

## Ample rice encourages lower plantings

Ricegrowers Limited, trading as SunRice (ASX:SGLLV), has updated rice growers on paddy prices for CY23 and CY24, and more importantly provided planting guidance for CY25. Despite additional US supply and continued shipping disruptions, the lower end of the CY23 paddy price range (sold from FY24) has been increased \$10/tonne to \$425/tonne. The CY24 price range is unchanged at \$370 to \$430/tonne given the above uncertainties. These uncertainties and a high carry over inventory position has seen SGLLV 'strongly recommend a CY25 planting base from growers that is 30% less than CY24' to ensure Australian premium rice is not sold into lower value markets, which would impact rice pool revenues. While not yet confirmed the CY24 rice harvest is forecast by management to be 'higher' than CY23 (RaaS estimates 550k paddy tonnes in CY24 against 500k in CY23), implying a desired harvest of ~380k paddy tonnes for CY25 (RaaS currently forecasts 500k tonnes). While not an issue until FY27 at the earliest there is little risk of covering allocated overheads, with the risk lying in selling higher Cost of Goods Sold (COGS) Australian rice at lower prices in FY26. We make no changes to our estimates while our valuation increases to \$13.00/share, up from \$12.10 due to higher multiples across the peer group.

## Business model

SunRice has a unique and complementary corporate structure, balancing grower (A-Class shareholders) requirements for a rice crop that delivers them an acceptable paddy price, with the profit/dividend requirements of B-Class shareholders (including coverage of group overheads) delivered by the 'Profit Businesses' of International Rice, Corporate, Riviana Foods, Rice Food and CopRice. SunRice has domestic infrastructure to handle ~1m paddy tonnes across two Australian harvests and multi-region/multi-origin sourcing to supplement harvests while taking advantage of opportunities globally. Growth is focused on acquisitions and organic growth in the branded Fast-Moving Consumer Goods (FMCG) space.

## Lower CY25 plantings required to maintain balance

SGLLV requires harvests large enough to cover allocated company overheads for storage and processing while supplying premium markets such as the Middle East, but not too large that a home needs to be found for this premium rice in lower value regions that affects rice pool revenue and grower returns. With an average harvest of ~540k paddy tonnes over the last 4 years against our 'goldilocks' estimate of ~450k tonnes, SGLLV has more rice than is required to maintain this balance. As a result, SGLLV has strongly suggested rice growers reduce their plantings by 30% in CY25 to produce a harvest <400k tonnes for FY26 and help maintain the supply/demand balance.

## SoTP valuation \$13.00/share or \$815m market cap

Our preferred valuation method for SunRice is a Sum of The Parts (SoTP) using adjusted consensus peer EBITDA multiples for FY24f. There are a number of listed peers with consensus data for comparison across the spread of SunRice businesses. Our SoTP valuation has increased to \$13.00/share (from \$12.10) driven by higher multiples across the peer group. Our Discounted Cash Flow (DCF) calculation as a sense check is \$10.90/share but is somewhat limited given long-term rice harvest visibility. The group's Net Tangible Assets (NTA) were stated at \$7.61/share in October 2023.

### Historical earnings and RaaS' estimates (in A\$m unless otherwise stated)

Year end	Revenue*	EBITDA adj.	NPAT adj.	EPS adj.	PER (x)	Dividend Yield (%)
04/22a	1,331.1	90.2	47.1	0.81	8.4	5.9
04/23a	1,634.4	115.1	55.7	0.93	7.3	7.4
04/24f	1,845.3	144.2	71.9	1.18	5.8	8.1
04/25f	1,854.4	149.9	78.6	1.26	5.4	8.1

Source: Actual FY22 and FY23, RaaS estimates FY24f and FY25f; EBITDA, NPAT and EPS adjusted for one-time, non-recurring and non-cash items

