



The Rice Marketing Board

FOR THE STATE OF
NEW SOUTH WALES

**2nd Annual Report to NSW Rice Growers
October 2013**

Introduction

The *Rice Marketing Act 1983* (the Act) directs that all rice produced in NSW be vested in the Rice Marketing Board for the State of NSW (RMB).

The Act outlines the objectives of the RMB as being to:

- (a) encourage the development of a competitive domestic market for rice;
- (b) ensure the best possible returns from rice sold outside Australia based on the quality differentials or attributes of Australian rice; and
- (c) liaise with and represent the interests of all NSW rice growers in relation to the Board's functions and objects.

Section A of this document reports on the performance of RMB against these objectives while Section B provides an assessment of the performance of the Sole and Exclusive Export Licence ("SEEL") holder.

Section A

RMB Performance Against Stated Objectives

(a) The Board continues to encourage a competitive domestic market for rice by facilitating participation in the market:

- I. There are currently 8 licensed Authorised Buyers.
- II. The RMB recently visited rice growers in Northern NSW to explore opportunities to develop a small but sustainable rice industry in this area.
- III. The Board has issued licences to all parties who have applied for an Authorised Buyer's licence, have met the required conditions, and have signed the Authorised Buyers' Agreement.

(b) Ensuring the best possible returns on rice sold outside Australia:

The continued strong performance of the holder of the Sole and Exclusive Export Licence ("SEEL") is fundamental to achieving this objective.

The RMB has, after rigorous evaluation which included commissioning and receiving a report independently verifying the published export price premium, concluded Ric growers Limited ("RL"), as the holder of the SEEL, and the single desk arrangements themselves, continues to provide substantial benefits to NSW rice growers.

It is noted the average annual running costs of \$500,000 to \$600,000 for the Rice Marketing Board do not materially diminish this return to rice growers.



(c) The members of the Board liaised with NSW rice growers over the past 12 months, in relation to its objects and activities through the following means:

- a. Attendance at the Ricegrowers' Association of Australia (RGA) half yearly branch meetings
- b. Sponsorship of, and attendance at, the RGA Annual Conference
- c. Attendance at the NSW Trade and Investment public meetings held in relation to the Review of the Rice Vesting Proclamation
- d. Distribution of the RMB Annual Report and its availability on the website
- e. Communication with the President and Executive Director of the RGA on issues relevant to the industry
- f. Making itself available to all growers, through the Secretary, at other times

Section B

Summary of Ricegrowers Ltd's (RL) Performance as SEEL Holder

Independent Verification Report

An independent review was undertaken by Grant Thornton Corporate Finance Limited of the Export Price Premium methodology, calculations and source information. Based on this review, and its own monthly review of RL's position, RMB finds that RL continued to deliver an export price premium to growers.

RMB also confirms the existence of other substantial benefits to growers, such as freight scale advantage, as a result of RL holding the Sole and Exclusive Export Licence.

Assessment Period:

- I. Rice sales 2012-13;
- II. Financial reporting of Sole and Exclusive Export Licence ('SEEL') Holder from 1 May 2012 to 30 April 2013

Findings

- Export price premium delivered to growers of \$65.9 million
- The average medium grain export prices achieved by RL have been greater than those achieved by Californian exporters for the majority of the past four crop years (see graph on page 5).
- Positive trend in key markets and market share
- Paddy price premium includes efficiency scale advantage
- Freight scale advantage of \$13.5 million delivered to growers, in addition to the export price premium.



- SEEL holder delivers other benefits to growers e.g. ability to respond to changes in market conditions, product research and development, buyer of last resort, certainty of sale and payment, crop finance, rice crop insurance, and provision of storage and purity of seed.
- Strengthening financial performance of SEEL holder, including:
 - o Revenues of 1.07 billion (up 6.8% on 2012)
 - o NPAT (Net Profit After Tax) of \$35.8 million (up 5.5% on 2012)
 - o Debt to equity 61% (down from 65.9% in 2012)

Assessment of Ricegrowers Ltd in relation to stated objectives

1. Delivery of Export Price Premium to NSW rice growers

- i. Amount of export price premium for 2012-13 rice crop.

Ricegrowers Limited (RL), as the current holder of the SEEL, reported the delivery of a total **export price premium of \$65.9 million** for the 2012/2013 crop year.

This total premium is the accumulation of premiums achieved in varying amounts, across the five major export regions in which RL markets rice. These markets comprise Pacific (Major Market), Middle East, WTO (World Trade Organisation) Markets, New Zealand and Pacific Islands.

