Research as a Service

Ricegrowers Limited (SunRice)

Trading Update

New CEO/MD appointed and trading update

FMCG/Agriculture

3 May 2023

Ricegrowers Limited, trading as SunRice (ASX:SGLLV) has announced that Paul Serra will succeed long-serving CEO/MD Rob Gordon after the AGM in August, but will join in July to ensure an orderly transition. Mr Serra joins SunRice from Olam Food Ingredients North America where he was Managing Director. Prior to Olam he held senior positions at Campbell's Soup Company and Arnott's Biscuits ANZ. Such experience is complementary to SunRice's growing domestic FMCG business and International Rice operations. Separately SunRice has provided a trading update as it approaches year-end (April). Of note "the strong revenue growth in H1 FY23 has continued in the second half of the year, supporting improved profitability" and "the group is starting to benefit from improvements in the global supply chain and reduced freight costs". RaaS is currently forecasting 2H FY23 revenue growth of 11% and EBITDA growth of 23% as freight costs ease, the PNG rice business continues to improve and Pryde's Easifeed contributes for a full H2. In a previous note (14 March 2023) we highlighted SunRice has been more impacted by higher freight costs than its FMCG/Agribusiness peers, and as a result should benefit more as freight costs ease.

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 FMCG space.

Revenue and profitability growth all but assured for H2 FY23

Following 35% revenue growth and 13% underlying EBITDA growth in H1 FY23, a trading update suggests "the strong revenue growth in H1 FY23 has continued in the second half of the year, supporting improved profitability". RaaS estimates call for H2 FY23 revenue growth of 11% and adjusted EBITDA growth of 23%. Importantly 80% of our forecast increase comes from continued improvement in PNG and the Pryde's Easifeed acquisition contributing for a full six-months. The other key comment was "the group is starting to benefit from improvements in the global supply chain and reduced freight costs". RaaS estimates freight costs impacted SunRice by $41m or 100% of reported EBITDA in H1 FY23 alone, well above the peer range of 14%-24% of reported EBITDA. While some recovery is likely in H2 FY23 most of these benefits will be seen in FY24.

SoTP valuation $8.67/share or $530m market cap

Our preferred valuation method for SunRice is Sum of The Parts using adjusted peer EBITDA multiples for FY23f. There are a number of listed peers with consensus data for comparison across the spread of SunRice businesses. Our SoTP valuation is $8.67/share, with key assumptions centring around the assessed multiples for the two largest divisions, International Rice and Corporate. Our DCF as a sense check is $9.25/share but is somewhat limited given long-term rice harvest visibility, and the resulting impacts on working capital.

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

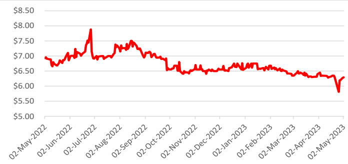
Year end	Revenue*	EBITDA adj.	NPAT adj.	EPS adj.	PER (x)	Dividend yield (%)
04/21a	1,022.2	47.5	20.8	0.35	17.8	5.2
04/22a	1,331.1	90.2	47.6	0.81	7.8	6.4
04/23f	1,611.1	107.6	53.6	0.88	7.2	5.6
04/24f	1,648.6	121.6	62.3	1.03	6.1	5.6

Source: Actual FY21 and FY22, RaaS estimates FY23f and FY24f; EBITDA, NPAT and EPS adjusted for one-time, non-recurring and non-cash items

Share Details

ASX code	SGLLV
Share price (2-May)	$6.29
Market capitalisation	$394.0M
Shares on issue	62.8M
Net debt at 30-Sep-22	$297.6M
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
- Lower AUD increasing import costs
- Price competition in key markets

Board of Directors

Laurie Arthur	Non-Exec. Chair/Grower
Rob Gordon	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
Leigh Vial	Non-Exec. Dir./Grower
Ian Mason	Non-Exec Dir./Grower
Jeremy Morton	Non-Exec. Dir./Grower
Julian Zanatta	Non-Exec. Dir./Grower

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Relative Freight Costs In H1 FY23

For those companies that disclose freight and distribution costs as an operating cost we analyse the absolute increase in freight costs over H1 FY23 and this increase as a percentage of reported H1 FY23 EBITDA.