### Share Details

ASX code	SGLLV
Share price (17-May)	\$6.80
Market capitalisation	\$432.8M
Shares on issue	62.8M
Net debt at 30-Sep-23	\$240.0M
Free float	~98%

### Share Performance (12 months)



### Upside Case

- Stability in water availability/pricing
- EPS-accretive acquisitions
- New product and market developments

### Downside Case

- A return to drought conditions in the Riverina
- Long-term access to water
- Price competition/private label in key markets

### Board of Directors

Laurie Arthur	Non-Exec. Chair/Grower
Paul Serra	Chief Exec. Officer
John Bradford	Non-Exec. D-Chair/Grower
Luisa Catanzaro	Non-Exec. Dir/Non-Grower
Andrew Crane	Non-Exec. Dir/Non-Grower
Ian Glasson	Non-Exec. Dir/Non-Grower
Melissa De Bortoli	Non-Exec Dir/Grower
Ian Mason	Non-Exec Dir./Grower
Julian Zanatta	Non-Exec Dir/Grower

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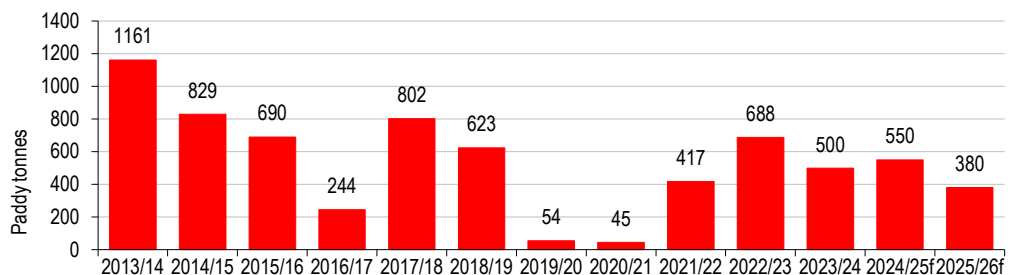
## Australian rice crop update

Below we review recent Australian rice crops together with the desired harvest levels for CY25. For context the level of the Australian rice crop is important to cover fixed overheads such as processing and storage facilities while supplying demand from premium markets such as the Middle East.

In an ideal world RaaS estimates the ‘goldilocks’ harvest level is between 350k-500k tonnes. At this range SGLLV can cover overheads, maintain premium pricing for Australian rice in premium markets and have flexibility to supply a range of global markets with a range of globally sourced rice.

- **CY22** was the highest harvest since CY18 at 688k paddy tonnes but coming off record low drought induced harvests in CY19 and CY20, so required to boost stock levels.
- **CY23** was 500k paddy tonnes, further boosting stocks and providing ample product to supply the US market as a replacement for their drought affected harvests of CY21 and CY22.
- **CY24** is likely to be ‘above’ CY23, with RaaS estimating 550k paddy tonnes. The harvest is just completing and will likely be confirmed by SGLLV in coming months.
- **For CY25** it has been strongly recommended by SGLLV management that growers reduce their planting by 30%, implying a desired harvest of ~380k paddy tonnes. This level, together with carry over stock would cover overheads and adequately supply premium markets such as the Middle East.

**Exhibit 1: Australian Rice Crop (Paddy Tonnes)**



Source: SGLLV announcements 2013/14-2023/24, RaaS estimates 2024/25, Implied target 2025/26

## Global rice market update

According to the latest United States Department of Agriculture (USDA) rice crop report (May 2024<sup>1</sup>) global rice production will reach a record 527.6m tons in 2024/25, well above the 517m tons in 2023/24.

Global domestic and residual use is projected at a record 526.4m tons in 2024/25, up 1.0% on 2023/24. The major driver is an extension in India’s free food grain plan for fiscal year 2024 (April-March) and population growth in the Philippines.

Global stock levels as a result are projected at 176.1m tons, according to the USDA, the first increase since 2020/21 and the result of record production.