The premium achieved in each market region is the difference between the RL price per tonne and the benchmark of competitor price per tonne.

Noting that price verification or benchmarking in a global context is limited, given rice is a narrowly traded commodity and unlike other grains has no futures market, an independent review of benchmarks was undertaken by Grant Thornton Corporate Finance Limited for the reported regions.

Grant Thornton concluded in its report of September 2013:

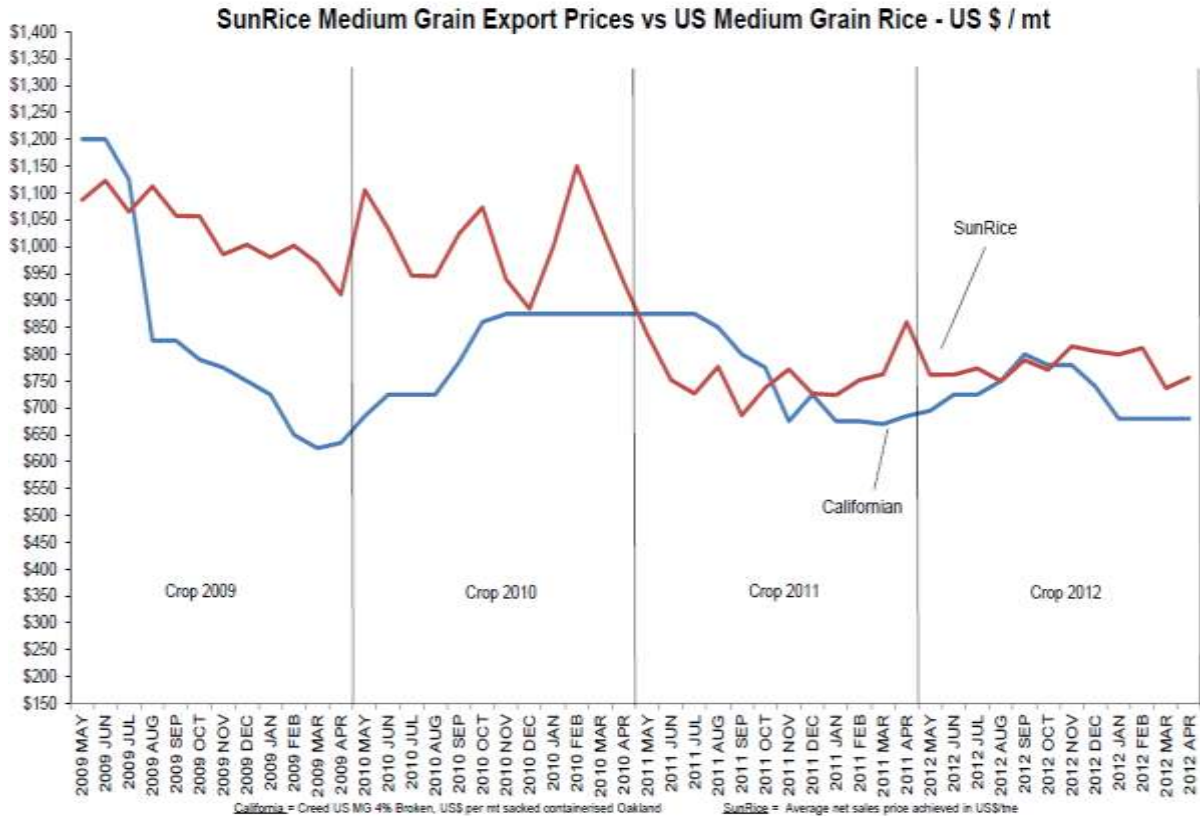
“The methodology adopted by SunRice to calculate the Export Price Premium is sound and the mathematical calculations are in all material respects appropriate.

However, given the subjectivity of the assessment, Management were required to use judgements and estimates, particularly with reference to picking suitable benchmarks in each market.”

This opinion concurs with the statements by RL on the difficulty in obtaining competitor pricing in certain markets. RMB is satisfied RL has demonstrated ‘best efforts’ in obtaining data.



- ii. The following graph displays the four year trend of the average FOB (Free on Board) price achieved by RL to relevant export markets (for AU finished product Rice exported) compared to the average FOB Creed price for the same period.



Note:

- the year refers to crop years IE 2009, 2010, 2011 & 2012 crops.
- the periods where Californian price exceeds RL's price reflect the drought-impacted supply of rice out of Australia.