SunRice experienced a $59m increase in absolute freight charges over H1 FY23. If we adjust for the freight costs associated with the Paddy Pool (~30% or $18m passed on in the Paddy price), we estimate a freight cost increase of $41m or 100% of reported H1 FY23 EBITDA.

Looking at the impact of freight on peers over the recent February 2023 reporting season, the largest impact as a percentage of reported EBITDA was 24% (BGA), followed by LGL and Elders (20%), and CGC (14%).

Recoupment of this cost impost in the form of price increases and/or rate reductions is a key near-term earnings opportunity for SGLLV in our view. Risks to recoupment centre around timing and the fact that many of the SunRice routes are not 'mainstream'.

SGLLV does have a more freight intensive business model than many peers, particularly in Riviana where ~90% of the products are imported. This is why we have used absolute changes.

Exhibit 1: H1 FY23 freight costs relative to reported EBITDA (in A$m unless otherwise specified)

Company	H1 FY23 freight	Increase on pcp	Increase as % of H1 FY23 EBITDA	Comments
ELD	333	46	20	
CGC *	100	30	14	FY22 numbers
BGA	162	18	24	
RIC	7	0	1	Little impact
LYL	15	3	21	
SGLLV (ex Paddy Pool)	79	41	100	By far the biggest impact

Source: Company announcements; * FY22

Global Rice Market

The latest release of the USDA Rice Crop Outlook Report (April 13) provides useful data on the global and US rice markets, which has implications for the rice-related businesses within SunRice. As a general comment higher rice prices benefit SunRice provided they can be passed through to customers and help in the encouragement of plantings relative to other crops, which ensures overhead recovery.

Global demand – record high in 2022/23

2022/23 global rice consumption is forecast to reach a record 520m milled tons, up 0.9mt on the pcp.

Global supply – first year-to-year decline since 2015/16

2022/23 global rice production is forecast at 509.4m milled tons, 1% below the pcp and first year-to-year decline since 2015/16.

- **Weather-related production declines** forecast in Australia, Brazil, China, the EU, Ghana, Iraq, Japan, South Korea, Nigeria, the Philippines, Russia, the US and Uruguay.
- **Long-term declines in rice area** in Brazil, Japan and South Korea.
- **Supply chain disruptions in Sri Lanka.**

Global stocks – lowest since 2017/18

2022/23 global ending rice stocks forecasts lowered to 171.4m milled tons, the lowest level since 2017/2018.

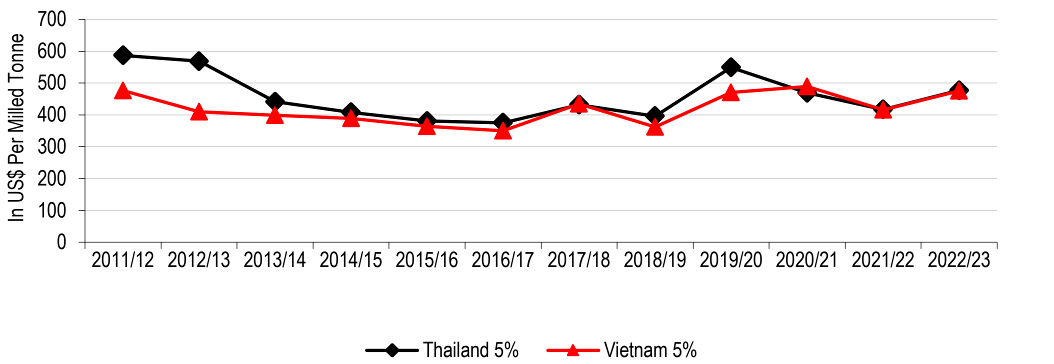
- **The bulk of the projected declines** came from Brazil, Burma, China, India, Pakistan, Thailand, the US and Vietnam.
- **The largest reductions in absolute terms** were seen in China and India.

