Research as a Service

Ricegrowers Limited (SunRice)

Resumption of Coverage Report

Right place, rice time

FMCG/Agriculture

20 December 2022

Ricegrowers Limited (ASX:SGLLV) trades as SunRice, the company's main brand. SunRice is a global fast-moving consumer goods (FMCG) business and one of Australia's largest branded food exporters with more than 30 brands across 50 countries. We see favourable conditions for at least the next two years as the group manages a 'sweet spot' for Australian rice harvests in a world of dwindling supply, with organic growth, acquisition growth/synergies and cost recovery. The company has established a strong base in key divisions from which to expand with progressively larger acquisitions, not dissimilar to the likes of Bega Cheese (ASX:BGA). Despite significant freight and labour cost pressures, SunRice delivered H1 FY23 underlying EBITDA growth of 13% (to $41m), a testament to brand strength and diversification. We expect an acceleration in growth over the seasonally stronger H2 FY23, and into FY24 on the back of cost recovery. Using a Sum of The Parts (SoTP), that is applying selected peer multiples to RaaS FY23 adjusted divisional EBITDA forecasts, we derive a valuation of $8.74/share, 30% above the current share price.

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.

Consistent dividend profile offsets any short-term volatility

Despite a number of extreme volume and profit swings divisionally over the past few years, including the 'perfect storm' in several divisions, SGLLV has maintained dividends to Class-B shareholders of least $0.33/share since FY16 ($0.40/share in FY22). Given this history we have forecast this trend to continue, implying B-Class shareholders can ride out any earnings volatility with confidence and focus on the longer-term opportunities for SGLLV, from both cyclical recovery, organic growth and acquisition. Cyclical recovery centres around improved availability of Riverina rice and cost recovery including freight. Organic growth will be driven by new product development and new international rice markets, while acquisition will centre around building further scale in existing FMCG businesses.

SoTP valuation $8.74/share or $548m mkt 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. We arrive at a SoTP valuation of $8.74/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	19.1	4.9
04/22a	1,331.1	90.2	47.6	0.81	8.4	5.9
04/23f	1,611.1	107.6	53.6	0.88	7.7	5.2
04/24f	1,648.6	121.6	62.3	1.03	6.6	5.2

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 (19-Dec)	$6.75
Market capitalisation	$423.9M
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 development

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. Dir/Grower
Luisa Catanzaro	Non-Exec. Director
Andrew Crane	Non-Exec. Director
Ian Glasson	Non-Exec. Director
Leigh Vial	Non-Exec. Dir/Grower
Ian Mason	Non-Exec Dir/Grower
Jeremy Morton	Non-Exec. Dir/Grower
Julian Zanatta	Non-Exec. Dir/Grower

Company Contacts

Dimitri Courtelis (CFO) +61 3 8567 1132

Richard Rose (Head of Corporate Development) +61 3 8567 1132

investors@sunrice.com.au

RaaS Contacts

John Burgess +61 410 439 723 john.burgess@raasgroup.com

Finola Burke +61 414 354 712 finola.burke@raasgroup.com

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Ricegrowers Limited

Ricegrowers Limited (ASX:SGLLV) listed on the ASX in April 2019 following 12 years as an NSX-listed entity. The company is executing a strategic plan to diversify revenue through growth in related food businesses while at the same time maintaining a core level of premium Australian rice production for use in domestic and premium international markets and utilising established group overheads and infrastructure. A number of acquisitions over recent years have seen most 'profit businesses' reach a scale that can be built upon across quality entertaining categories (Riviana) and animal feed/nutrition (CopRice). The improved Australian rice harvest has also opened opportunities for the International Rice division, while higher interest rates/10-year bond yields and branded sales growth promises improved returns for the company's infrastructure assets (Corporate).

Investment Case

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 last 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. ABARE's 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 & distribution, which increased 108% on the PCP in 1H FY23 against revenue growth of 34%. 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.

Sum of the Parts CompCo Valuation

Our CompCo based valuation is $8.74/share, applying appropriate peer adjusted EBITDA multiples to the relevant divisions of SunRice. The group currently trades at a discount to peers on all recognised earnings multiples based on FY23 consensus estimates. We discuss our valuation in detail on pages 22 and 23 of this report.

It is important to note the following in relation to this report:

- This report uses a "sum-of-the-parts" valuation methodology based on FY23 EBITDA forecasts (FY22 for Riviana) using valuation multiples for a group of domestic and international peers considered to be comparable by RaaS. This method is one of many possible valuation methodologies for a company, and accordingly the use of different valuation methodologies, and different inputs and/or assumptions, to those we have chosen for the purpose of preparing its report would produce different valuation results;

- The report is based on RaaS's assessment of SunRice's historical earnings through the cycle and other publicly available information and does not give any guarantee regarding SunRice's future financial position or performance, or its outlook. SunRice's actual results and performance may vary – possibly to a material extent - from the events, results or outcomes expressed in, or implied by, the report. Past performance is not a guarantee of future performance and the share price and trading performance of SunRice's B-Class shares on ASX will not necessarily trade to RaaS Advisory's opinion on the "through-the-cycle" valuation or outlook;

- Whilst SunRice commissioned and paid a fee for this report, the report is based on RaaS's assessment of SunRice's earnings forecasts which have been derived from consideration of the company's historical earnings performance through the cycle, other publicly available information and RaaS's forecasts for future earnings;

- The report has been prepared and issued by RaaS Advisory, and the opinions contained in the report represent the opinions of the principals of RaaS Advisory as at the date of issue. This report should be read in conjunction with the disclaimer and Financial Services Guide on pages 27-29.

Latest financial results – H1 FY23

Key take outs from H1 FY23 result are summarised below:

- Improved availability of Riverina rice resulted in higher **Rice Pool** revenues and fully covering allocated overheads;
- **International** revenue increased 32% on the back of the improved availability of Riverina rice, sourcing opportunities across drought impacted regions of Europe and the US and generally higher sell prices. EBITDA ex Trukai (which was higher) was significantly impacted by higher freight costs with EBITDA margins ex Trukai estimated to have declined to ~3.5% from ~9.5% in the PCP;
- **Rice Food** revenues increased 4% and EBITDA 29% on market share gains and lower COGS respectively;
- **Riviana Foods** revenue increased 10% on the back of strength in new categories (bakery) and the return of Food Services, but EBITDA down 68% as higher costs (product, currency and freight) could not be recovered on a timely basis;
- **CopRice** was the standout division considering the subdued demand for alternate feed, with underlying revenue growth of 38% and a first-time $17.7m contribution from the Pryde's Easifeed acquisition at or above initial targets. EBITDA as result moved from loss to profit;
- **Corporate EBITDA increased 29%** excluding a $3.4m gain on excess PP&E sale on the combination of higher brand charges and a higher return requirement due to a higher WACC;
- **Depreciation and amortisation** increased with a first-time contribution of Pryde's Easifeeds;
- **Interest expense** increased on the back of higher average debt (inventory rebuild) and higher interest costs (BBSW);
- **The $1.6m outside Equity Interest** predominately relates to Trukai in PNG and implies a total NPAT of $5.5m against a loss of $0.5m in the PCP.

Exhibit 1: SGLLV H1 FY23 result summary (in A$m unless otherwise stated)

Variable (A$000')	H1 FY22	H1 FY23	% Chg	Comments
Revenues	**563.3**	**758.0**	**34**	
Rice Pool	89.9	145.8	62	Improved harvest
International	253.7	334.8	32	Higher prices and Riverina rice opportunities
Rice Food	53.8	55.8	4	Market share gains
Riviana Foods	97.3	107.3	10	Improved Food Services and new categories
CopRice	68.5	112.1	64	Pryde's for first time ($17.7m), ~38% underlying growth
Other	1.4	2.2	58	
Gross Profit	225.8	324.3	44	
GP%	40	43		
Operating costs	(189.4)	(283.3)	50	Freight costs +>100%
Underlying EBITDA	**36.4**	**41.0**	**13**	**Solid in the light of cost growth**
Rice Pool	0.0	0.0		Harvest covered overheads
International	16.3	14.6	(11)	Impacted by freight costs, excludes FX losses
Rice Food	3.5	4.5	29	Lower COGS from improved rice supply
Riviana	6.7	2.1	(68)	Timing of higher freight and product costs
CopRice	(2.2)	4.0	nm	Pryde's for the first time, improved CopRice
Corporate	12.1	15.6	29	Higher brand and finance charge, excludes profit on sale
D&A	(12.8)	(13.9)		Pryde's Easifeed for the first time
EBIT	**23.6**	**27.1**	**15**	
Interest expense	(2.9)	(4.9)		Higher debt and interest rates
PBT	20.7	22.2	7	
Tax	(4.5)	(4.3)		20% tax rate aided regional tax rates and tax losses
Outside Equity	(0.1)	1.9		Much improved result from PNG business Trukai
Adj. NPAT	**16.4**	**16.1**	**(2)**	**Mainly higher Depreciation and interest**
Abnormals	0.4	1.6		FX losses and sale of PP&E gains
Reported NPAT (B-Class)	16.8	17.7	5	Attributable to B-Class shareholders after minorities