- iii. Summary of trends or developments in key markets as reported by RL:

As was stated in the previous report, the restoration of market share in key markets continues as a result of production returning to pre-drought levels. A potential threat of note is the volatile political and security situation in the Middle East, and if the war in Syria affects neighbouring countries it poses a major risk factor to RL markets there. Also, Egyptian exports are forecast to continue in the Middle East, given a 4% increase in production over the previous year.



iv. Demonstration of Freight Scale Advantage to Rice Growers

An important additional benefit to the paddy price premium to growers is in the freight scale advantage obtained by RL through the operation of the SEEL. According to RL,

*"freight scale advantages arise due to the benefit of delivering scale volumes into export markets and therefore lower delivered costs for NSW rice into export markets."*¹

RL has provided a summary² of freight scale by region, detailing Total Ocean Freight Scale Advantage. Without the benefits of scale, this freight advantage would be significantly diluted or eliminated.

RL reported that a material freight scale benefit was achieved for the 2012/2013 financial year, based on the amount of finished product rice exported.

The RMB was provided with substantial supporting data. Given the commercial sensitivity of this data, it is not included in this report. Grant Thornton Corporate Finance Limited also undertook a review of the reported freight scale advantage achieved and passed on to rice growers. Grant Thornton reported the freight scale advantage calculations are based on informal and indicative high level estimates of the volume discounts provided by three shipping companies. They added that this is the only practical way of estimating the savings given smaller scale competitors rates are confidential.

v. Demonstration of the Advantages of Scale to Rice Growers

A component of the paddy price for rice grown in NSW and purchased by RL is derived from the degree of efficiency in rice-milling. RL has reported monthly to the RMB as to its capacity management. Current milling capacity (excluding the US milling operation) on a 24/7 basis is 1,175,000 tonnes.

The 2012 crop of 963,000 tonnes utilized 82% of RL's milling capacity.

2. Assessment of the ongoing delivery of other secondary benefits provided by the SEEL holder to NSW rice growers

- Demonstrated ability to respond to changes in conditions and continue to operate profitably.

¹ (pg 22, SEEL Annual Review Response, Sept.2013, Commercial in Confidence)

² (pg 23, Table 1, SEEL Annual Review Response, Sept.2013, Commercial in Confidence)



- RL successfully maintained business and infrastructure during the Millennium Drought, whilst remaining profitable
 - RL successfully managed extreme crop sizes, with paddy tonnes delivered ranging from 1.7 million in crop year 2001 to 19,000 in crop year 2008.
 - RL strategies enabled the successful re-commissioning of mills post drought to process larger rice crops
- Contribution to Research & Development
 - Collaboration continues with CSIRO, Universities and NSW DPI, amongst others, for product and process development research.
 - RL continues to provide significant funding for rice Research and Development and hosts a considerable part of this research, through its subsidiary, Rice Research Australia Pty Ltd
 - Buyer of Last Resort continues to be a condition of the Sole and Exclusive Export Licence agreement between RL and RMB, providing certainty for growers.
 - Demonstrated ability to successfully compete with imported, typically long grain rice, due to its brand strength.
 - RL continued its track record of good returns and certainty of sale (compared with winter crops)
 - Operated a transparent pool and regularly updating growers on price trends and payment dates.
 - Regularly exceeds pool price predictions, which occurred again with the 2012 crop.
 - RL provided financing of crops at competitive interest rates
 - RL does not profit from forward finance arrangements.
 - RL currently underwrites these financial arrangements.
 - Provision of rice storage.
 - Paddy storage is provided by RL through its subsidiary, Australian Grain Storage Ltd
 - Purity of seed through extensive quality assurance program.
 - RL operates a quality assured Pure Seed Program (reviewed by RMB in 2011/12) to supply registered seed for all commercial rice varieties to growers.



- Its subsidiary, Rice Research Australia Pty Ltd produces breeder's seed of all varieties for the Pure Seed Program.
- Strong brand presence
 - RL markets rice as a branded, value added product with a high level of customer service and sells into markets where RL is the sole or dominant seller, thereby commanding a premium price

3. Impact of changes in the availability of water

- a. RL's assessment, taking into account the implementation of the Murray-Darling Basin Plan (the Basin Plan), is that its current planning base of 800k tonnes can be sustained under the Basin Plan, but the matter of the timing of environmental watering flows; potential changes to water rules; and the water trading activities of the Commonwealth Environmental Water Office, remain key concerns. A welcome development however was the increasing amount of water being recovered by the Commonwealth through to investment in promoting water efficiency improvements.
- b. Higher than normal water allocations saw 2012/13 rice production reached 1.16 million tonnes from 113,500 hectares.
- c. RMB will continue to monitor the roll-out of the Basin Plan and its potential impact on rice production.