Global pricing

Reducing stock levels has seen rice prices across most grades increase over the past 12 months, in particular:

- **Thailand 5% broken prices are up 14% on the pcp in April** and 4%-5% in April on March, aided by an increase in the value of the Thai baht.
- **Vietnam 5% broken prices are also up 14% on the pcp in April** and 7% in April on March, aided by demand from traditional buyers from the Philippines, Indonesia and China.
- **Indian prices remain the most competitively priced** source of Asian rice.
- **Californian medium-grain Number-1 Grade 4% brokens,** a proxy for Australian rice, has hit and maintained record highs at $1,650/ton.
- **US long-grained milled rice, Number 2 grade 4%-broken** kernels (Iraq specifications), maintained US$760/ton, which is the highest since 2008.

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



Source: USDA

RaaS H2 FY23 Earnings Estimates

In a presentation on April 28 SunRice updated trading conditions with comments including “the strong revenue growth in H1 FY23 has continued in the second half of the year, supporting improved profitability” and “the group is starting to benefit from improvements in the global supply chain and reduced freight costs”.

These comments support RaaS H2 FY23 revenue and earnings estimates, now just coming down to the quantum with a number of moving parts including timing, currency and economic conditions to name a few. For the record RaaS is forecasting 11% revenue growth and 23% EBITDA growth in H2 FY23.

Importantly 80% of our $12.6m EBITDA uplift come from just two areas, continued improvement in PNG ($6.6m) and a full 6-month contribution from Pryde’s Easifeed ($2.5m) against 2-months in H2 FY22. Despite favourable rice market conditions, we have International Rice (ex PNG) EBITDA declining $1.8m or 7% due to elevated freight costs in Q3 FY23.

Exhibit 3: SGLLV H2 FY23 result estimates (in A$m unless otherwise stated)

Variable (A$000')	H2 FY22	H2 FY23f	% Chg	Comments
Revenue	**767.7**	**855.3**	**11**	**Lower than H1 (+34%) due to Rice Pool**
Rice Pool	156.2	170.1	9	Aided by higher rice prices
International	367.2	399.4	9	Aided by US sales
Rice Food	52.6	54.9	4	
Riviana Foods	99.2	114.0	15	Cost recovery
CopRice	92.6	116.9	26	6-months of Pryde's Easifeed and legacy growth
Other	1.8	1.3	(27)	
Gross profit	289.6	339.9	17	
GP%	37.7	39.7	+200bps	
Operating costs	(235.7)	(273.3)	16	Some easing in freight costs late in the half
Underlying EBITDA	**54.0**	**66.6**	**23**	
Rice Pool	0.0	0.0	**0**	Overheads fully recovered
International	25.7	30.5	19	Driven by PNG
PNG	1.0	7.6	660	H1 was $7.0m, H2 seasonally stronger
Balance	24.7	22.9	(7)	Freight impacted but easing
Rice Food	4.4	4.6	6	
Riviana	7.3	6.6	(10)	
CopRice	1.7	8.3	388	Improvement in legacy + 6-month Pryde Easifeed contrib.
Corporate	14.7	16.7	14	
D&A	(13.3)	(13.9)		
EBIT	**40.6**	**52.7**	**30**	
Interest expense	(1.9)	(5.4)		Higher working capital and interest rates
PBT	**38.7**	**47.3**	**22**	
Tax	(6.5)	(9.6)		
Outside equity	1.3	1.9		PNG (33%)
Adj. NPAT	**30.9**	**35.8**	**16**	
Abnormals	(0.1)	0.0		
Reported NPAT (B-Class)	30.8	35.8		