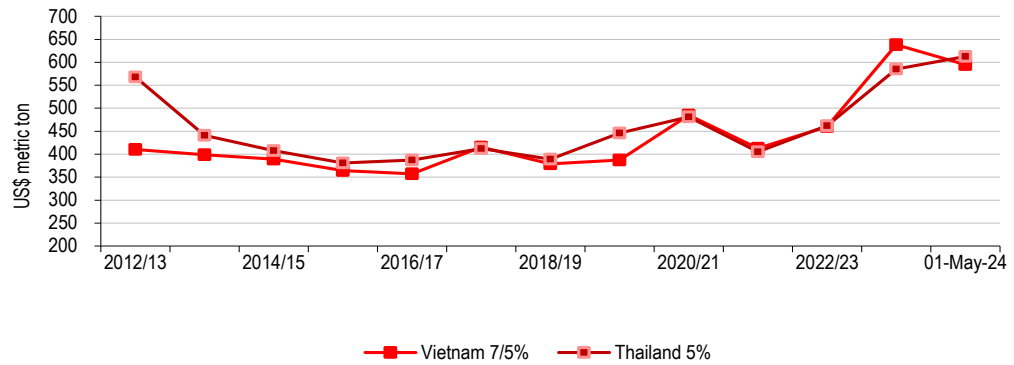
The global export market (and SGLLV’s International Division) has been disrupted by the ban on Indian exports (ex-Basmati) since July 20, 2023. India is the world’s largest exporter of rice, leaving Vietnam, Thailand, Pakistan and the US to take up some of the slack.

Prices as a result have increased across most grades over the past 12 months, in particular:

1 [www.ers.usda.gov/webdocs/outlooks/109167/rcs-24d.pdf?v=1831.1](http://www.ers.usda.gov/webdocs/outlooks/109167/rcs-24d.pdf?v=1831.1)

- **Thailand 5% broken prices are up 30% on the average 2022/23 price**, primarily in response to India’s export restrictions on regular milled white rice.
- **Vietnam 5% broken prices are up 30% on the average 2022/23 price**, the highest since 2008 and aided by tight supply, rising costs and increased demand, again in response to Indian restrictions.

**Exhibit 2: Thailand and Vietnam 5% broken prices (US\$)**



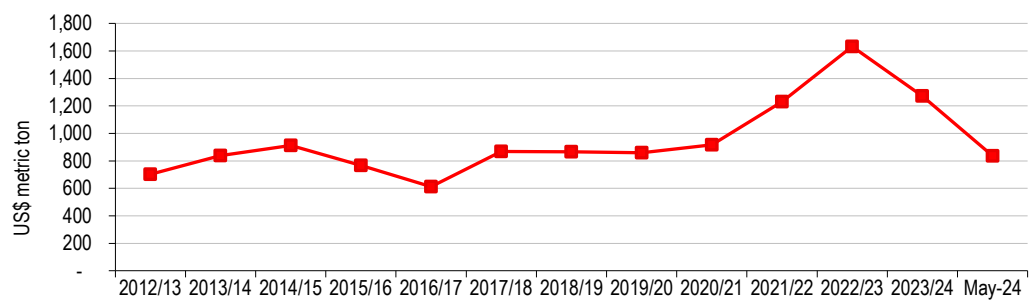
Source: USDA May 2024

US medium grain rice prices have been the exception, with:

- **Californian medium-grain Number-1 Grade 4% broken**, a proxy for Australian rice, well off the record highs (~\$1,650/ton) seen over 2022/23, down to \$835/ton in May 2024 as 2023/24 US rice production is the largest since 2011/2012, coming off years of extreme drought.

This is an issue for the rice pool revenue, resulting paddy price range for Australian rice grower returns, and can be seen in the latest paddy price range set for 2024/2025 at \$370-\$430 per tonne which is below the 2023/2024 range of \$425-\$435 per tonne.

