

# ARC Full Year Results Presentation

14 August 2018



**AUSTRALIAN  
RURAL CAPITAL**

## 2018 Full Year Results

- Net Profit after Tax of \$1.28m
- Driven by the value uplift in Namoi Cotton investment
- Operating costs and business development costs remain under control and similar to previous year
- NTA is 60 cents per share versus 49 cents at June 30, 2017 (+22%)
- No debt and current cash position of approximately \$645K
- Market Capitalisation (including listed options) above \$10m

# Namoi Cotton Investment

- Current Holding is 13.47m shares
- Strategic Stake of 9.52 % of issued shares
- Namoi Cotton full year net profit of \$6.8m to Feb 2018
- Positive operating cashflows of \$17.3m driven by ginning and cotton seed operations
- NTA is remains above \$1 per share of hard assets
- ARC received a dividend of 1.9 cents per share totalling \$255K in July
- Guidance for Feb 2019 result is for operating cashflows to improve to between \$18m and \$23m driven by 2018 season volumes and margins
- Board is now carrying out a strategic review of the optimisation of the gining business and over all business model
- James Jackson, Executive Chairman of ARC, appointed to the Namoi Cotton Board in June and elected by shareholders at the July 2018 AGM
- Outlook for 2019 season is for a smaller cotton crop as current dry conditions and low water storage levels will reduce volumes across the entire operation, unless a significant rainfall event was to eventuate prior to the close of the cotton planting window in late October
- The challenge and opportunity for Namoi Cotton is to further develop the business model to mitigate volume and earnings volatility whilst maintaining the current service offering to existing suppliers.
- We remain very positive on the demand for Australian cotton and the growth in demand for natural fibres and the potential for the expansion of the industry in Australia.

# ARC Agrivest and Funds Management Business Development



- 45 meetings conducted in period March to May 2018 seeking to raise \$42m for a listed Agricultural Investment Company to be managed by ARC.
- Further meetings and discussions ongoing
- Unsuccessful in this first round in reaching the required \$30m minimum which the placement agents required.
- Identified that the unlisted structure is preferred by larger investors, including family offices and small institutions
- Strong interest in the investment theme, investment approach by ARC and our team.

## The path forward for this business development opportunity



- Source individual opportunities and seek to fund these with larger investors in an unlisted structure managed by ARC, initially on a transaction by transaction basis
- Keep the unlisted public company structure of ARC Agrivest Limited for future use with more retail investors and maintain the use of the Investment Advisory Committee established.
- ARC will now be retaining the full ownership of the Namoi Cotton investment, having considered the above developments and the direct representation that ARC now has on the Namoi Cotton board.

## The Cattle Market and Financing

- Drought condition in Eastern Australia have created a surplus of all classes of cattle pushing values lower, the benchmark ETCl index now stands at 467 cents/kg, having peaked at 750 cents/kg in late 2016.
- We have been waiting for these price levels of under 500 cents/kg to appear and now are very positive on the price outlook for cattle and beef prices.
- When the current drought conditions break we expect an explosive recovery in cattle values and we remain positive on the medium term outlook for beef in the quality protein market.
- We are focussing our investment search on natural production systems and supply chain opportunities.
- This includes work on a considerable opportunity to provide working capital and livestock finance in the sector.

## Plant Based Proteins

- Continued consumer demand for non animal sources of protein and the growth in Indian and other ASEAN economies bodes well for the chickpea, lentil, mung bean business alongside almonds.
- We are working on an Almond development opportunity, which we believe has compelling long term investment prospects and credentials.
- Capital intensive industry with long lead times to positive cashflow, however once in full production, the returns are amongst the highest per megalitres of water used from the Murray Darling Basis.
- Overtime we expect more high security water and suitable soil types to convert to almond production in the Murrumbidgee and Murray River irrigation regions.

## Grain Prices and the impact on Feed Costs

- Feed wheat prices well above \$400 per tonne, (all time high prices)
- Cotton seed trading at \$500 per tonne
- Grain and fodder supply shortages will significantly impact production costs across dairy, pork, chicken, egg and grain fed cattle enterprises from now as most users had hedged costs until August/September
- Significant readjustment of production volumes anticipated.
- This type of cyclical industry action potentially creating investment opportunities at reasonable entry levels.



## Mackay Sugar Project

- Significant Queensland Sugar milling co-operative, 6 million tonnes of crushing capacity.
- Requires equity capital injection to restore balance sheet and fund capex
- ARC has done a significant amount of work on a potential recapitalisation , based on the full corporatisation of the structure
- ARC has solid industry knowledge, experience and network
- Deep value counter cyclical play, as sugar prices are currently below cost of production due to global surplus of raw sugar.
- Valuable refined sugar and branded product investment and biomass based renewable assets within the structure.
- Still seeking a capital partner for this project

## Summary

- Solid profit, good cash levels, no debt
- Namoi Cotton investment performing, more value to unlock
- Funds management opportunity advanced, will now progress on a deal by deal basis
- Cattle market offering good opportunities
- Rural property market may have peaked and vendors now becoming more reasonable
- Thank you shareholders for your enduring patience and support.

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