Source: RaaS estimates

Investment Case Revisited

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

- SunRice has delivered a **stable dividend stream** of at least $0.33/share over the past seven years ($0.40/share in FY22) irrespective of the Australian harvest size or other divisional earnings volatility. We expect this trend to continue, allowing B-Class shareholders to ride out any near-term earnings volatility with fully franked dividends. Our forecast 35cps in FY23 implies a fully franked yield of 5.3%.
- **Improved availability of Riverina rice** opens up international export opportunities while at the same time reducing the overhead charge for other divisions and relieving some COGS pressures for the Rice Food division. ABARES has forecast a 51% decline in the 2022/23 rice crop (to 340kt), but the 688kt 2021/22 crop should provide a buffer into 2023/24, where growing conditions are expected to remain favourable.
- **Global rice markets are supportive** for Australian rice demand and general sourcing opportunities over coming years with overall global stock levels forecast to decline 8% in 2022/23, the second consecutive year of decline. The premium medium-grain Californian harvest (a peer to Australian production) is forecast to decline 30% in 2022/23, opening up sourcing and supply opportunities for SunRice.

  Niche sourcing and supply opportunities are also emerging in the EU and UK as a result of drought and Brexit/free trade respectively.

- While likely to be an FY24 story, **cost recovery opportunities** exist across freight and distribution, which increased 108% on the pcp in H1 FY23 against revenue growth of 34%, well above peers. We estimate the benefits are proportional to revenue across all profit businesses, but mainly in International ex-PNG and Riviana.
- **Improved return rates are likely for the Corporate division** (29% of FY22 EBITDA) as higher 10-year bond rates drive higher return requirements from the group's infrastructure due to an increased WACC. Using a rolling two-year average, we expect return rates to gradually increase ~200bps over the next 18 months. EBITDA estimates over this period are 20% higher than FY22 as a result.
- **EPS-accretive acquisitions in the branded FMCG space** are likely to 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, promising more material EPS accretion.
- **SGLLV is trading at a material discount to selected ASX peers** on key metrics including EV/adjusted EBIT, EV/EBIT and PER using FY23 consensus forecasts against RaaS FY23 SGLLV estimates.

