



The Rice Marketing Board

FOR THE STATE OF
NEW SOUTH WALES

**3rd Annual Report to NSW Rice Growers
October 2014**

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 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.

This report covers the period from October 2013 (the date of the previous report) to October 2014.

Section A

RMB Performance Measured 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 9 licensed Authorised Buyers.
- II. 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' Licence Agreement.
- III. The RMB recently redrafted, thereby streamlining its annual Authorised Buyer's licence renewal forms.

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

Again this year the RMB has commissioned a report which has independently verified the export price premium as calculated by the SEEL holder Ricegrowers Limited ("RL"). On the basis of the information provided by RL, the independent verification report and its own observations, the RMB has concluded that RL, and the single desk arrangements, continue to provide substantial benefits to NSW 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) branch meetings.
- b. Sponsorship of, and attendance at, the RGA Annual Conference.
- c. Provision of the RMB Annual Report and its availability on the website.
- d. Communication with the President and Executive Director of the RGA on issues relevant to the industry.
- e. Being available to all growers, through its sole employee, the Board Secretary.

Section B

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

Independent Verification Report of the 2013-14 Export Price Premium

Grant Thornton Australia performed an independent review of the export price premium. Based on the findings of this review, and its own monthly review of RL's operational and financial results and position, RMB finds that RL as the holder of the SEEL, continues to deliver substantial benefits to NSW rice growers.

RMB can also confirm the existence of other substantial benefits to growers as a result of RL holding the SEEL.

Assessment Period:

- I. Rice sales 2013-14;
- II. Financial reporting of RL for the period 1 May 2013 to 30 April 2014

Findings

- Export price premium delivered to growers of \$95.2 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 three crop years (see graph on page 5).
- Positive trends generally in key markets and market share
- Paddy price premium includes efficiency scale advantage
- Freight scale advantage of \$18.5 million delivered to growers, in addition to the export price premium.
- RL delivers other substantial benefits to growers e.g. ability to respond to changes in market conditions, product research and development, buyer of



last resort, history of reliable sales and payments, crop finance, rice crop insurance, and provision of storage and purity of seed.

- Sound financial performance of RL, including:
 - o Revenues of \$1.15 billion (up 7.7% on 2013)
 - o NPAT (Net Profit After Tax) of \$33.5 million (down 6.4% on 2013)
 - o Debt to equity 42.6% (down from 61% in 2013)

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 2013-14 year.

Ricegrowers Limited (RL), as the current holder of the SEEL, reported the delivery of an **export price premium of \$95.2 million** for the 2013/2014 year.

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

The premium is calculated as the difference between the average local RL sale price, less the average weighted local competitor sale price, multiplied by the volume sold.

The reported 2013-14 export price premium has increased significantly from the 2012/13 premium of \$65.9 million, and equates to a premium of \$82 per tonne based on 2012/13 rice crop production of 1,161,000 tonnes. Grant Thornton stated in its verification report of 1 August 2014 that the increase:

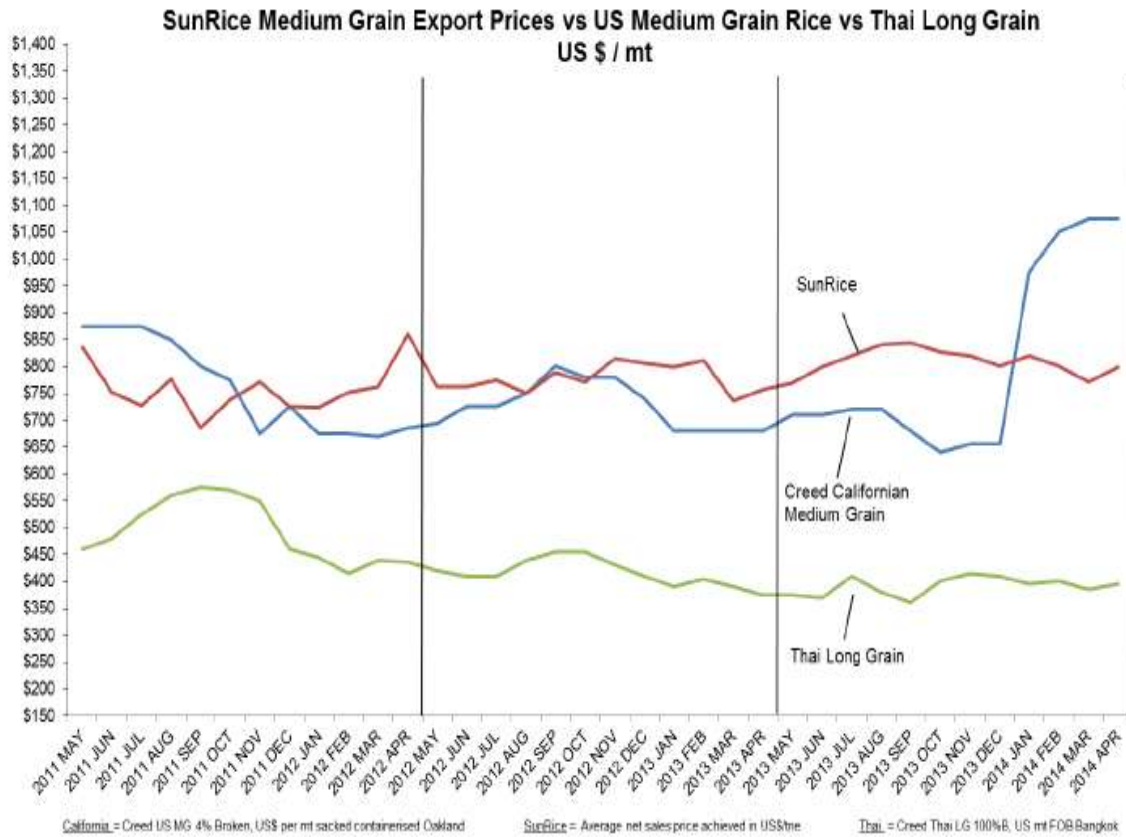
“was due in part to an oversupply of Thai Long Grain rice, reducing competitor price benchmark in the Pacific Majors market by approximately \$32.5 million. This is expected to be a temporary price differential which will reverse over the short to medium term. We note that this premium is only due to the fall in competitor pricing rather than an increase in prices.”¹