Source: Company announcements

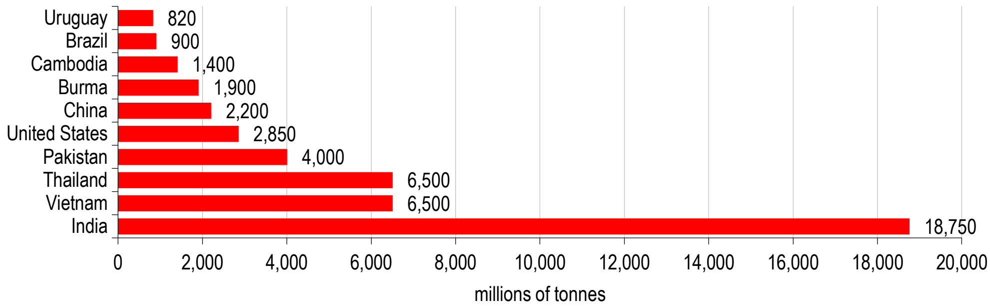
Global Rice Market

Rice is the world's second-most important cereal crop after corn with nearly 504m metric tons of milled rice likely to be produced in 2022-23.

Asian countries have the largest share of world rice production, with China the largest at ~210m metric tons followed by India and Bangladesh.

In terms of global exports, which is more relevant for SunRice's global sourcing model, India was the largest in 2021-22 at 18.7m metric tons followed by Vietnam and Thailand (6.5m), Pakistan (4.0m) and the US (2.9m).

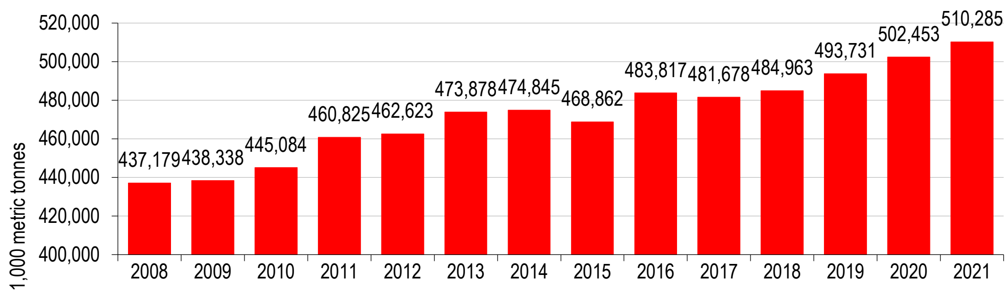
Exhibit 2: Rice exports by producing nation 2021/22 (000' metric tons)



Source: Statista

Global demand for rice continues to grow, averaging 1.2% per annum between 2008-09 and 2021-22 according to Statista, while the latest USDA rice outlook (November 2022) estimates global consumption at 519.3m metric tons for 2022-23.

Exhibit 3: Global rice demand in metric tons by year



Source: Statista

Global rice production is forecast to decline in 2022-23 for the first time since 2015-16, down a forecast 2% to 503.7m tons on the back of lower production in a number of large markets for a number of reasons including India (down 6.3m tons due to flooding) Pakistan (down 2.5m tons due to flooding), China (down 2.0m tons) and the US (down 0.9m tons due to drought). Production will also fall in Bangladesh, the EU, Ghana, Japan, Nepal, Nigeria, the Philippines, Sri Lanka and Tanzania.

Offsetting these declines are likely increases in Burma, Cambodia, Egypt, Indonesia, Iran, Mali, Thailand and Vietnam.

US production is forecast to decline ~14%, with Californian production estimated to decline 39.5% due to sustained drought and the relatively high prices of alternate crops including corn and soybeans. The production of US medium grain rice (the most comparable to Australian production) is forecast to decline 30%, the lowest since 1972-73, with California accounting for ~75% of US production.

While the EU is a small percentage of global rice production, countries such as Italy and Spain are relatively larger producers of Arborio rice, which is currently being affected by drought, requiring souring from other regions and likely price increases.

As a result of the supply and demand imbalance global stock levels are forecast to decline 8% to 169m tons, marking a second consecutive year of decline and providing support for prices.

Global Rice Pricing

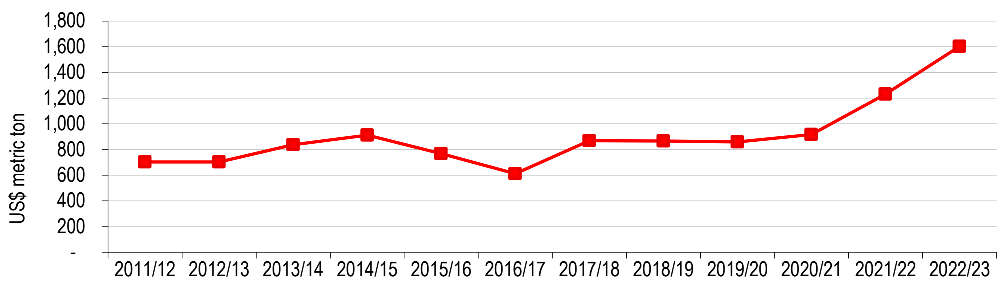
Analysing global price trends and their implication for SunRice is not straightforward given:

- Rice is not a tradeable commodity and has no futures market;
- There are a large range of varieties, grades and % brokens within each variety including but not limited to Japonica, Indica, short grain, medium grain, fragrants such as Jasmine and Basmati, Red Rice and Kali Mooch;
- There tends to be opportunistic trading across the spectrum of rice types/grades;
- There are a number of free trade agreements at play; and
- Countries can place quotas on exports at any time to protect domestic rice supply.

That said, monitoring the price of key varieties can provide a guide to the likely selling price assumptions incorporated within the Australian naturally determined Paddy Price.

The most relevant variety/region for comparison to Australian Reiziq medium grain rice is premium Californian medium grain rice. US prices have reached record levels in recent months on the back of a lower harvest due to severe drought conditions as discussed above.

Exhibit 4: Californian medium grain milled for export prices (US$ metric ton)

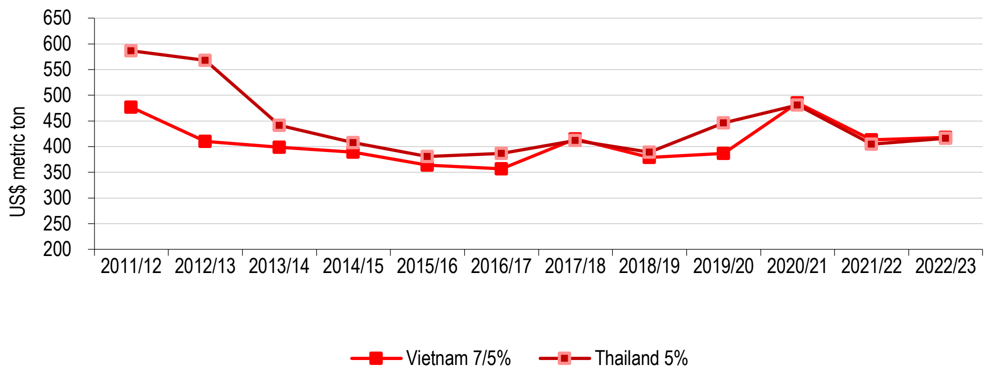


Source: USDA November 2022 report

For the imported rice used to supplement Australian production across divisional requirements SunRice imports from >10 countries with key countries of origin being China, Vietnam, India and the US.

The chart below highlights recent price movements for both Vietnam and Thailand 5% broken. In general, both prices have historically moved in correlation between a range of US$360 and US$480 per metric ton.