**Exhibit 3: US medium-rain Number 1 Grade 4% Broken (US\$)**



Source: USDA May 2024

## Valuation

### Sum of The Parts

We view SunRice as a cross between an infrastructure business (Corporate), a brand owner (Corporate), a trading business (International), FMCG (International, Rice Food and Riviana) and Animal Feed (CopRice).

Exhibit 4 presents a Sum-of-The-Parts (SoTP) valuation for SunRice using EBITDA multiples, derived from FY24 LSEG consensus estimates adjusted for rental expense/Right-of-Use (subtracted from EBITDA), and then applied to RaaS FY24(f) adjusted SGLLV divisional EBITDA:

- An 8.8x EBITDA multiple for FMCG businesses, in-line with the average of the FMCG businesses in the peer group (BGA);
- A 8.1x EBITDA multiple for the Corporate business, the average of GNC and ELD multiple in recognition that SunRice Corporate provides both infrastructure (GNC) and brands (ELD) to its rice growers;
- An 7.7x multiple for CopRice, in-line with RIC metrics which is essentially 100% animal feed; and
- A 7.4x EBITDA multiple for International, which is the average of the peer group. It should be noted the tax rate of this business historically is well below peer averages.
- Actual October 2023 debt levels, which RaaS believes are reflective of ongoing sustainable debt levels given the near-term harvest outlook.

The net result is a SoTP valuation of \$13.00/share, detailed in exhibit 4 below, with peer metrics detailed in exhibit 5 following.

<b>Exhibit 4: SGLLV Sum-of-The-Parts valuation – FY24 A\$m unless otherwise stated</b>				
Division	FY24f adj. EBITDA	Adj. EBITDA multiple (x)	Valuation	Comments
International	61.5	7.4	455	A key assumption given EBIT size
Rice Food	11.1	8.8	98	FMCG peers
Riviana Foods	6.8	8.8	60	FMCG peers
CopRice	16.1	7.7	124	RIC is the key peer
Corporate	44.7	8.1	362	Average of ELD and GNC
<b>Less</b>				
33.8% of Trukai	4.3	7.4	-32	Same multiple as International
Net debt (Oct-23a)			-240	Actual as at Oct-2023
<b>VALUATION</b>			<b>826</b>	
Shares on issue			64	
<b>EQUITY VALUE</b>			<b>\$13.00</b>	

Source: LSEG and RaaS estimates

**Exhibit 5: Peer group financial comparison – FY24 (in A\$m June year-end unless otherwise stated)**

Company name	Ticker (ASX unless stated)	Share price (cps)	Mkt. cap.	Revenue	Adj. ## EBITDA	Adj. NPAT	Adj. EPS	Adj. ## EBITDA multiple (x)	FY23 Working capital /Rev (%)	Debt/ EBITDA (x)
Treasury Wines	TWE	\$11.48	8,286	2,740	763.9	440.1	0.61	10.8	36	1.8
Select Harvest #	SHV	\$3.40	411	243	28.3	6.8	0.06	14.5	31	6.7
<b>PEERS USED</b>										
Elders #	ELD	\$8.07	1,805	6,447	246.4	92.4	0.41	7.3	14	1.5
Bega Cheese	BGA	\$8.35	1,305	3,128	148.6	101.5	0.65	8.8	19	3.1
Ridley	RIC	\$4.41	1,340	3,476	152.5	45.5	0.15	8.8	7	1.6
Select Harvests #	SHV	\$2.16	690	1,285	90.1	44.6	0.14	7.7	3	0.5
Lynch Group **	LGL	\$1.38	168	404	36.0	12.4	0.10	4.7	(3)	2.2
<b>PEER AVERAGE</b>								<b>7.4</b>	<b>15</b>	<b>2.5</b>
<b>FMCG AVERAGE</b>								<b>8.8</b>	<b>21</b>	<b>1.7</b>
SunRice *	SGLLV	\$6.89	439	1,634	111.2	55.7	0.93	3.9	28	1.8
Ebro Foods (€) ^	EBRO:SM	€16.02	2,464	3,153	369.0	197.0	1.28	6.7	24	1.5