Exhibit 4: SGLLV Financial Summary

Ricegrowers t/a SunRice					
Profit and Loss (A$m)					
Y/E 30 April	FY2021	FY2022	FY2023	FY2024	FY2025
	A	A	F	F	F
Revenue	1,022.2	1,331.1	1,611.1	1,648.6	1,732.9
EBITDA	47.5	90.2	107.6	121.6	126.6
Depn	(23.2)	(23.5)	(24.8)	(24.9)	(24.7)
Amort	(1.7)	(2.7)	(3.0)	(3.0)	(3.0)
EBIT	22.6	64.0	79.8	93.7	98.9
Interest	(4.8)	(4.8)	(10.3)	(10.8)	(9.3)
Tax	(0.8)	(10.9)	(13.9)	(18.2)	(19.7)
Minorities	2.5	(1.2)	(3.7)	(2.4)	(2.2)
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPAT pre significant it	**19.5**	**47.1**	**51.8**	**62.3**	**67.7**
Significant items	1.3	0.4	1.7	0.0	0.0
NPAT (Reported)	**20.8**	**47.6**	**53.6**	**62.3**	**67.7**
Cash flow (A$m)					
Y/E 30 April	FY2021	FY2022	FY2023	FY2024	FY2025
EBITDA (less rent)	43.3	86.3	103.6	117.6	122.6
Interest paid	(4.8)	(4.8)	(10.3)	(10.8)	(9.3)
Tax Paid	(5.6)	(6.1)	(12.4)	(16.1)	(19.0)
Working capital changes	5.6	(57.1)	(103.3)	41.8	(6.0)
Operating cash flow	**38.5**	**18.2**	**(22.4)**	**132.5**	**88.4**
Mtce capex	(17.6)	(16.5)	(20.0)	(21.0)	(22.1)
Free cash flow	**20.9**	**1.7**	**(42.4)**	**111.5**	**66.3**
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/Disposals	(66.2)	(37.5)	(1.8)	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Cash flow pre financin	**(45.3)**	**(35.8)**	**(44.2)**	**111.5**	**66.3**
Equity	0.0	0.0	0.0	0.0	0.0
Debt	58.0	56.3	40.0	(60.0)	(10.0)
Dividends paid	(14.5)	(19.8)	(24.8)	(26.5)	(22.4)
Net cash flow for year	**(1.8)**	**0.6**	**(29.0)**	**25.1**	**33.9**
Balance sheet (A$m)					
Y/E 30 April	FY2021	FY2022	FY2023	FY2024	FY2025
Cash	23.5	42.6	17.4	42.5	76.4
Accounts receivable	175.8	260.0	310.4	317.4	322.6
Inventory	375.7	525.0	558.0	556.1	538.3
Other current assets	4.3	3.5	3.5	3.5	3.5
Total current assets	*579.4*	*831.1*	*889.3*	*919.5*	*940.7*
PPE	262.3	267.6	266.8	266.9	268.3
Goodwillc& Intangibles	58.5	85.7	83.5	80.5	77.5
Investments	5.4	5.6	5.6	5.6	5.6
Deferred tax asset	15.9	8.5	8.5	8.5	8.5
Other non-current assets	0.3	0.3	0.0	0.0	0.0
Total non current assets	*342.4*	*367.7*	*364.4*	*361.5*	*359.8*
Total Assets	**921.8**	**1,198.8**	**1,253.7**	**1,281.0**	**1,300.6**
Accounts payable	143.9	217.7	259.9	265.7	270.0
Short term debt	85.0	125.1	165.1	105.1	95.1
Payable to Ricegrowers	112.5	200.1	133.1	174.2	151.2
Other current liabilities	28.0	30.0	34.9	35.6	36.1
Total current liabilities	*369.4*	*572.8*	*592.9*	*580.4*	*552.3*
Long term debt	86.5	115.3	115.3	115.3	115.3
Other non current liabs	4.9	5.3	11.4	15.3	17.7
Total long term liabilities	*91.4*	*120.6*	*126.7*	*130.6*	*133.0*
Total Liabilities	**460.8**	**693.4**	**719.6**	**711.0**	**685.3**
Net Assets	**461.1**	**505.3**	**534.1**	**569.9**	**615.2**
Share capital	134.6	142.5	142.5	142.5	142.5
Reserves	(5.5)	(21.4)	(21.4)	(21.4)	(21.4)
Retained profits	315.1	364.8	393.6	429.4	474.7
Minorities	16.9	19.4	19.4	19.4	19.4
Total Shareholder func	**461.1**	**505.3**	**534.1**	**569.9**	**615.2**