Exhibit 5: Export prices for a range of rice regions/grades (US$ metric ton)

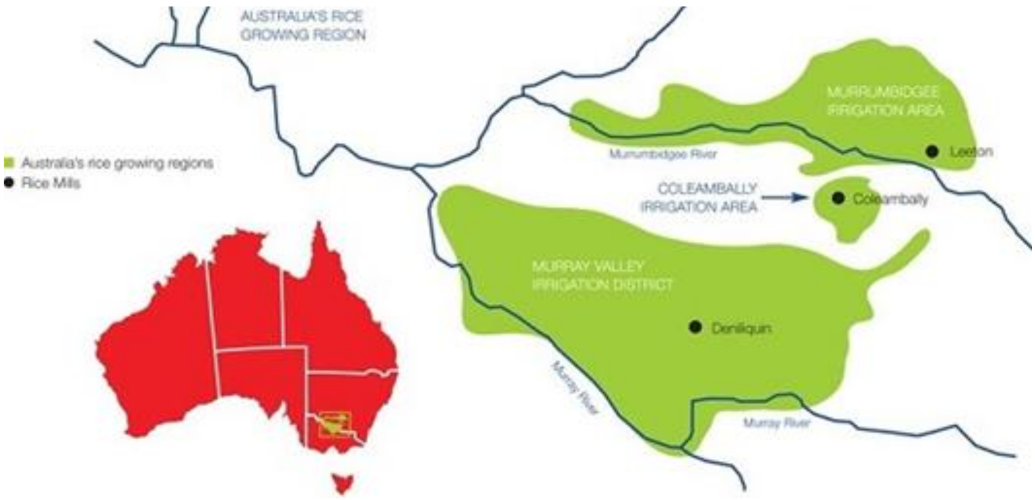


Source: USDA November 2022 report

Australian Rice Market

The Australian industry is centred in the NSW Riverina (See Exhibit 5) and is governed by grower representatives and NSW Dept of Primary industries. NSW grows more than 90% of Australia's rice output in this irrigation region. The governance structure and SunRice's role in it are shown in the attached chart from the NSW DPI. SunRice retains a government mandate to operate as a single desk buyer/seller of the NSW export crop, which was recently extended to June 2027. The desk can also accept rice from Victorian growers who may opt into the scheme.

Exhibit 6: Australia's Riverina district location



Source: SunRice

The key issue in determining likely harvest size is water for irrigation. Despite Australian growers' relative efficiency versus their international competition (average yield/hectare is 3x the global average yield, while Australian rice uses 50% less water than the global average) rice remains a water-intensive crop.

Rice growing is typically only a portion of any farm's income, and the area is often reused, post-harvest, for crops which benefit from the subsequent higher soil moisture. The NSW Department of Primary Industry closely regulates rice growing with approval needed for land-use.

Plantings in Australia takes place predominantly in November with harvest predominantly in April, which happens to be SunRice's financial year end. From a terminology perspective the April harvest is referred to as the 'Crop Year", with the crop year then sold predominantly in the following 'Financial Year'.

Australian rice pricing

The price that Australian growers receive for their unprocessed crop is referred to as the Paddy Price which is derived from the Paddy Pool.

The Paddy Price is a retrospective calculation of all revenue received from a particular the crop less all processing and storage costs including SunRice corporate charges.

Management has a ~18-month line of sight for future harvests, allowing the allocation of overheads and forecasting of a per-tonne processing and storage fee with some accuracy based on expected volumes, costs and interest rates (cost of capital).

A Paddy Price range is often nominated before planting (usually the September before November planting) to provide certainty/incentive to growers for the upcoming harvest, with this range narrowing through harvest and into the following financial year as key variables become clearer. The price becomes final up to 15-months post-harvest.

The table below provides an example of the progression of Paddy Price setting through the 2022-23 harvest.

Exhibit 7: CY22 harvest pricing (April harvest for marketing May 2022-April 2023

Date	Price range	Comments
August 2021	$400	Initial fixed price offer
November 2021	n.a.	CY22 crop estimated at 600kpt
March 2022	$390-$450	Initial Paddy Price range
April 2022	n.a.	Harvest completed; first payment made at $390
August 2022	$400-$450	Lower end upgraded; additional $10/t payment made
November 2022	$410-$450	Lower end upgraded; additional $10/t payment made
December 2022	$435-$470	Lower-end & upper end upgraded; additional $25/t payment made
April-June 2023	n.a.	Final pricing for CY22 harvest set

Source: Company announcements

Payment to growers is made on standard terms (11 similar payments post-harvest beginning April), but growers can access funds earlier using a finance facility.

Comparing global rice prices to the Australian Paddy Price is problematic as:

- A yield assumption needs to be applied to convert the Paddy Price to a milled metric tonne price (roughly 60%);
- Because the Paddy Price is net of costs, associated costs would need to be added back to arrive at a comparable wholesale sale price; and
- Conversion is required from AUD to USD.

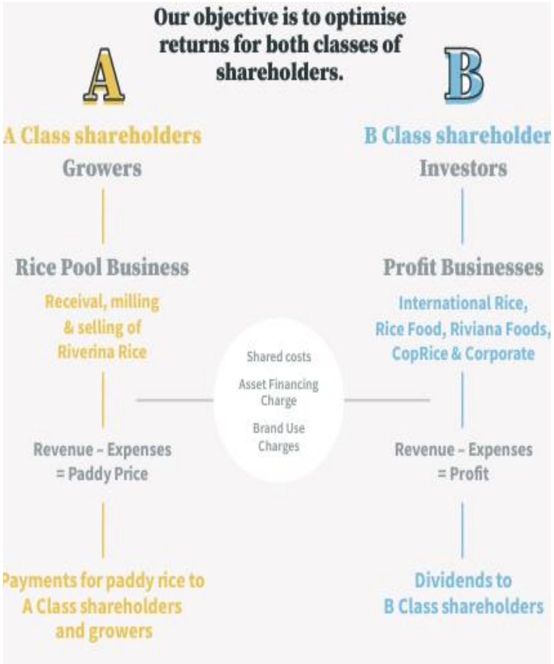
Capital Structure and Rice Pool

History

Ricegrowers was established as a co-operative in 1950 to manage and market rice supplied by its members. The members approved conversion to a company in 2005 and a name change to Ricegrowers Limited. Trading as SunRice, the company was listed on the National Stock Exchange (NSX) in 2007. SunRice listed on the ASX in April 2019. No additional capital was raised.

Share Class Structure

Exhibit 8: SunRice corporate structure



Source: SunRice 2022 annual report, p.6

The structure of A- and B-Class shares allows the purposes of the co-operative to be maintained while allowing diversification of earnings for the organisation and payment of dividends to owners of the B-Class shares. Owners of the A-Class shares (who must be growers who meet the production quotas prescribed by the SunRice Constitution) receive the calculated price per tonne of rice harvested and sold through the pool system - the "Paddy Price" which is paid on unprocessed rice volumes. Profits outside the Rice Pool are available to pay dividends to B-Class shareholders.

Rice Pool operation

The harvest payment is paid in tranches through the season as the crop is harvested and sold with final payments generally received by June of the following year. SunRice incurs costs to manage and market the rice. These are deducted from Rice Pool revenue with a finance charge based on the Pool's use of the storage and milling assets and prevailing interest rates. Management charges are reflected in the segment results for the Rice Pool and Corporate segments. (The best view of the economic impact of the commodity business may be to combine aspects of these segments). The net result of the Rice Pool segment represents the pool of funds available to growers and is the basis for the calculation of the Paddy Price. The Rice Pool business does not record a profit since all positive returns are received by growers via the Paddy Price. The Corporate segment records a profit from the finance charges and brand fees paid by the operating segments, but revenues are entirely internal.

If harvests are impaired (usually by drought) rice volumes may be insufficient to cover the fixed costs of the Rice Pool structure, in which case SunRice records an under-recovery of costs leading to the Rice Pool returning a loss, which was the case in 2010-11, 2016-17, 2019-2020 and 2020-2021. At these times the Paddy Price may be set to incentivise the growth of a small crop where possible which, when sold, delivers a better overall economic outcome, and some continuity of operation. In these loss-making years, the ongoing costs of operating the storage and milling assets for the Rice Pool will be covered by profits from SunRice's other businesses - which could reduce profits and potentially dividends for B-Class shareholders.

Australian Rice Pool

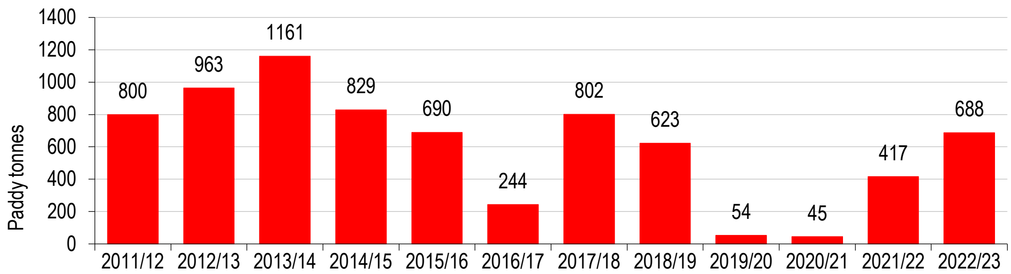
Background. SunRice owes its existence to the creation of a co-operative by rice growers in 1950 with the objective of "receiving, processing and marketing rice supplied by its members". The Ricegrowers Co-operative corporatised in 2005. SunRice retains responsibility for the functions of the co-operative and continues to manage the processing and marketing of rice harvested in NSW for the benefit of the holders of the A-Class shares - mandated as NSW rice growers.