The RMB agrees with Grant Thornton’s assessment that the oversupply situation in Thailand may be temporary and may therefore reverse in the short to medium term. However, the remaining premium, after subtracting this abnormal benefit, is still \$62.7 million (\$54 per tonne).

¹ (pg 8, Grant Thornton Australia, 2014 Verification Report, Commercial in Confidence)



- ii. The following graph displays the three year trend of the average FOB (Free on Board) price achieved by RL in export markets (for AU Rice exported) compared to the average FOB Creed price.



Note:

- the recent period where the Californian price exceeds RL's price reflects the sharp increase in US medium grain asking prices as a result of the Californian drought and the anticipated restricted future paddy supply.

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

Rice sales into key export markets during the 2013-14 year have continued to consolidate RL's market position. In the Pacific, due to its historical strength, RL continues to be the dominant market player, and holds a large share of the market. It competes against Chinese and Vietnamese short grain varieties.

Unfortunately, due to quality issues brought about by seasonal conditions in 2013, RL was unable to fully participate in some global tenders and Country Specific Quotas.



iv. Demonstration of Freight Scale Advantage to Rice Growers

Freight scale advantages arise due to the benefit of delivering larger volumes into export markets thereby lowering delivery costs for NSW rice into export markets. These benefits provide a further advantage against international competitors and would not be available in the absence of the scale delivered under the SEEL arrangement.

RL has provided a summary² of freight scale by region, detailing a total freight scale advantage of \$18.5 million. If volumes by RL (or other exporters) were lowered as a result of other exporter participation, the scale advantage that is passed back to growers would be significantly reduced.

The calculation by RL of the freight scale advantage is based on informal and indicative high level estimates of the volume discounts provided by 3 shipping companies, and is not based on a specific analysis of actual discounts received. Grant Thornton stated in its verification report of 1 August 2014 that:

“this is the only practical way of estimating the savings given smaller scale competitor rates are confidential³”.

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 continues to report monthly to the RMB on its milling capacity management. Current milling capacity (excluding the US milling operation) on a 24/7 basis is 1,175,000 tonnes.

The 2013 crop of 1,161,000 tonnes would have utilized 99% of RL’s milling capacity if all milled in the 2013-14 year. However, because of the smaller crop in 2014 of 825,000 tonnes, RL has carried 2013 crop over into the 2014-15 year. As a result milling capacity utilization over the 2 years is 85%. .

² (pg 16, Table 1 , Ricegrowers Ltd, SEEL Annual Review Response, Sept.2014, Commercial in Confidence)

³ (pg9, Grant Thornton Australia, 2014 Verification Report, Commercial in Confidence)



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.
 - RL successfully maintained business and infrastructure during the Millennium Drought, whilst remaining profitable, ensuring processing capacity was available to meet increased production post drought.
 - 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 and 1.16 million tonnes in crop year 2013.
 - 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 and RIRDC, 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
- Being the 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 in the retail channel, RL is able to compete against private labels and command a substantial shelf premium.
- RL continued its track record of good returns and certainty of sale
 - It operates a transparent pool and regularly updates growers on price trends and payment dates.
 - It drove improved grower outcomes even though the 2013 crop resulted in dramatically lower milling yields.



- RL provided financing of crops at competitive interest rates
 - RL does not profit from forward finance arrangements as happens in other industries and it currently underwrites these financial arrangements.
- Provision of rice storage.
 - Paddy storage is provided by RL through its subsidiary, Australian Grain Storage Ltd
- Pure Seed production and supply to rice growers.
 - 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.
- Strength of products and related brands to drive ongoing demand
 - RL provides consistent above and below-the-line support to its branded products to command the premiums achieved in the market. All RL's consumer sales are branded.