Sources: Company financials, LSEG; Prices 16 May 2024; # Sept year-end; \* April year-end; ^ Dec year-end; ## Adj. EBITDA adds back RoU/rental expense (Pre-AASB16) \*\* Based on management guidance

## Investment Case Revisited

We believe the investment case for SunRice B-Class shareholders is managing a sweet spot in Riverina rice harvest volumes over the next three years, recouping significant freight costs and growing the footprint of key 'profit businesses' both organically and via acquisition:

- RaaS now forecasts a sustainable **dividend of \$0.55/share**, implying a fully franked dividend yield of 8.0%. History would indicate that the company does not cut dividends once set.
- **Continued availability of Riverina rice** supports international export opportunities while at the same time covering the overhead charge for the Rice Pool. That said to maintain this 'Goldilocks' level SGLLV has guided growers to reduce CY25 plantings by 30% reduction to maintain the supply/demand balance.
- **Global rice markets are generally supportive** for Australian rice demand and general sourcing opportunities for the International Division over coming years with overall global stock levels the lowest in six years according to the USDA. New opportunities also exist in the UK (Free Trade Agreement), while a change in the current ban on Indian exports should also improve sourcing opportunities.
- **Cost recovery opportunities** remain for freight and distribution in H2 FY24, particularly for the International and Riviana divisions. Riviana would also benefit from a higher AUD (COGS).
- **Improved return rates should continue for the Corporate division** (31% of FY24f EBITDA) as higher 10-year bond rates drive higher return requirements from the Group's infrastructure due to an increased Weighted Average Cost of Capital (WACC).
- **EPS-accretive acquisitions in the branded FMCG space** may well continue, with the group building a solid brand portfolio across convenience and healthy rice snacks (Rice Food), animal feed (CopRice) and the branded entertainment/special occasion products (Riviana). The size of acquisitions has been progressively increasing, suggesting more material EPS accretion is possible.
- **SGLLV is trading at a material discount to selected ASX peers** on key metrics including EV/adjusted EBIT, EV/EBIT and PER using FY24f consensus forecasts against RaaS FY24 divisional estimates.
- **Our Sum-of-The-Parts valuation is \$13.00/share, indicating 90% upside potential to the current share price.**