Business model. The Rice Pool does not deliver a direct profit to SunRice (but does help cover corporate overheads) – this segment of the business exists purely to market rice and pay growers the net result. SunRice provides the handling, processing and storage infrastructure and the net of SunRice costs and pool revenue represents payments to rice growers for their unprocessed crop. The risk in this structure is when the harvest is too small to cover SunRice costs. In that case SunRice records an under-recovery of costs leading to the Rice Pool returning a loss, which represents the difference between revenue and logistics costs incurred for that crop year. This is an expense to the B-Class shareholders and reduces SunRice profits. SunRice used this approach in 2011, 2017, 2020 and 2021. See Exhibit 9 for a view of the range of historic harvested volumes.

Key drivers. Rainfall in the Riverina district and water availability/costs in the Riverina. The BOM undertakes rainfall analysis which provides an 18-month window into the likely rainfall across the Riverina, while ABARES produces regular crop reports with updated forecasts.

Outlook: The latest ABAREs crop report released in December 2022 is forecasting a 51% decline in the Australia harvest, largely due to a 47% reduction in plantings with growers struggling to access paddocks. SunRice management is expecting 'ample Riverina rice supply' in CY23 and points to positive growing conditions into CY24. We take this to mean that the Rice Pool will cover all overheads during this period.

Exhibit 9: Historical Australian rice harvest (Paddy tonnes)



Source: Company announcements

In the table below we summarise our take on how various harvest ranges impact the divisional operations of SunRice, with an estimated sweet spot of between 400-650k Paddy Tonnes. The harvests immediately prior and following the harvest in question can impact this summary (i.e. a large prior year when averaged with a lower harvest can still result in optimal supply).

Exhibit 10: SGLLV divisional impacts at various harvest ranges

Australian harvest (Paddy Tonnes)	Outcome
0-400k	Corporate overheads may not be covered by Rice Pool, EBITDA loss possible
	International needed to supplement Australian volumes (mainly US)
	Limits International's ability to focus on other markets
400-650k	Fully recover overheads, no Rice Pool loss
	International opportunities for excess Australian production
	Other International market operations not impacted
>650k	Fully recover overheads, no Rice Pool loss
	Australian harvest diverted to other markets (lower price received)
	Less International sourcing required

Source: RaaS estimates

SunRice Profit Businesses

International rice

Background: Purchases, processes and markets rice for supply into both the domestic and international branded markets, tender markets or other processors. International Rice sources from ~11 countries and supplies into >40 countries, with marketing-leading positions in PNG, the Solomon Islands, Hawaii and a number of Middle East countries.

The group has supporting infrastructure in Vietnam with a processing and packaging facility in the Dong Thap province, and a processing and packaging facility at its SunFoods subsidiary in the US.

The PNG business (Trukai Industries) is 66.23% owned by SunRice and represents the majority of the Minority Interest in the P&L and Balance Sheet. Trukai was predominantly loss-making between FY19 and FY21 before returning to profit in FY22 and 1H FY23.

FY22 revenue/EBITDA/PBT split: 57% revenue, 48% EBITDA, 57% PBT.

Business model. Utilise a global supply chain which is multi origin, multi market and multi price to source rice for established international markets, top-up premium rice supplies in low Australian harvest years, and look for trading opportunities in new international markets and/or varieties.

Key Brands. Hinode (Hawaii), Roots, Trukai (PNG), Sunwhite (Middle East), SolRais (Solomon Islands).

Key markets. FY22 revenue was dominated by PNG (37%), the USA (29%), other Pacific Islands (17%) and Australia (13%)**.** The Middle East was supplied directly from the Australian Rice Pool in FY22. The severe drought in California opened-up sourcing opportunities into the US, with the potential to supply Australian rice down the track.

Exhibit 11: International revenue regional split (%)

Region	FY18	FY19	FY20	FY21	FY22
PNG	54	55	45	38	37
Rest of Pacific	16	13	14	13	17
Middle East #	7	10	19	20	1
USA *	0	0	12	9	29
Australia	3	5	7	13	13
Asia	10	4	2	5	2
Other	9	13	1	2	1

Source: Company announcements * Included in other FY18 and FY19 # Included in other FY22

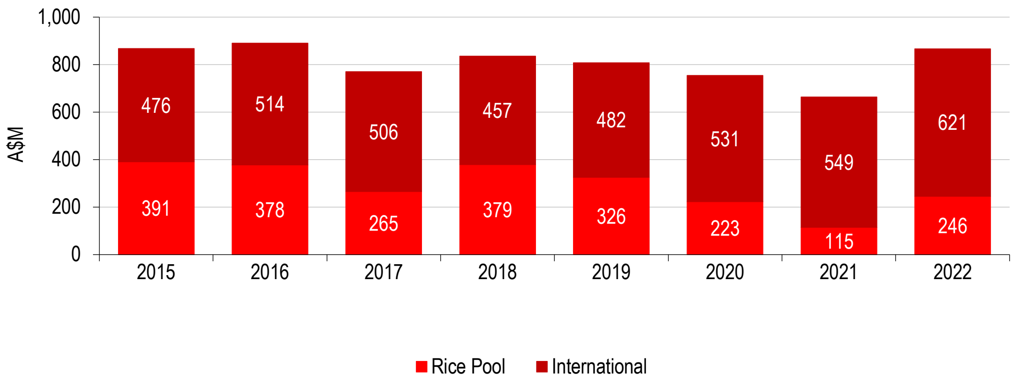
Customers: A range of international supermarkets and government authorities.

Key drivers: Size of the Australia rice harvest (for premium export markets), the size of the rice harvests in key trading regions (for prevailing prices), the economic and competitive conditions across the Pacific Islands, the AUD/USD and Kina/USD for imports and Kina/AUD for asset translation.

The Rice Pool and International Rice revenue should be viewed as a whole for a complete picture of rice sourcing.

Outlook. Improved availability of Riverina rice, rice price increases in key markets and supply opportunities in the US (drought), Europe (drought) and the UK (free trade) are supportive of revenue growth. The 2H is also seasonally the strongest half due to a number of festive events. We expect significant recovery in EBITDA margins ex-Trukai as freight price increases are passed on in the form of higher prices in generally supply restricted markets.

Exhibit 12: Combined revenue of International and Rice Pool (A$m)



Source: Company announcements

Rice Foods

Background: Manufacturer, marketer, and distributor of value-added rice-based products including microwaveable rice products (~40% of revenue), rice cakes and chips (~30%), rice flour (~20%), and ready-to-go meals. These products are sold predominantly in Australia (91%) with the balance New Zealand and Asia (Singapore and Hong Kong).

The rice flour business is essentially food services and the balance retail.

FY22 revenue/EBITDA split: 10% of Revenue, 9% of EBITDA, 10% PBT.

Business model: Develop innovative higher-margin, value-add branded products in healthy snacking aligned with global trends. Sources rice predominantly from the Australian Rice Pool.

Key Brands: SunRice, Riviana.

Key customers/channels: Australian supermarkets.

Market positioning/share: SunRice is the largest player in the microwaveable market with an estimated 50% share, with other players Mars (Uncle Ben's) with ~20% share and private label brands at ~20%. SunRice also has a market-leading position in the rice cakes market with a ~40% market share and a growing market presence in the healthy snacks market with a ~12% share.

Key drivers: Australian rice harvest (for both quality, COGS and overhead absorption), manufacturing costs (including packaging and freight), and manufacturing efficiencies.

Outlook: FY23 revenues will benefit from price increases across rice flour and microwave rice, together with market share gains due to product availability, while COGS have eased due to increased availability of broken rice (for rice flour), offset somewhat by labour pressures.

Riviana Foods

Background: Riviana is a market leader in Australian grocery retail of pickled vegetables (~40%) and premium entertaining biscuits (~20%).

Riviana has been at the core of the company's diversification strategy, acquiring Roza's Gourmet in September 2018 for $5.9m, and in December 2020 acquiring KJ&Co for $51m.

The majority of product is imported, predominantly from Europe, with some domestic manufacturing capabilities in pickled veg, vinegar and waffles.

FY22 revenue/EBITDA split: 10% of revenue, 9% of EBITDA, 6% of PBT.

Business model: Increase the share of the "special occasions" market by leveraging management of global supply chains through both organic growth and acquisition. Given a current reliance on imported product, some expansion of Australian manufacturing capabilities is likely.

Key Brands: Always Fresh, Hart & Soul, Fehlberg's, Toscano, Roza's Gourmet, Bare Bakers, the Australian Waffle Company.

Key customers/channels: Major Australian supermarkets represents ~60% of revenue and the more food services channel ~40%.

Key drivers: The AUD/USD and AUD/EUR given ~85% of products are imported. As a rule, the lower the AUD the higher the input costs and more margin pressure. Domestic competition and retail pricing pressure including private labels. More recently offshore shipping and freight costs and product supply (Ukraine invasion). Success in integrating acquisitions.

