

RFM Poultry

High yield play with potential improvement in FY19

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 H118 NPAT of \$0.26m, down 53% 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.

H118 result

RFP reported H118 NPAT of \$0.26m, down 53% on the same period last year, due to an increase in efficiency rating system (ERS) penalties associated with grower fees, higher contractor fees, and higher electricity expenses as a result of price hikes. RFP noted that as its farms in the Riverina pool were amongst the oldest in the region, they had underperformed the newer farms in daily weight gain and feed conversion and, as a result, had incurred discounts on the growing fee under the Efficiency Rating System. RFP highlighted that it had subsequently identified changes on the older farms to improve performance, including lighting and ventilation alterations and water sanitation system upgrades and that these should be completed by June 2018. It also has invested \$400,000 installing solar panels at its Victorian farms designed to lower future power costs. The benefits from these changes are expected to emerge in FY19.

Earnings guidance

At its interim results in February, RFP guided that it expected the full year result to be at the very lower end of the forecast range of \$0.61m to \$0.83m after tax, due to ERS penalties and higher power costs. The lower end of the range suggests that the result will be 26% below FY17's NPAT of \$0.82m. The scheme has reaffirmed its forecast distribution of 10.05 cents per unit and franking of 4.31 cents per unit for FY18.

Earnings history (A\$m)

Year ended	Revenue	EBITDA	NPAT reported	EPU (c)	DPU (c)	P/E (x)	Dividend Yield (%)*
Jun-14	13.16	0.63	0.49	7.21	9.93	16.0	8.6%
Jun-15	25.75	2.16	1.50	21.96	14.36	5.2	12.5%
Jun-16	24.32	1.81	0.87	12.59	14.36	9.1	12.5%
Jun-17 ^A	24.19	1.13	0.82	11.94	14.36	9.6	12.5%

Source: Company data *Grossed up for franking credit

Units Summary

Unit Code	RFP
Unit Price	\$1.15
Market Capitalisation	\$7.92M
Number of Units	6.9M
Net Cash (Debt) at 31 Dec 2017	\$6.2M
Share Registry	Boardroom Pty Ltd

RaaS 5-Point Score* = 2/5

Revenue increasing (0); 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

RaaS Advisory contacts

Finola Burke	+61 414 354 712 finola.burke@raasgroup.com
Moirra Daw	+61 418 697 275 moira.daw@raasgroup.com

* 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.

This report has been commissioned by NSX Ltd (“NSX”) and prepared and issued by RaaS Advisory Pty Ltd. This report has been prepared independently of NSX and does not represent the opinion of NSX. NSX makes no representation in relation to acquiring, disposing of or otherwise dealing in the securities referred to in this report.

RaaS Advisory received a fee for preparation of this report. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however neither NSX nor RaaS Advisory guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the following two pages. RaaS Advisory holds Corporate Authorised Representative no 1248415 of AFSL 456663. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. Past performance is not a guarantee of future performance. To the maximum extent permitted by law, RaaS Advisory, its affiliates, the respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. Copyright 2018 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.



FINANCIAL SERVICES GUIDE

RaaS Advisory 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: 11th May 2017

About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License (“AFSL”) number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR. This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS’s services and includes such things as

- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Level 2, 129 Robertson Street, Fortitude Valley QLD, 4006

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns a fee from companies for providing a research report and/or a financial model on the company, for dealing in its securities or for assisting in raising capital. You don’t pay anything.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS’s representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should

- contact your Adviser and tell them about your complaint, the adviser will follow our internal dispute resolution policy, including sending you a copy of the policy if required
- BR is a member of the Financial Ombudsman Service, our external dispute resolution provider.

Financial Ombudsman Service GPO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08 Email: nfo@fos.org.au

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.