**Exhibit 6: SGLLV Financial Summary**

Ricegrowers t/a SunRice						Share price (17 May 2024)						A\$ 6.80
Profit and Loss (A\$m)						Interim (A\$m)						
Y/E 30 April	FY2021	FY2022	FY2023	FY2024	FY2025	1H22	2H22	1H23	2H23	1H24	2H24F	
	A	A	A	F	F							
Revenue	1,022.2	1,331.1	1,634.4	1,845.3	1,854.4	563.3	767.7	758.0	876.5	918.8	930.0	
EBITDA	47.5	90.2	115.1	144.2	149.9	36.4	53.7	40.9	74.2	68.6	75.6	
Depn	(23.2)	(23.5)	(25.4)	(25.1)	(25.3)	23.6	40.4	27.0	59.7	54.6	61.4	
Amort	(1.7)	(2.7)	(2.9)	(3.0)	(3.0)	NPAT (normalised)	16.3	32.0	17.8	40.0	35.5	39.2
EBIT	22.6	64.0	86.7	116.0	121.6	Minorities	(0.1)	1.3	1.9	0.3	2.6	0.2
Interest	(4.8)	(4.8)	(14.0)	(20.3)	(17.8)	NPAT (Class B)	16.4	30.7	16.0	39.7	32.9	39.0
Tax	(0.8)	(10.9)	(14.9)	(21.1)	(22.8)	EPS (normalised)	0.27	0.50	0.25	0.63	0.52	0.61
Minorities	2.5	(1.2)	(2.2)	(2.8)	(2.3)	EPS (reported)	0.27	0.50	0.25	0.63	0.52	0.61
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Dividend (cps)	0.10	0.30	0.10	0.40	0.15	0.40
NPAT pre significant items	19.5	47.1	55.7	71.9	78.6	Imputation	30.0	30.0	30.0	30.0	30.0	30.0
Significant items	1.3	0.4	(3.2)	(5.7)	0.0	Operating cash flow						
NPAT (Reported)	20.8	47.6	52.5	66.1	78.6	Free Cash flow						
Cash flow (A\$m)						Divisions						
Y/E 30 April	FY2021	FY2022	FY2023	FY2024	FY2025	1H22	2H22	1H23	2H23	1H24	2H24F	
EBITDA (less rent)	43.3	86.3	110.2	139.2	144.7	EBITDA - Rice Pool	0.0	0.0	0.0	0.0	0.0	0.0
Interest paid	(4.8)	(4.8)	(14.0)	(20.3)	(17.8)	EBITDA - International Rice	16.3	25.7	14.6	26.7	33.0	29.6
Tax Paid	(5.6)	(6.1)	(3.2)	(25.0)	(21.9)	EBITDA - Rice Food	3.5	4.4	4.5	6.5	4.6	6.7
Working capital changes	5.6	(57.1)	(146.1)	14.7	(27.4)	EBITDA - Riviana	6.7	7.3	2.1	4.2	1.8	5.2
Operating cash flow	38.5	18.2	(53.1)	108.6	77.6	EBITDA - CopRice	(2.2)	1.7	4.0	8.4	7.9	9.0
Mtce capex	(17.6)	(16.5)	(20.1)	(21.1)	(22.1)	EBITDA - Corporate	12.1	14.7	15.6	28.4	21.2	25.1
Free cash flow	20.9	1.7	(73.2)	87.5	55.4	TOTAL EBITDA	36.4	53.7	40.9	74.2	68.6	75.6
Growth capex	0.0	0.0	0.0	0.0	0.0	Costs - Raw materials	(339.3)	(484.1)	(433.7)	(530.5)	(554.3)	(569.9)
Acquisitions/Disposals	(66.2)	(37.5)	(0.3)	0.0	0.0	Costs - Freight and distributio	(54.4)	(92.5)	(113.3)	(112.6)	(100.0)	(102.0)
Other	0.0	0.0	0.0	0.0	0.0	Costs - Employee benefits	(73.4)	(75.3)	(89.0)	(89.5)	(98.3)	(98.0)
Cash flow pre financing	(45.3)	(35.8)	(73.4)	87.5	55.4	Other Operating Costs	(61.5)	(67.9)	(81.0)	(73.1)	(97.6)	(84.6)
Equity	0.0	0.0	0.0	0.0	0.0	Margins, Leverage, Returns		FY2021	FY2022	FY2023	FY2024	FY2025
Debt	58.0	56.3	124.2	(70.0)	(10.0)	EBITDA		4.6%	6.8%	7.0%	7.8%	8.1%
Dividends paid	(14.5)	(19.8)	(18.5)	(28.1)	(28.7)	EBIT		2.2%	4.8%	5.3%	6.3%	6.6%
Net cash flow for year	(1.8)	0.6	32.3	(10.7)	16.8	NPAT pre significant items		1.9%	3.5%	3.4%	3.9%	4.2%
Balance sheet (A\$m)						Net Debt (Cash)		-147.9	-197.8	-291.4	-230.8	-204.1
Y/E 30 April	FY2021	FY2022	FY2023	FY2024	FY2025	Net debt/EBITDA (x)	(x)	3.1	2.2	2.5	1.6	1.4