Outlook: FY23 is likely to be a tale of two halves, with 1H seeing and 68% decline in EBITDA as cost pressures across products, freight and currency could not be recovered on a timely basis. Price increased have been implemented and we expect some recovery in margins over 2H FY23 and into FY24.

CopRice

Background: Utilises SunRice's rice by-products to produce innovative animal nutrition. More recently SunRice acquired Pryde's Easifeed in January 2022 to enter the high value branded equine market.

FY22 revenue/EBITDA split: 15% of revenue, -1% of EBITDA, -6% of PBT.

Business model: Utilise rice by-products to produce branded animal nutrition products and complement supplier channels with acquisitions, acquiring Ingham's NZ Dairy in March 2021 for NZ$11m and Pryde's EasiFeed in January 2022 for A$38m.

Key Brands: CopRice, Drove, Pryde's Easifeed, Top Cow and Top Calf.

Key customers/channels: The business sells via grocery, pet stores, agri-stores and wholesalers, targeting dairy, horse, sheep and poultry feed. CopRice also sells dog and cat food and cat litter.

Market positioning/share: The animal feed sector is competitive with a number of large players including Ridley Corporation and Mitsubishi. Using Ridley (ASX:RIC) accounts, Exhibit 13 below highlights the low gross margin nature of the feed business, but improving earnings profile on the back of increased scale. CopRice is still growing in this area and has recently diversified into equine feed/supplements.

Exhibit 13: Ridley Corporation (ASX:RIC) earnings history

Region	FY18	FY19	FY20	FY21	FY22
Sales	917.6	1,002.5	967.9	927.7	1,049.0
Gross profit	68.7	72.6	66.8	79.0	99.6
GP %	7.5	7.2	6.9	8.5	9.5
EBITDA adj.	55.3	48.1	59.5	69.2	80.1
EBITDA %	6.0	4.8	6.1	7.5	7.6

Source: Company announcements

Key drivers: Rainfall which impacts the amount of naturally grown feed available. A drought will initially be positive for demand as farmers attempt to maintain their herd or flock with alternate feedstock. This positive impact then dissipates as a drought lengthens and herd sizes decrease, while raw material supply will also be impacted. Rainfall then improves naturally available feedstock, reducing the need for alternatives. That said, if paddocks are too wet alternate feedstock may be required. Availability of rice by-products as raw material can also impact COGS.

The acquisition of Pryde's Easifeed has opened up distribution channels for the legacy CopRice business.

Outlook: A full years contribution from EasiFeed (~$33m in FY23 vs $7.7m in FY22) will drive both headline revenue and EBITDA growth in FY23, but the core CopRice business will also benefited from rice by-product availability and new distribution channels, growing revenues ~30% and reducing operating losses.

Corporate

Background: Holds rice receival and storage facilities across the Riverina as well as rice milling and packaging facilities across Australia. We estimate half the $267m property, plant and equipment on the SunRice balance sheet relates to corporate.

FY22 revenue/EBITDA split FY22: 0% of revenue, 29% of EBITDA, 21% of PBT.

Business model: Charges an asset financing and brand fee to the growers (which is subtracted from forecast revenue to derive the Paddy Price) to cover the costs of operations and divisional return requirements. The return requirements are a function of the cost of capital, with the key variable being the 10-year bond yield.

Brands: Holds ~30 brands including SunRice.

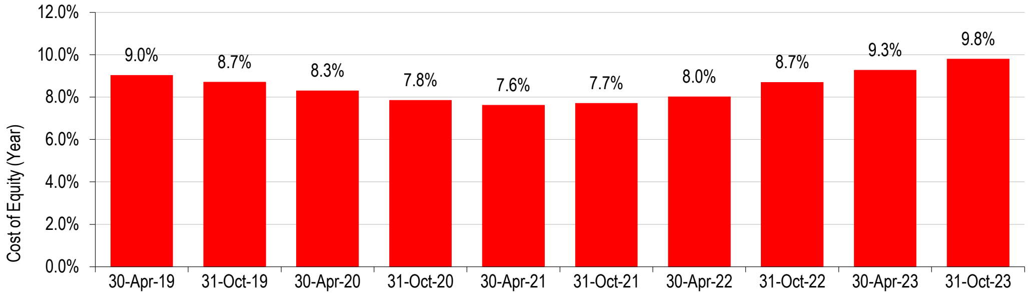
Key customers/channels: Australian rice growers via the Rice Pool.

Market positioning/share: Monopoly provider to the Australian rice pool.

Key drivers: Harvest size (to absorb share of group overheads), two-year rolling 10-year bond yield for return requirements, branded sales (for brand license fee).

Outlook: With near-term harvest levels covering overheads and a rising 10-year bond yield we expect improved returns into FY24 for the Corporate division. Assuming a beta of 1.0x and equity risk premium of 6.5% we estimate the SunRice cost of equity will move from 8.0% at April 2022 to 9.8% by October 2023 using spot yields over the forecast period. Improved branded sales also boosts the corporate brand fee (a % of revenues much like a franchisee). Higher interest costs will be a small offset to divisional EBIT.

Exhibit 14: Theoretical SunRice cost of equity



Source: RaaS estimates

Key SGLLV Financials

Revenue

We look at the revenue models for each division below and some comments on the outlook for each.

- **Rice Pool**. Revenue is reflective of where the Australian Rice Pool is sold, but in any given year can include rice from the current and prior year's harvest carried over for future sale.

  Regional revenue can move around but it is clear the key premium markets of Australia and the Middle East are supplied at the expense of other regions in years of low harvests (2020, 2021) as the table below demonstrates.

  Rice Pool revenue should be read in conjunction with the International division for a clearer picture of the likely revenue and profit opportunities from the International division.

Exhibit 15: Rice Pool revenue 2018-2022 (A$m)

Region	FY18	FY19	FY20	FY21	FY22
Australia	144	147	118	90	84
Middle East	114	98	58	15	98
Asia	102	59	18	5	54
Pacific Islands	11	10	4	2	5
Other	8	13	25	3	5
Total	**379**	**326**	**223**	**115**	**246**

Source: Company announcements

- **International**: Exhibit 11 (page 12) highlights the percentage of International revenue by region, while Exhibit 16 below highlights the absolute dollar contribution by region. The keys to note are the size and consistency of the Pacific Islands, increased supply to Australia from FY21 due to low prior year harvests, and increased supply to the US following the supply agreement with the Central Valley Rice Growers Association to supplement Californian drought conditions.

Exhibit 16: International revenue 2018-2022 ($m)

Region	FY18	FY19	FY20	FY21	FY22
PNG	247	265	239	209	230
Rest of Pacific	73	63	74	71	106
Middle East #	32	48	101	110	0
USA *	0	0	64	49	180
Australia	14	24	37	71	81
Asia	46	19	11	27	12
Other	41	63	5	11	12
Total	**452**	**482**	**531**	**549**	**621**

Source: Company announcements * Included in other FY18 and FY19 # Included in other FY22

To derive our revenue forecast we divide each region's revenue by an assumed price based on the type of rice supply to that region. We then make volume and price assumptions by region to derive forecast revenue, capturing any price inflation/deflation and harvest restrictions.

More continuous supply of Australian rice, generally higher rice prices, continued supply into the higher priced US market and niche opportunities in the EU and UK should combine for solid revenue growth into FY23.

- **Rice Food** is coming off a very strong FY22 (revenues +11%) which was boosted by the stay-at-home benefits of COVID-19 lockdowns for convenience foods. Market share gains and the return of broken rice (used for rice flour) have boosted revenues FY23, while product innovation will be key for FY24 revenue growth.
- **Riviana** was also a net beneficiary of the stay-at-home orders through FY22, with underlying revenue growth (ex-the first-time contribution from KJ&Co) up an estimated 9%. Food Services growth has returned in FY23 (+26% in 1H FY23) while new bakery categories have also boosted revenue.
- **CopRice:** A full year's contribution from the Pryde's Easifeed acquisition (~$33m in FY23 against $7.4m in FY22) will aid headline revenue growth for CopRice. The underlying business has seen significant volume/market share gains on increased by-product availability and benefits of new distribution channels.
- **Corporate:** There is no revenue in Corporate.

Gross profit margin

Group gross margins using reported numbers have ranged between 37% and 39% over the past four years. We make some observations around divisional margins:

- **International**: There is a large margin range across key markets driven by a combination of grade, market competitiveness and sourcing opportunities. As a general comment the Middle East and Asia are higher margin while the Pacific Islands including PNG are lower margin, but the division as a whole is lower than the group average.
- **Rice Food**: Being predominantly retail branded products we estimate a divisional gross margin higher than the group average.

While not explicitly forecast we estimate a range between 40%-45%.

- **Riviana**: Being predominantly retail branded products we estimate a divisional gross margin higher than the group average.

While not explicitly forecast we estimate a range of 40%-45%.