Share price (2 May 2023)						A$ 6.29
Interim (A$m)	**1H22**	**2H22**	**1H23**	**2H23F**	**1H24F**	**2H24F**
Revenue	563.3	767.7	758.0	890.6	801.0	851.1
EBITDA	36.4	53.7	40.9	66.7	51.8	69.8
EBIT	23.6	40.4	27.0	52.8	37.7	56.0
NPAT (normalised)	16.3	32.0	17.8	37.8	26.0	38.7
Minorities	(0.1)	1.3	1.9	1.9	1.4	1.0
NPAT (Class B)	16.4	30.7	16.0	35.9	24.6	37.7
EPS (normalised)	0.27	0.50	0.25	0.57	0.39	0.59
EPS (reported)	0.27	0.50	0.25	0.57	0.39	0.59
Dividend (cps)	0.10	0.30	0.10	0.25	0.17	0.18
Imputation	30.0	30.0	30.0	30.0	30.0	30.0
Operating cash flow						
Free Cash flow						
Divisions	**1H22**	**2H22**	**1H23**	**2H23F**	**1H24F**	**2H24F**
EBITDA - Rice Pool	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA - International Rice	16.3	25.7	14.6	30.5	18.0	31.3
EBITDA - Rice Food	3.5	4.4	4.5	4.6	4.8	4.9
EDITDA - Riviana	6.7	7.3	2.1	6.6	7.0	7.9
EBITDA - CopRice	(2.2)	1.7	4.0	8.3	6.0	8.1
EBITDA - Corporate	12.1	14.7	15.6	16.7	16.0	17.7
TOTAL EBITDA	**36.4**	**53.7**	**40.9**	**66.7**	**51.8**	**69.8**
Costs - Raw materials	(339.3)	(484.1)	(433.7)	(516.7)	(478.9)	(509.9)
Costs - Freight and distributio	(54.4)	(92.5)	(113.3)	(106.7)	(97.0)	(98.0)
Costs - Employee benefits	(73.4)	(75.3)	(89.0)	(91.0)	(92.0)	(93.4)
Other Operating Costs	(61.5)	(67.9)	(81.0)	(75.6)	(81.3)	(80.0)
Margins, Leverage, Returns		**FY2021**	**FY2022**	**FY2023**	**FY2024**	**FY2025**
EBITDA		4.6%	6.8%	6.7%	7.4%	7.3%
EBIT		2.2%	4.8%	5.0%	5.7%	5.7%
NPAT pre significant items		1.9%	3.5%	3.2%	3.8%	3.9%
Net Debt (Cash)		-147.9	-197.8	-263.0	-177.9	-134.0
Net debt/EBITDA (x)	(x)	3.1	2.2	2.4	1.5	1.1
ND/ND+Equity (%)	(%)	24.3%	28.1%	33.0%	23.8%	17.9%
EBIT interest cover (x)	(x)	4.7	13.3	7.7	8.7	10.6
ROA		2.6%	6.0%	6.5%	7.4%	7.7%
ROE		5%	10%	10%	11%	11%
ROIC		5%	15%	16%	19%	21%
NTA (per share)		7.2	7.4	7.7	8.2	9.0
Working capital		407.6	567.3	608.6	607.8	590.9
WC/Sales (%)		**40%**	**43%**	**38%**	**37%**	**34%**
Revenue growth		-8%	30%	21%	2%	5%
EBIT growth pa		-55%	183%	25%	17%	6%
Pricing		**FY2021**	**FY2022**	**FY2023**	**FY2024**	**FY2025**
No of shares (y/e)	(m)	60.0	61.8	62.6	63.6	64.5
Weighted Av Dil Shares	(m)	60.0	61.8	62.6	63.6	64.5
EPS Reported	cps	0.35	0.81	0.88	1.03	1.10
EPS Normalised/Diluted	cps	0.35	0.81	0.88	1.03	1.10
EPS growth (norm/dil)		-27%	128%	9%	17%	7%
DPS	**cps**	**0.33**	**0.40**	**0.35**	**0.35**	**0.35**
DPS Growth		0%	21%	-13%	0%	0%
Dividend yield		5.2%	6.4%	5.6%	5.6%	5.6%
Dividend imputation		30.0	30.0	30.0	30.0	30.0
PE (x)		17.8	7.8	7.2	6.1	5.7
PE market		16.0	16.0	16.0	16.0	16.0
Premium/(discount)		11%	-51%	-55%	-62%	-64%
EV/EBITDA		11.1	6.5	6.1	4.8	4.3
FCF/Share	cps	214.9	103.5	(85.0)	97.5	69.3
Price/FCF share		2.9	6.1	(7.4)	6.4	9.1
Free Cash flow Yield		34.2%	16.4%	-13.5%	15.5%	11.0%

Source: Company data for actuals, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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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
- deal on behalf of retail and wholesale clients in relation to
  - Securities

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Website: www.afca.org.au; Email: 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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