Cash	23.5	42.6	74.3	64.9	81.6	ND/ND+Equity (%)	(%)	24.3%	28.1%	34.4%	28.0%	24.1%
Accounts receivable	175.8	260.0	306.4	351.7	354.6	EBIT interest cover (x)	(x)	4.7	13.3	6.2	5.7	6.8
Inventory	375.7	525.0	569.9	626.2	631.4	ROA		2.6%	6.0%	6.9%	8.5%	8.5%
Other current assets	4.3	3.5	0.6	0.6	0.6	ROE		5%	10%	10%	11%	13%
Total current assets	579.4	831.1	951.3	1,043.5	1,068.3	ROIC		5%	15%	17%	20%	23%
PPE	262.3	267.6	270.1	271.1	273.1	NTA (per share)		7.2	7.4	8.0	8.6	9.5
Goodwill& Intangibles	58.5	85.7	84.9	81.9	78.9	Working capital		407.6	567.3	638.3	704.7	710.5
Investments	5.4	5.6	5.7	5.7	5.7	WC/Sales (%)		40%	43%	39%	38%	38%
Deferred tax asset	15.9	8.5	14.6	14.6	14.6	Revenue growth		-8%	30%	23%	13%	0%
Other non-current assets	0.3	0.3	0.5	0.0	0.0	EBIT growth pa		-55%	183%	35%	34%	5%
Total non current assets	342.4	367.7	375.8	373.2	372.2	Pricing		FY2021	FY2022	FY2023	FY2024	FY2025
Total Assets	921.8	1,198.8	1,327.1	1,416.7	1,440.5	No of shares (y/e)	(m)	60.0	61.8	62.7	63.7	64.6
Accounts payable	143.9	217.7	238.1	273.2	275.5	Weighted Av Dil Shares	(m)	60.0	61.8	62.7	63.7	64.6
Short term debt	85.0	125.1	299.1	229.1	219.1	EPS Reported	cps	0.34	0.76	0.82	1.02	1.20
Payable to Ricegrowers	112.5	200.1	112.5	193.6	172.0	EPS Adjusted	cps	0.35	0.81	0.93	1.18	1.26
Other current liabilities	28.0	30.0	50.6	55.1	55.4	EPS growth (norm/dil)		-27%	128%	16%	26%	7%
Total current liabilities	369.4	572.8	700.2	751.0	722.0	DPS	cps	0.33	0.40	0.50	0.55	0.55
Long term debt	86.5	115.3	66.7	66.7	66.7	DPS Growth		0%	21%	25%	10%	0%
Other non current liabs	4.9	5.3	3.5	4.7	8.0	Dividend yield		4.9%	5.9%	7.4%	8.1%	8.1%
Total long term liabilities	91.4	120.6	70.2	71.4	74.7	Dividend imputation		30.0	30.0	30.0	30.0	30.0
Total Liabilities	460.8	693.4	770.4	822.4	796.7	PE (x)		19.3	8.4	7.3	5.8	5.4
Net Assets	461.1	505.3	556.7	594.3	643.8	PE market		16.0	16.0	16.0	16.0	16.0
Share capital	134.6	142.5	152.5	159.0	165.4	Premium/(discount)		20%	-47%	-55%	-64%	-66%
Reserves	(5.5)	(21.4)	(11.6)	(11.6)	(11.6)	EV/EBITDA		11.7	6.9	6.2	4.6	4.3
Retained profits	315.1	364.8	392.5	423.6	466.7	FCF/Share	cps	0.6	0.3	(0.8)	1.7	1.2
Minorities	16.9	19.4	23.2	23.2	23.2	Price/FCF share		10.6	23.0	(8.0)	4.0	5.7
Total Shareholder funds	461.1	505.3	556.6	594.2	643.8	Free Cash flow Yield		9.4%	4.3%	-12.5%	25.1%	17.7%

Source: Company data for actuals, RaaS estimates

# FINANCIAL SERVICES GUIDE

## RaaS Research Group 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> March 2024

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RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

**What Financial Services are we authorised to provide?** RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
  - Securities

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BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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