- **CopRice**: Using Ridley as a guide we assume lower-than-average divisional gross margins for CopRice (~10%-15%), albeit boosted recently by the acquisition of the higher-value Easifeed business.

As a result, a small change in the gross margin can have a major impact on the bottom line.

Operating costs

There are three key line items that make up SunRice group operating costs, namely:

- **Employees**: Represented 35% of total costs in FY22 or 11.1% of sales with the group having ~2,000 employees.
- **Freight and distribution:** Represented 35% of total costs in FY22, up from 27% in FY21 as both domestic and global freight and shipping rates increased.

  Freight costs remain elevated in FY23, reaching 40% of costs in 1H FY23 and increasing 108% against a 34% increase in revenues (or $59m). Some relief is forecast into FY24 both from cost recovery and lower rates.

- **Other expenses:** Represent the balance of costs (30%) and incorporate a range of line items including contracted services, advertising, energy, and repairs/maintenance.

Other

- **Interest expense** will be higher due to both higher average debt levels and higher interest rates driven by the rise in the BBSW.
- The **Tax rate** is forecast to average around 20%-22% due to a combination of tax loss utilisation in some regions and operations in lower tax jurisdictions.
- **Outside Equity Interest** will be higher in FY23 due the continued turnaround in PNG utilising prior year tax losses. Declines in FY24 and FY25 are predominantly due to tax expense returning in PNG.

Exhibit 17: SGLLV P&L summary (in A$m unless otherwise stated)

Line item	2021a	2022a	2023f	2024f	2025f
Revenue	**1,026**	**1,334**	**1,615**	**1,652**	**1,736**
Rice Pool	115	246	316	324	387
International	549	621	734	740	747
Rice Food	96	106	111	114	113
Riviana	148	197	221	230	235
CopRice	114	161	229	240	251
Other	4	3	4	4	4
EBITDA	**46.4**	**90.2**	**107.6**	**121.6**	**126.6**
Rice Pool	(22.1)	0.0	0.0	0.0	0.0
International	34.9	42.0	45.0	49.3	52.2
Rice Food	0.9	7.9	9.2	9.7	9.0
Riviana	10.4	14.0	8.7	14.9	16.2
CopRice	-0.8	-0.5	12.4	14.1	15.1
Corporate	23.1	26.8	32.3	33.7	34.1
Adjustments					
D&A	(24.9)	(26.1)	(27.8)	(27.9)	(27.7)
EBIT	**21.5**	**64.0**	**79.8**	**93.7**	**98.9**
Interest expense	(4.8)	(4.8)	(10.3)	(10.8)	(9.3)
PBT	16.7	59.2	69.5	82.9	89.6
Tax	(0.8)	(10.9)	(13.9)	(18.2)	(19.7)
NPAT before outside interests	15.9	48.3	55.6	64.7	69.9
Outside equity interests	(2.5)	1.2	3.7	2.4	2.2
Adj NPAT to B-Class	**18.4**	**47.1**	**51.8**	**62.3**	**67.7**

Source: Company announcements and RaaS estimates

Other Financial Commentary

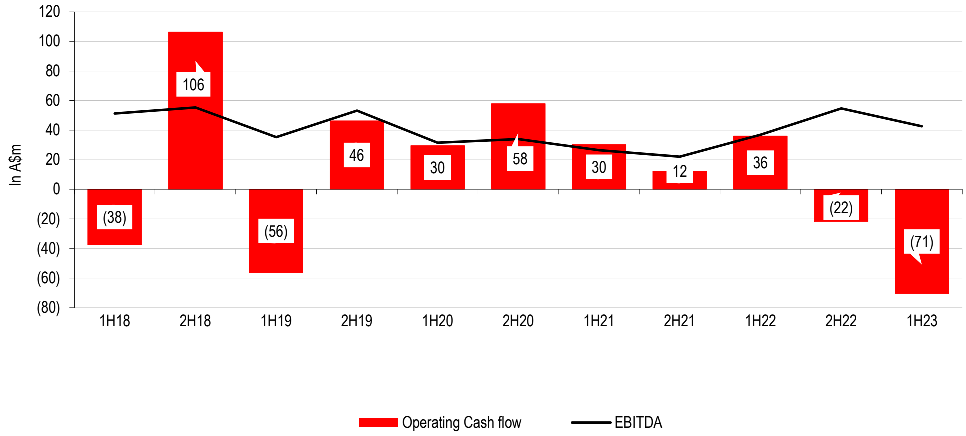
Cash flow

Working capital: The key to understanding SunRice cash flow is to understand the impacts of harvests from both a timing and size perspective.

Harvests are generally complete at the end of April, the full-year balance date of SunRice. As a result, payables to growers at the end of the financial year are elevated. That financial year's harvest is then progressively sold over the following 12-24 months, increasing cash receipts while reducing payables until the next harvest.

The size of the harvest can accentuate the swings half to half. The exhibit below charts SunRice operating cash flow against reported EBITDA between H1 FY18 and H2 FY22. Good examples of the size of the harvest accentuating swings in operating cash flow can be seen in H220, with cash flow above EBITDA on the back of a release in working capital from two small harvests (FY18 and FY19), and more recently in H222 and 1H FY23, with two large harvests coming off two small harvests resulting in increased working capital in H222.

Exhibit 18: Operating cash flow vs EBITDA by half year



Source: Company announcements

Capex to depreciation (ex-Right of Use or RoU) has averaged 1.0x over the last two years or ~$17m, well below peers and we estimate a maintenance of capex spend on current assets of ~$20m. Elevated spend in FY19 and FY20 included facility upgrades in Vietnam and Australia.

Balance sheet

Working capital to sales (consisting of inventory, trade receivables, trade payables and grower payables) has averaged 27% over the last seven years with a range of 24% to 30%. Within working capital **inventory is the largest line item**, with inventory/sales ranging between 24%-43% over the past seven years.

Net debt finished 1H FY23 at $297.6m, up from $198m in FY22 on the back of working capital requirements for the large FY22 harvest. This debt level should be seen as a peak for the current harvest and is expected to decline at year-end FY23.

The group has core debt with a duration of two-year at 100-150bps over the BBSW, and a working capital facility on a 12-month rolling basis. With a recent spike in the BBSW rate we expect core interest rates and therefore interest costs to increase, as was the case in 1H FY23.

Property, plant and equipment (PPE) of $268m at April 2022, with approximately half relating to book value of processing and storage facilities associated with Corporate.

The minority interest predominantly relates to the 33.8% of Trukai Industries in PNG that SunRice does not own, but also includes the 20% of the Aqaba Processing Company (APC) in Jordon not owned.

Dividends

Dividends are the clear priority for B-Class shareholders. A DRP is in place with a participation rate of 20%-25% forecast going forward.

Historically just a final dividend was paid, but in FY22 management introduced an interim payment to spread the dividend payment across an interim and final payment which is consistent with most listed companies.

Peer comparisons

Our assessed peer group for SGLLV has the following characteristics:

- Exposure to an agricultural cycle;
- Base product is essentially a commodity;
- A brand owner of marketing leading FMCG brands sold into major supermarkets;
- Material infrastructure ownership; and
- Australian listed.

Key domestic and international peers that satisfy some or all of these requirements include:

Treasury Wine Estates (ASX:TWE): A premium-focused global leader in wine with strong positions in Australia, North America and Asia. Like SGLLV, TWE has a multi-regional sourcing model balanced between asset ownership and external sourcing. Brands including Penfolds, Wynn's, Wolf Blass, Seppelt, Saltram, 19 Crimes and Squealing Pig, right across the price-point spectrum.

The group's operations are underpinned by a global asset base across vineyards and production assets in Australia, the US, France and New Zealand.

Graincorp Limited (ASX:GNC) is a leading diversified agribusiness and processing company, with an integrated operating model connecting growers (predominantly grain and oilseeds) to domestic and international consumers in over 50 countries.

The asset portfolio to deliver such services includes ~160 regional grain receival sites and seven bulk ports connected by road and rail infrastructure across the east coast of Australia, crushing and refining facilities for oil seeds and edible fats/oil and feedstock manufacturing facilities.

Costa Group Holdings Limited (ASX:CGC) is a leading Australian horticultural company with an asset base across a diversified product base including berries, tomatoes, avocados, mushrooms, citrus, grapes (both wine and table) and bananas. Internationally, the group has acreage in China and Morocco. The group provides 52-week supply to modern retailers under a range of brands including Driscoll's, Lady Fingers, Perino, Vitor and 2.P.H.

All-up the group operates 7,200 planted hectares of domestic farmland, 40 hectares of glasshouses, 108 hectares of mushroom growing facilities, and two international berry growing facilities.