4. Market Position of SEEL holder

- a. RL's market share in its key markets continued to recover in 2012/13, reflecting the increase in production after the millennium drought, and this was evidenced by increased sales volumes in all its markets.
- b. Investment in brands and product innovation continues, evident in presence at major supermarkets and other retail outlets, with such brands as SunRice, Riviana, Always Fresh, and Coprice.

5. Financial Performance and Reporting of RL³

Overall, the financial statements reflect a continued strengthening in financial position over the 12 month period to 30 April 2013. RL had a strong trading year, and with a 2012 crop of 963,000 tonnes, moved out of drought recovery mode. Growers received \$317.34 per tonne for medium grain Reiziq (\$255 in the previous year) with overall consolidated profit lifting 5.5% to \$35.8 million.

³ Detailed information is contained in SunRice Annual Report April 2013 including audited Financial Statements



Income Statement

- a. Revenue from continuing operations again exceeded \$1 billion (\$1.068bn) this year, an increase of 6.8% on 2012 reflecting increased production and sales volumes.
- b. Expenses increased reflecting greater activity associated with increased volumes but also higher costs of material inputs.
- c. NPAT of \$35.8 million (\$33.9 million in 2012) with EPS (B class shareholders) of 57.9 cents per share (57.3 cents per share in 2012).
- d. Results by segment indicate all but one segment was profitable in 2012.
- e. Interest Cover improved to 5.8 times (4.1 times in 2012).
- f. Dividend Payout Ratio (dividends as a % of profit attributed to RL Shareholders) 40% (32% in 2012).

Balance Sheet

- a. Net Assets of \$314.3 million, an increase of \$21.4million.
- b. Retained earnings increased to \$174 million from \$152 million in 2011/12.
- c. Liquidity Ratio (current ratio + available debt) 1.8 (2.7 in 2012).
- d. Acid Ratio (cash + receivables + investments) over current liabilities - 0.3 (2012 0.1).
- e. Current Ratio (current assets to current liabilities) 1.7 (2012 1.9).
- f. Debt to Equity (external financing to all sources of capital) 61.0%, down from 65.9% in 2012.
- g. Return on Average Equity (NOPAT to average total equity) of 43%, (47% in 2012).
- h. Return on Average Assets (EBIT to average total assets) 8%, (10% in 2012).

Cash Flow

The RL group generated over \$124million in positive cashflow from operating activities, whilst continuing to reduce debt exposure.

Other relevant financial matters for the year to 30 April 2013

- a. Currency management is governed by board-approved policies. A statement of compliance with this policy is provided on an annual basis (15 July).
- b. During the 2013 financial year RL renegotiated its seasonal syndicated banking facility, reducing the seasonal debt facility by \$61 million. Bank Loan Covenants are calculated and tested every six months and are audited by RL's auditors. At 30 April 2013, RL complied with all its Bank Loan Covenants.



- c. Capacity to pay growers for paddy: syndicated seasonal borrowing facilities are negotiated on an annual basis to meet grower payments
- d. Capacity to pay debt, seasonality of debt, and interest cover: Ability to meet RL's financial commitments is tested six monthly. As noted above, all covenants met.
- e. Interest rate management: as for currency management, is governed by board policy, with statement of compliance provided annually (15 July).
- f. Capital Raisings. RL has not undertaken a capital raising during the year to 30 April 2013, and no capital raisings are planned for the immediate future.
- g. Fixed Asset Management. No capital investments greater than \$5 million were completed in the year to 30 April 2013. The following capital projects are currently underway:
 - SPP Plant Upgrade for CopRice of \$5.2 million.
 - Fumigation Infrastructure of \$9.2 million.

6. Changes in the members of the Board and senior management of RL

There have been no changes to the Board or Senior Management since the last report to rice growers.

7. Material impact or changes in competition from other agricultural products

RL monitors competition from other summer and winter crops on an annual basis and believes rice production is competitive with other crops and therefore its planning base is not jeopardized.

Conclusion

The Rice Marketing Board for the State of NSW continues to deliver against the objectives of the *Rice Marketing Act 1983*, to the benefit of all NSW rice growers.

The RMB is confident its administration of the SEEL, and the appointment of Ricegrowers Ltd to operate this licence, results in price premiums and secondary benefits to rice growers.

The RMB will continue to work with the NSW Government and all rice growers to monitor the benefits accruing from the current arrangements.

