

Ricegrowers Limited

Diversification underpins resilience

Ricegrowers (RGWB) 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. The company is owned by its growers who each hold at least one and no more than 5 Class A voting shares, and at least 3,000 Class B non-voting, dividend eligible shares. Over the past 10 years, SunRice has successfully transformed from a production-led processor to a market-driven food company. The company faced a tough year in FY17 due to a substantially lower 2016 crop from the Riverina but was able to maintain the price per tonne it paid to its farmers. FY18 has benefitted from an increased crop in 2017 and this was reflected in the 15.9% increase in H118 NPAT. In March, the company noted that the 2018 crop forecast was for 600,000 paddy tonnes, down on 2017 due to reduced water allocation but well ahead of 2016's 244,184 tonne crop.

Business model

RGWB operates five divisions; Rice Pool, which, with FY17's lower crop, generated around 30% of group revenues; while International Rice contributed 40%, and Rice Food, Riviana and CopRice, each contributed around 10% of revenues in FY17. 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 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.

H118 result and Outlook

SunRice reported H118 NPAT of \$24.1m, up 15.9% year-on-year, on revenues of \$544.9m. The lift in NPAT was due in large part to a significant lift in the Riverina region's 2017 rice crop to 802,000 tonnes, which resulted in a 20% increase in Rice Pool revenues. The interim result also benefited from a year on year turnaround in CopRice's NPBT of \$2.4m versus a loss of \$1.5m the year before and a 9% lift in Riviana's NPBT to \$3.39m. At its March 2018 growers' conference, the company forecast FY18 NPAT of \$45m, up from \$34.2m in FY17. It noted that the 2018 crop was forecast to be 600,000 tonnes, below the 2017 crop due to reduced water allocations. However, the company expects to help offset this with improved milling yields, forecast to be 58% for the current crop versus 57.2% in 2017, a continued focus on targeting higher returning markets and its continued diversification into value-added rice-based products.

Earnings history (A\$m)

Year ended	Revenue	EBITDA	NPAT reported	EPS (c)	DPS (c)	Medium Grain Paddy Rice (\$/tonne)	P/E (x)	Dividend Yield (%)*
Apr-14	1,151.0	83.4	33.5	53.3	23.0	294	6.1	7.1%
Apr-15*	1,246.2	102.0	49.2	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	1,112.7	72.1	34.2	61.3	33.0	415	7.0	7.7%

Source: Company data *FY15 dividend included a special dividend of 5c

Shares Summary

Share Code	RGWB
Share Price	\$4.00
Market Capitalisation	\$226.0M
Number of Shares (Class B Restricted)	56.5M
Net Debt at 31 October 2017	\$154.2M
Share Registry	Link Market Services

RaaS 5-Point Score* = 1/5

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

Upside Case

- Highly experienced board and management team
- Improved outlook for rice crop should benefit FY18
- Most efficient rice producer in the world

Downside Case

- Limited liquidity, only growers can own Class B shares
- Pressure from international players such as China flooding the lower returning markets
- Competing with other crops for water allocation

Board of Directors

Chairman	Laurie Arthur
CEO/Executive Director	Rob Gordon
Non-Executive Director	Glen Andreazza
Non-Executive Director	John Bradford
Non-Exec Independent Dir	Ian Glasson
Non-Exec Independent Dir	Grant Latta
Non-Executive Director	Gillian Kirkup
Non-Executive Director	Ian Mason
Non-Executive Director	Mark Robertson
Non-Executive Director	Leigh Vial

Catalysts

- Improving outlook for paddy rice volumes

Comparative Companies

A2M, NAM, MGC, SM1

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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. We note that the 5-Point score would have been 3/5 based on the interim result.

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FINANCIAL SERVICES GUIDE

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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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- how we are paid, and
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