Bega Cheese Limited (ASX: BGA), having started life as a cooperative with a strong regional cheese brand (Bega), BGA is now a multi-channel branded company with ~82% of sales now branded, up from 20% in 2016. The portfolio has been built by acquisition including MDLZ Grocery ($460m), Koroit dairy processing ($260m) and Lion Dairy & Drinks ($534m). The brand portfolio includes Dairy Farmers, Pura, Farmers Union, Yoplait, Dare, Big M, Vegemite, Bega peanut butter, Daily Juice, Berri and Vitasoy.

To deliver products and services BGA has large-scale ingredient processing facilities in the bulk division, and packaged goods processing facilities in the branded business.

Ridley Corporation (ASX:RIC) is a market leader in the animal nutrition space with a geographical spread and multi-species offering across a diverse customer base. Brands include Barastoc, Rumevite, Cobber, Propel, food for dogs and Monds Feed.

To deliver product and services RIC operates two ingredient recovery plants and one Novaqpro site, 13 feedmills, one extrusion plant and one supplements plant.

Select Harvests (ASX:SHV) is Australia's second-largest almond producer and marketer with operations across horticulture, orchard management, processing, sales and marketing. Almonds are also water intensive with a slightly higher water usage (ML/Ha) relative to rice, while California is also a key price setting market for almonds and competing market for Australian produce.

The group's 9,262 hectares under plantation are a mix of company owned and leased across Northern NSW and Central VIC and South Australia.

Lynch Group Holdings (ASX:LGL) is Australia's largest vertically integrated wholesaler and grower of flowers and potted plants, with over 100-years of operating history. The group has also operated in China for 17-years, with an FY22 EBITDA split of 48%/52% to China.

Flowers have a complex supply chain as they are highly perishable, have a short shelf life and face biosecurity regulations. LGL has built a network of five farms in Australia (two 3PL) and four in China, four processing facilities in Australia and two in China and strong relationships with retailers.

Elders Limited (ASX:ELD) is a major player in the Australian rural services market, with key product offerings across merchandise, fertiliser, seed, wool, livestock, real estate, stock feed, risk management, water, grain, finance and insurance.

Many of the product offerings are under an agency or franchise model, with ELD lending their brand name and support services in return for a licence fee.

Internationally, processing company **Ebro Foods SA (SM:EBRO)** is the closest peer to SunRice. Spanish based Ebro is the world's largest producer of rice (~70% of earnings) and second largest producer of pasta in the world. The groups brands include Tilda, SOS, Minute, Taureau Aile and Mahatma.

Exhibit 19 below summarises consensus FY23 earnings estimates and resulting multiples at current prices.

Exhibit 19: Peer group financial comparison – FY23 (in A$m June year-end unless otherwise stated)

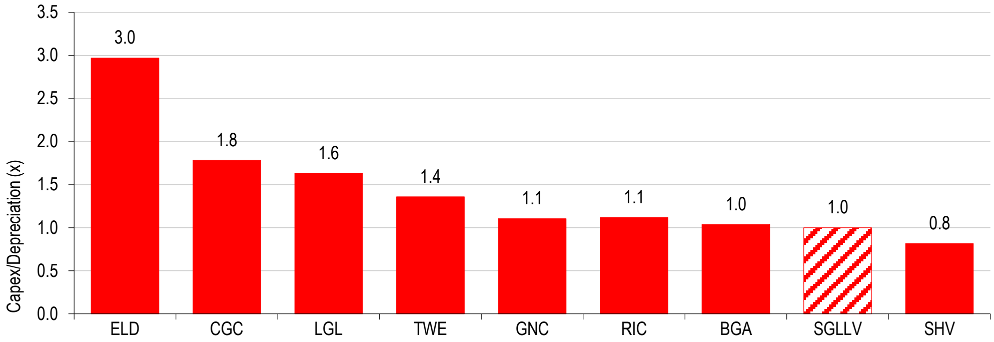
Company name	Ticker (ASX unless stated)	Share price (cps)	Mkt. cap.	Revenue	Adj. ## EBITDA	Adj. NPAT	Adj. EPS	Adj. ## EBITDA multiple (x)	FY22 Working capital /Rev (%)	Debt/ EBITDA (x)
Treasury Wines	TWE	$13.73	9,910	2,775	732.6	396.8	0.55	13.5	30	0.9
Graincorp #	GNC	$7.91	1,769	6,671	397.4	196.3	0.88	4.5	15	1.4
Elders #	ELD	$10.27	1,605	3,210	223.6	143.7	0.91	7.2	19	0.7
Costa Group ^	CGC	$2.63	1,222	1,318	166.9	40.2	0.09	7.3	2	0.2
Bega Cheese	BGA	$3.74	1,137	3,121	141.9	39.9	0.13	8.0	5	1.9
Ridley	RIC	$1.96	626	1,076	83.2	40.7	0.13	7.5	4	0.3
Select Harvests #	SHV	$3.98	481	216	32.9	8.5	0.07	14.6	70	4.1
Lynch Group	LGL	$1.57	192	404	43.2	18.8	0.16	4.4	(3)	0.5
PEER AVERAGE								**8.4**	**18**	**1.2**
FMCG AVERAGE								**9.6**	**12**	**1.0**
SunRice *	SGLLV	$6.75	423	1,611	103.7	51.8	0.88	4.1	28	1.9
Ebro Foods (€) ^	EBRO:SM	14.60	2,247	2,851.0	295.0	130.6	0.86	7.6	28	1.9

Sources: Company financials, Refinitiv Eikon; Prices 19 December 2022 # Sept year-end * April year-end ^ Dec year-end
Adj EBITDA adds back Right of Use (RoU)/Rental expense

Looking at SGLLV relative to the domestic peer group, we would highlight the following:

- Trading at a material discount to peers on an EBITDA multiple (subtracting rent paid), EV/EBITDA multiple and EV/EBIT multiple using FY23 consensus data;
- Working capital to revenue at the higher end of peers, albeit impacted by the two strong harvests in recent years;
- Debt to EBITDA at the higher end of peers, again impacted by the working capital requirements of recent large harvests; and
- Capex to revenue and capex to core PP&E depreciation at the lower end of peers;

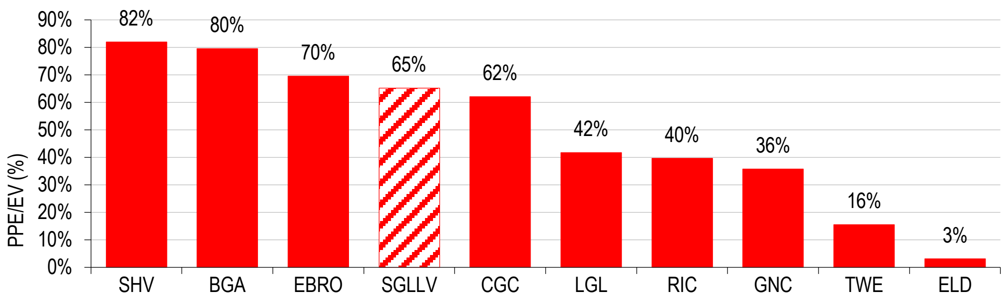
Exhibit 20: FY22 capex to PP&E depreciation



Source: RaaS estimates

- Despite the low capex spend relative to depreciation and revenues, SunRice has a higher than peer group average Property Plant & Equipment to enterprise value.

Exhibit 21: PP&E as a percentage of enterprise value



Source: RaaS estimates

- Remarkably similar metrics to Spanish peer Ebro Foods across debt, working capital, capex and operating margins.

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). The table below presents a sum of the parts (SoTP) valuation for SunRice using the following EBITDA multiples, derived from FY23 consensus estimates adjusted for rental expense/RoU (subtracted from EBITDA), and then applied to RaaS FY23(f) adjusted EBITDA forecasts:

- A 9.6x EBITDA multiple for FMCG businesses, in-line with the average of the FMCG businesses in the peer group (TWE, BGA and CGC). <u>For Riviana we are using FY22 EBITDA</u> given FY23 is not reflective of sustainable earnings in our view;

- A 5.8x EBITDA multiple for the Corporate business (or $167m), the average of GNC and ELD multiple in recognition that SunRice Corporate provides both infrastructure (GNC) and brands (ELD) to their ricegrowers. An ELD multiple would see the valuation closer to $9.42/share all else equal;
- A 7.5x multiple for CopRice, in-line with RIC metrics which is essentially 100% animal feed; and
- A 8.4x EBIT multiple for International, which is the average of the peer group. The tax rate of this business is forecast to be well below peer averages.

Issues with this approach include using FY23 earnings in isolation (Riviana as an example), limited regard for the replacement value of key infrastructure, varying tax rates which are not captured at the EBITDA line, other anomalies between each company (including the share structure of SunRice), a small sample size in some divisional comparisons and volatility in peer multiples.