3. Impact of changes in the availability of water

- a. As a result of water entitlement purchases under the Murray Darling Basin Plan, 27 percent of entitlement in the rice growing region serviced by Murray Irrigation Limited is, at the date of this report held by the Commonwealth Water Entitlement Holder. Lower but significant purchases of entitlement have been acquired in the rice growing regions serviced by Murrumbidgee Irrigation Limited and Coleambally Irrigation Cooperative Limited. While the focus of the Murray Darling Basin Plan has now switched to acquiring water through investment in water savings on-farm and in-system, further water entitlement purchases will be made by the Commonwealth.
- b. RL has stated that reduced water availability is having an impact on rice production, and is therefore focusing on a range of initiatives to make rice production as competitive as possible and encourage Riverina irrigators to make rice their first choice summer crop.



- c. RL analysis indicates average crop size should remain at the long term average production of 800,000 tonnes. RL has demand across the market segments for 950,000 tonnes of paddy production and has encouraged growers to make rice their first choice crop when deciding how to use their available water.

4. Market Position of SEEL holder

- a. RL's market share in its key markets continued to consolidate in 2013/14
- b. Investment in brands and product innovation continues, evident in their presence at major supermarkets and other retail outlets, with such brands as SunRice, Riviana, Always Fresh, and Coprice.

5. Financial Performance and Reporting of RL⁴

Overall, the RL financial statements reflect a continued strengthening in financial position over the 12 month period to 30 April 2014. It had a strong trading year, milling and marketing the 2013 crop of 1,161,000 tonnes. Growers received \$293.61 per tonne for medium grain Reiziq (\$317.34 in the previous year) with overall consolidated profit falling 6.4% to \$33.5 million.

Income Statement

- a. Revenue from continuing operations totalled \$1.15 billion this year, an increase of 7.7% on 2013 reflecting increased growth in RL's value added product ranges and continuing growth by CopRice and its global rice milling and marketing businesses.
- b. Expenses increased reflecting greater activity associated with increased volumes.
- c. NPAT of \$33.5 million (\$35.8 million in 2013) with EPS (B class shareholders) of 53.3 cents per share (57.9 cents per share in 2013).
- d. Results by segment indicate all segments were profitable in 2014.
- e. Interest Cover fell to 4.5 times (5.8 times in 2013).
- f. Dividend Payout Ratio (dividends as a % of profit attributed to RL Shareholders) increased to 43% (40% in 2013).

Balance Sheet

- a. Net Assets of \$324 million, an increase of \$9.7 million.
- b. Retained earnings increased to \$191 million from \$174 million in 2013.
- c. Liquidity Ratio (current ratio + available debt) increased to 2.3 (1.8 in 2013).

⁴ Detailed information is contained in SunRice Annual Report April 2014 including audited Financial Statements



- d. Acid Ratio (cash + receivables + investments, divided by current liabilities) reduced to 0.2 (0.3 in 2013).
- e. Current Ratio (current assets to current liabilities) remained at 1.7 (1.7 in 2013).
- f. Debt to Equity (external financing to all sources of capital) 42.6%, down from 61% in 2013.
- g. Return on Average Equity (NOPAT to average total equity) 41%, down from 43% in 2013.
- h. Return on Average Assets (EBIT to average total assets) 8%, (8% in 2013).

Cash Flow

RL's net cash reduced by \$72 million during the year to 30 April 2014. This was, however, after repayment of net debt of \$119 million.

Other relevant financial matters for the year to 30 April 2014

- a. RL's currency exposures are managed under its Treasury policy. The company is compliant with the requirements of the policy.
- b. During the 2014 financial year RL renegotiated its seasonal syndicated banking facility, increasing the seasonal debt facility by \$10 million. As an integral part of the annual facility negotiations with the banks, RL's ability to meet its obligations is tested rigorously and is reviewed every six months. All bank loan covenants have been met by RL.
- 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 of RL to meet financial commitments is tested six monthly. As noted above, all bank loan covenants have been met.
- e. Interest rate exposures are managed under RL's Treasury policy. RL is compliant with the requirements of the policy.
- f. Capital Raisings. RL has not undertaken a capital raising during the year to 30 April 2014, and no capital raisings are planned for the immediate future.
- g. Fixed Asset Management. Capital investments by RL during 2013-14 totalled \$32 million. The following capital projects are currently underway:
 - 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 of Directors since the last report to rice growers.

John Brennan, the new Chief Finance Officer commenced in September 2014. He replaced Brad Hingle who resigned effective in December 2013. Emmanuel Zammit was interim CFO.

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

RL monitors competition from other summer and winter crops on an annual basis. It recently engaged agricultural consultants to carry out a financial analysis of southern NSW irrigated crop options. The analysis showed that the rice farming system generates higher profit and return on capital than other options for the majority of southern NSW irrigators.

RL believes that rice production will continue to receive support from producers in southern NSW.

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 both export price premiums and substantial 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.

