

RFM Poultry

FY19 guidance for modest growth in NPAT/dividend

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. RFP reported FY18 NPAT of \$0.62m, down 24% year on year due to penalties associated with grower efficiencies, higher contractor costs and higher electricity charges. It is now putting in place measures to mitigate against grower penalties and reduce its power costs which should translate into improved performance in FY19.

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 \$743m in assets under management. It pays RFM a fee which is 5% of annual farm operating expenses.

FY18 result

RFP reported FY18 NPAT of \$0.62m, within the \$0.61m to \$0.82m guidance range provided by the board earlier in the year. The result was 24% lower than the prior corresponding period, due primarily to higher electricity expenses and an increase in efficiency rating system (ERS) penalties associated with grower fees. First half NPAT was \$0.26m, a decline of 53% on the prior period. H218 NPAT was \$0.36m, a decline of just under 15% on the prior corresponding period. The higher electricity expenses are being actively managed by RFP through the installation of solar panels on the Lethbridge farms in Victoria which was completed during the year. This \$400,000 investment together with water sanitation upgrades are expected to benefit RFP in FY19 and beyond. RFP declared total dividends of 10.05 cents per unit in FY18, 14.23 cents per unit after being grossed up for franking credits.

Earnings guidance

RFP has guided that it expects to deliver NPAT of \$0.64m in FY19, and pre-tax profit of \$0.88m. The entity expects to qualify for the lower corporate tax rate of 27.5%. RFP has guided that it anticipated FY19 dividends per unit of 14.48c, including 3.98c per unit in franking credits. The entity has noted that it expected its industrial special risk insurance premiums to increase materially in FY19.

Earnings history (A\$m)

Year ended	Revenue	EBITDA	NPAT reported	EPU (c)	DPU* (c)	P/E (x)	Dividend Yield (%) ^{^A}
Jun-15	25.75	2.16	1.50	21.96	14.36	4.0	16.5%
Jun-16	24.32	1.81	0.87	12.59	14.36	9.7	11.8%
Jun-17	24.19	1.21	0.82	11.94	14.36	10.1	12.0%
Jun-18	24.77	0.97	0.62	8.98	14.23	13.0	12.2%

Source: Company data *Grossed up for franking credits ^yield is calculated on year end unit price

Units Summary

Unit Code	RFP
Unit Price	\$1.17
Market Capitalisation	\$8.07M
Number of Units	6.9M
Net Cash (Debt) at 30 Jun 18	\$5.24M
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

- Highly experienced board and management team
- Investment in additional management resources should improve future operations 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
- Economically bound and dependant on two poultry processors
- Economic performance of RFP can be impacted by the productivity performance of its farmers

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 FY19

Comparative Companies

ING, RHL, TGH.NZ

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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

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

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AFSL 456663

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- how we are paid, and
- complaint processes

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