Exhibit 22: SGLLV sum of the parts valuation – FY23 A$m unless stated

Division	FY23 Adj. EBITDA	Adj EBITDA# multiple (x)	Valuation	Comments
International	43.9	8.4	369	A key assumption given EBIT size
Rice Food	8.9	9.6	86	FMCG peers
Riviana Foods *	13.8	9.6	132	FMCG peers using FY22 EBITDA
CopRice	11.5	7.5	86	RIC is the key peer
Corporate	30.8	5.8	178	Average of ELD and GNC
Less				
33.8% of Trukai	4.9	8.4	(41)	Same multiple as International
Net Debt (Apr-23 est)			(263)	RaaS estimate as at April 2023
VALUATION			**547**	
Shares on issue			63	
EQUITY VALUE			**$8.74**	

Source: Company announcements and RaaS estimates *FY22 EBITDA #EBITDA adjusted for Right of Use expense

Discounted cash flow

We would highlight the following as key drivers/assumptions of our $9.25/share DCF valuation:

- A WACC of 10% incorporating a beta of 1.0 (note that the observed beta on Refinitiv is 0.57), risk-free-rate 3.5% and equity risk premium of 6.5%;
- Medium-term growth beyond the forecast period of 5.0% and a terminal growth rate of 2.2%;
- Stable working capital requirements beyond the forecast period;
- Capex remaining at 1.0x underlying PP&E depreciation;
- Average tax rate of 22%; and
- No material acquisition assumptions.

Exhibit 23: SGLLV base-case DCF valuation

Parameters	Outcome
Discount rate/WACC	10%
Beta	1.0
Terminal growth rate assumption	2.2%
Sum of PV ($m)	382.5
PV of terminal value ($m)	461.3
PV of enterprise ($m)	843.8
Debt (cash) ($m) at April 2023 (RaaS estimate)	(263.1)
Net value – shareholder ($m)	580.7
No. of shares on issue (fully diluted) (m)	63.0
NPV ($/share)	**9.25**

Source: RaaS estimates

SWOT Analysis

We see the strengths and opportunities for ATV outweighing weakness and threats, with our SWOT analysis summarised below.

Exhibit 24: Strengths, Weaknesses, Opportunities, Threats

Strengths	Opportunities
Approved and regulated one-desk trader of export NSW rice	Growth in low-GI consumer food categories
Experienced management team	Growth driven by growth in population & affluence in Asia
Continuing focus on diversifying strategy	Ability to add additional categories to consumer food offer
Consistent dividends paid to shareholders through the cycle	Accretive and complementary acquisitions
Track record of small, sensible, value-adding acquisitions	Access to new international rice markets
Weaknesses	**Threats**
Price taker relative to global rice markets	Climate change
Dependence on Riverina water resources	Dominant supermarket structure in Australian food retail
Ability to repatriate PNG Kina on demand	Export quotas limit access to rice
Volatility in revenue sources due to changes in harvest size	Alternative crop choices made by farmers

Source: RaaS analysis

Board and Management

Directors

Laurie Arthur, Non-Executive Chairman, has been chairman since 2014 and a grower director since 2007. Laurie is a representative on the Rice Industry Co-Ordination Committee, the former president of the Ricegrowers Association and a Commissioner of the National Water Commission.

Rob Gordon, Executive Director and Group Chief Executive Officer, has been a director since 2012. He is also a non-executive director of Inghams Group Ltd (ASX: ING), a member of the Agribusiness Advisory Board for Rabobank, a representative on the Rice Industry Co-Ordination Committee. Rob is a former director of the Bread Research Institute of Australia, and former advisory board member of Gresham Private Equity. He brings more than 35 years' experience in the FMCG sector and 20 years' experience in CEO and Managing Director roles with stints at Viterra Inc, Dairy Farmers and Goodman Fielder.

John Bradford, **Non-Executive Director & Vice Chairman,** was elected as a grower director in 2015 and is also a member for the NSW Rice Marketing Board. He is the former chairman of Southern Riverina Irrigators and former delegate and member of the NSW Irrigators Council.

Luisa Catanzaro, Non-Executive Independent Director, has been a director since 2018 and is also currently a director of The BeCause Foundation. Luisa is a former CFO of Lynas Corporation (ASX: LYC), former CFO and company secretary of Dairy Farmers and the Australian Agricultural Company (ASX:AAC). She has held senior finance roles at Pioneer international, having commenced her career as an accountant with Arthur Andersen.

Dr Andrew Crane, Non-Executive Independent Director, has been a director since 2018. He is also the Chancellor of Curtin University, and a director of RAC WA and Viridis Ag Pty Ltd. Andrew is the former CEO of CBH and a director of its JV Interflour. He was also a member of the Prime Minister's B20 Leadership Group in 2014.

Ian Glasson, **Non-Executive Independent Director,** has been a director since 2016 and is a non-executive director of Clover Corporation (ASX: CLV). He previously has held CEO positions with PGG Wrightson, Gold Coin Group/Zuellig Agriculture, Sucrogen and was managing director of Gresham Rabo Food and Agribusiness and Goodman Fielder's international ingredients division.

Ian Mason, Non-Executive Director has been a grower director since 2018 and a member of the NSW Rice Marketing Board. He is the former chairman of AgriFutures Australia Rice Advisory Panel.

Jeremy Morton, Non-Executive Director, and grower was appointed to the board in 2019. Jeremy is a grower from the Moulamein district.

Dr Leigh Vial, Non-Executive Director, and grower has been a director since 2015. He is also a representative of the AgriFutures Rice Research Committee, a director of Agripak Pty Ltd and an Adjunct Fellow, University of Queensland. Leigh was also the former Head of International Rice Research Institute's Experimental Station (Philippines).

Julian Zanatta, Non-Executive Director, and grower was appointed to the board in 2019. Julian is a Benerembah rice grower.

Executive Team

Rob Gordon leads a strong team of experienced group executives:

Dimitri Courtelis, Group Chief Financial Officer, was appointed in March 2018 and brings extensive international experience in audit, finance (Ernst & Young and Deloitte) and corporate roles including several years in CFO roles at Etihad Airways' subsidiaries, Air Serbia and Air Berlin.

Kate Cooper, General Counsel & Company Secretary, joined SunRice in 2016 as General Counsel and in December 2020 was appointed Company Secretary. Kate has more than 25-years as a lawyer, and prior to joining SunRice spent 10-years as General Counsel of Ticketek.

Stephen Forde, Chief Executive Officer, Riviana Foods, took on his role in 2013 having spent 20 years in strategic sales, marketing and general management roles at FMCG companies including Reckitt Benckiser, where he was Global Customer Director for the UK and General Manager NZ, and Campbell Arnotts where he was General Manager NZ.

Ganesh Kashyap, General Manager CopRice, joined SunRice in August 2021 as general Manager, CopRice where he has end to end responsibility for leading the business. Prior to SunRice Ganesh spent 10-years at Mondelez International, most recently as Managing Director of Mondelez Japan, leading a turnaround within the highly competitive snacks market.

Belinda Tumbers, Chief Executive Officer, Global Rice, joined SunRice in July 2021 to lead the newly created Global Rice function. Belinda is responsible for developing, growing, sourcing, manufacturing, supplying and selling the world's best, sustainably sourced rice products. Prior to SunRice Belinda was Managing Director of AMEA Snacks for the Kellogg Company and Managing Director of Kellogg's business in ANZ.

Paul T. Parker, General Manager, People & Culture. Paul joined SunRice in 2019 with responsibility for both the human resources and safety functions of the group. Prior to SunRice Paul was Chief Human Resource Officer for Royal Caribbean. Paul is recognised for developing and implementing innovative human resources solutions in complex organisations and delivering strong and sustainable results.

Alan Preston, Chief Executive Officer, Trukai Industries, joined Trukai in 2020 and is responsible for all aspects of the PNG business. Alan has more than 35 years of senior management experience across a wide range of industries includes roles with Bowater Scott, Rexona and Dulux.

Research as a Service

Exhibit 25: 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 fund	**461.1**	**505.3**	**534.1**	**569.9**	**615.2**

Share price (19 December 2022)						A$ 6.75
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 distributioi	(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		4.9%	5.9%	5.2%	5.2%	5.2%
Dividend imputation		30.0	30.0	30.0	30.0	30.0
PE (x)		19.1	8.4	7.7	6.6	6.2
PE market		16.0	16.0	16.0	16.0	16.0
Premium/(discount)		19%	-48%	-52%	-59%	-62%
EV/EBITDA		11.7	6.8	6.4	5.0	4.5
FCF/Share	cps	214.9	103.5	(85.0)	97.5	69.3
Price/FCF share		3.1	6.5	(7.9)	6.9	9.7
Free Cash flow Yield		31.8%	15.3%	-12.6%	14.4%	10.3%

Source: Company data for actuals, RaaS estimates

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

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Contact Details, BR and RaaS
BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000
RaaS. 20 Halls Road Arcadia, NSW 2159
P: +61 414 354712
E: finola.burke@raasgroup.com

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