 guidance is expected to be provided at the time of the FY19 result.

Earnings history (A\$m)

Year ended	Revenue	EBITDA	NPAT	EPS (c)	DPU (c)	P/E (x)^	Dividend Yield (%)^	Franking (%)
Jun-15	25.75	2.16	1.50	21.96	10.05	3.96	11.55	100
Jun-16	24.32	1.81	0.87	12.59	10.05	9.69	8.24	100
Jun-17	24.19	1.21	0.82	11.94	10.05	10.05	8.38	100
Jun-18	24.77	0.97	0.62	8.98	10.05	13.03	8.59	100
Half Year ended								
Dec-17	12.07	0.40	0.26	\$0.04	5.29	n/a	n/a	100
Dec-18	12.67	-0.15	(0.16)	(\$0.02)	5.29	n/a	n/a	100

Source: Company data ^Calculated on year end unit price

Units Summary

Unit Code	RFP
Unit Price	\$1.00
Market Capitalisation	\$6.9M
Number of Units	6.9M
Net Cash (Debt) at 30 Jun 18	\$3.6M
Share Registry	Boardroom Pty Ltd

RaaS 5-Point Score* = 3/5

Revenue increasing (1); EPS increasing (0), Return on Capital Employed [ROCE] (0); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90%(1)

Upside Case

- Experienced board and management team
- Investment in additional management resources should improve future operational outcomes
- Chicken consumption in Australia remains on the increase with the industry estimating current consumption of 46kg per capita per year will increase by 5% in 2020

Downside Case

- Limited liquidity
- Continuing issues with farm growing standards resulting in reduced returns
- Capital injection into farms from RFM and upgraded operations may take longer to show benefits.

Board of Directors (of Rural Funds Management)

Non-Executive Chairman	Guy Paynter
Managing Director	David Bryant
Non-executive Director	Michael Carroll
Non-Executive Director	Julian Widdup

Catalysts

- Improving outlook in FY20 post operational improvements

Comparative Companies

ING, RHL, TGH.NZ

RaaS Advisory contacts

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* The RaaS 5-Point score is based on the company's performance in its last reported full year. Past performance is not a reflection of future performance.

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FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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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

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 - Securities

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