



# Rice Industry Field Day

## Global Market and Strategy Update

**Rob Gordon - Chief Executive Officer**

Thursday 15 March 2018



# Global Outlook

- Global Market
- California Developments
- Global Stockpiles
- Foreign Exchange
- Rice Remains Attractive

# Pure, Premium & Sustainable

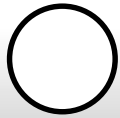
- Resilience Proved
- Five-Year Strategy
- Vietnam Developments
- Profit Businesses Success
- Attracting Customers & Facilitating Growers
- Summary



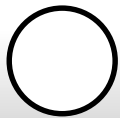
# Pricing Indicators



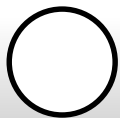
World Rice Prices



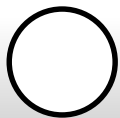
Foreign Exchange



Milling Yields



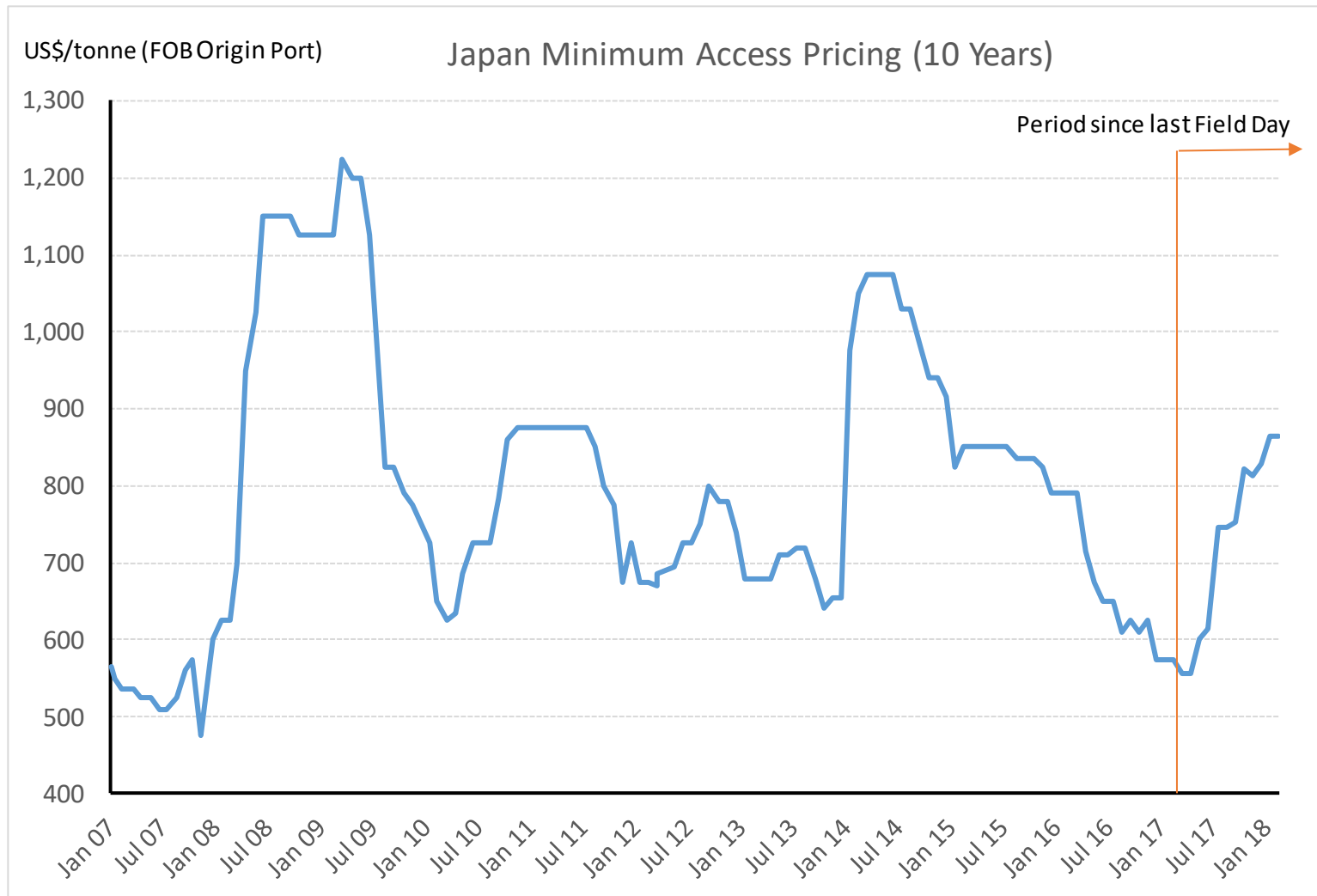
Crop Size



Branded Markets Smooth Pricing



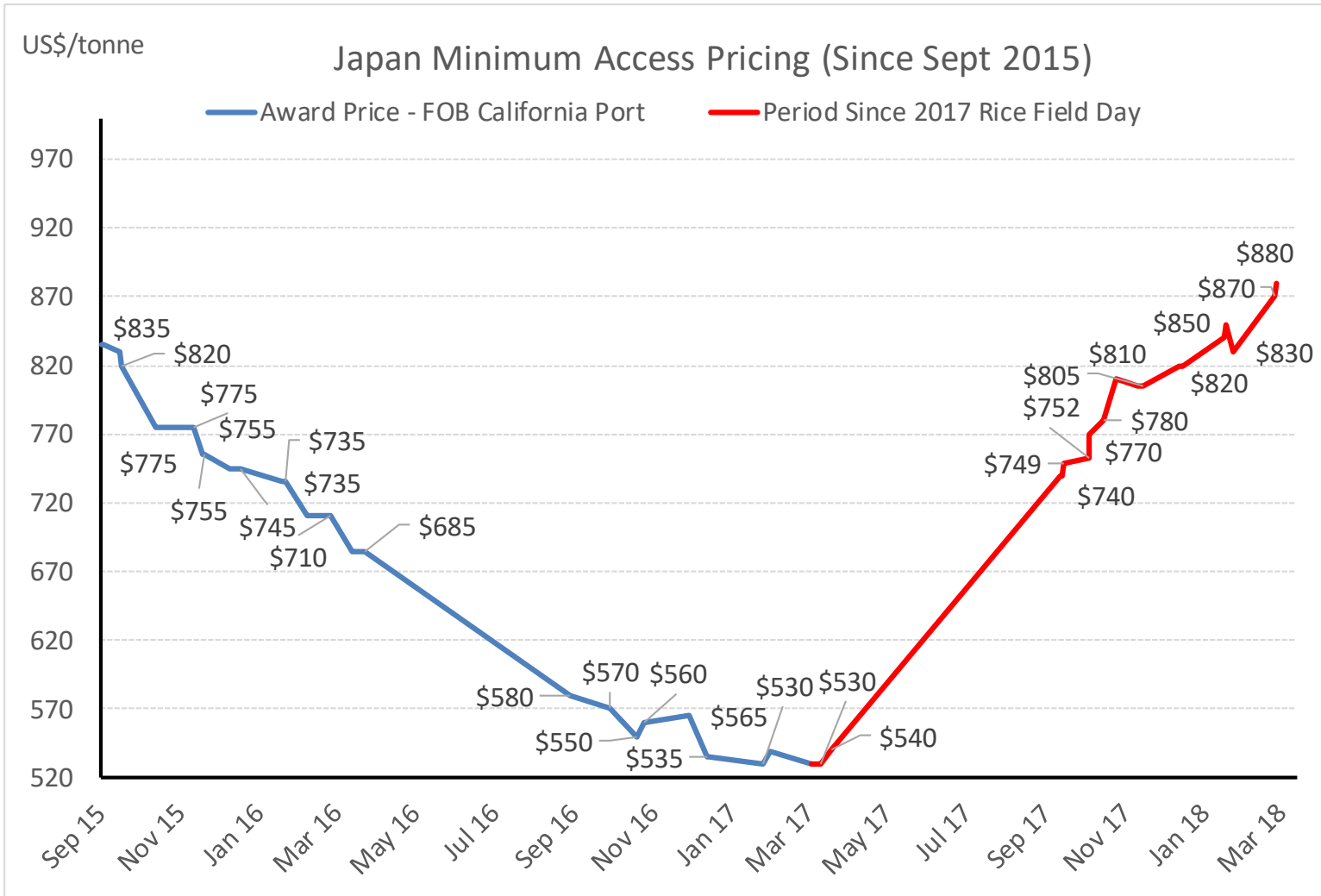
# Medium Grain Prices: Tender Markets



Source: Creed Report



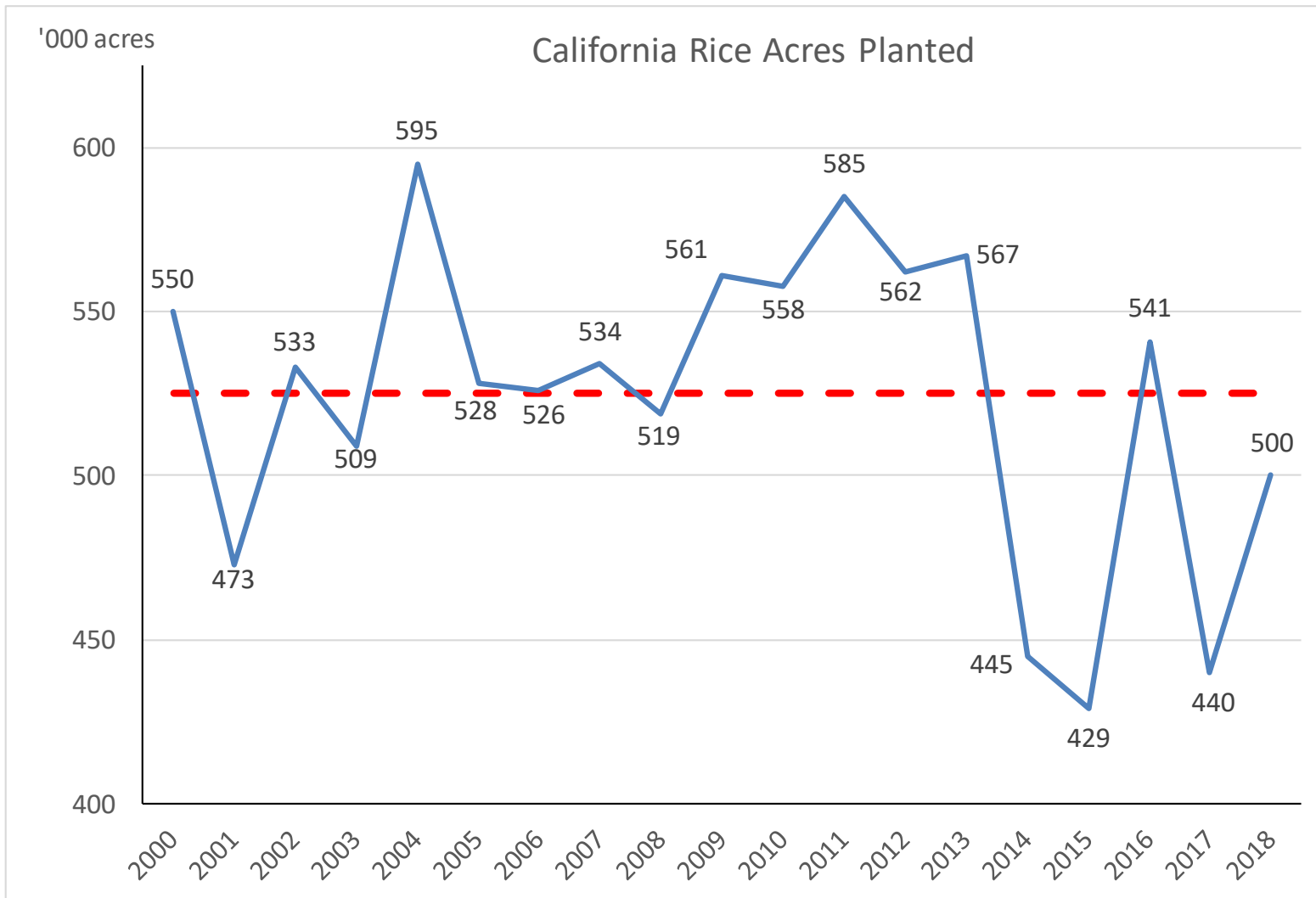
# Medium Grain Prices: Tender Markets



Source: Creed Report



# California Annual Plantings



Source: SunRice





## California: Conditions for our major competitor

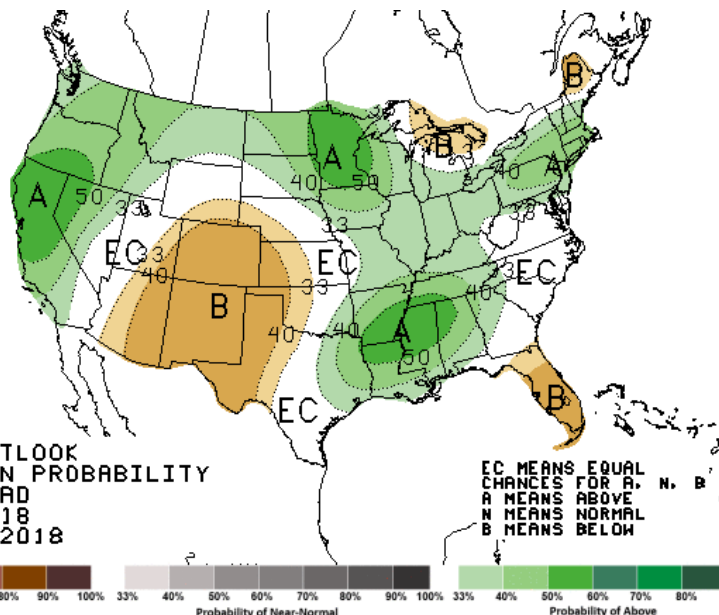
- Following drought, gap emerged between the C16 crop and lower than expected plantings: late harvest in C17 caused short supply
  - Millers chased volume by dropping price in most markets in C16
- Californian exports forecast to be 24% lower than last year
  - Few export sales beyond core Northeast Asian and Canadian markets
  - Smallest export volume since West Coast port strikes in 2014/15
- From 30-year highs in 2017, US Medium and Short Grain stockpiles have now declined by 19% to 9.3 million tonnes
  - Anticipated that California stockpiles of medium grain could be almost fully depleted by end of the US current crop year (around September 2018)
- California prices have been steadily rising since March 2017
- We expect Japanese tender prices will remain above US\$800/tonne until new US crop supply becomes available in October 2018



# California: Unfavourable Water Conditions Developing

Data as of 11:59:59 PM on Mar 4, 2018

Sacramento Region Summary			
Precip: 8-Station Index			
Season to Date	65%	% Avg year	46%
Northern Sierra Snow Water Content			
% to Date	30%	% Apr 1	28%
Reservoir Storage			
Reservoir	%Hist.Avg.	%Capacity	*Enrch
Shasta	102%	76%	-888
Oroville	59%	42%	-1617
New Bullards	122%	80%	-20
Folsom	96%	54%	-109

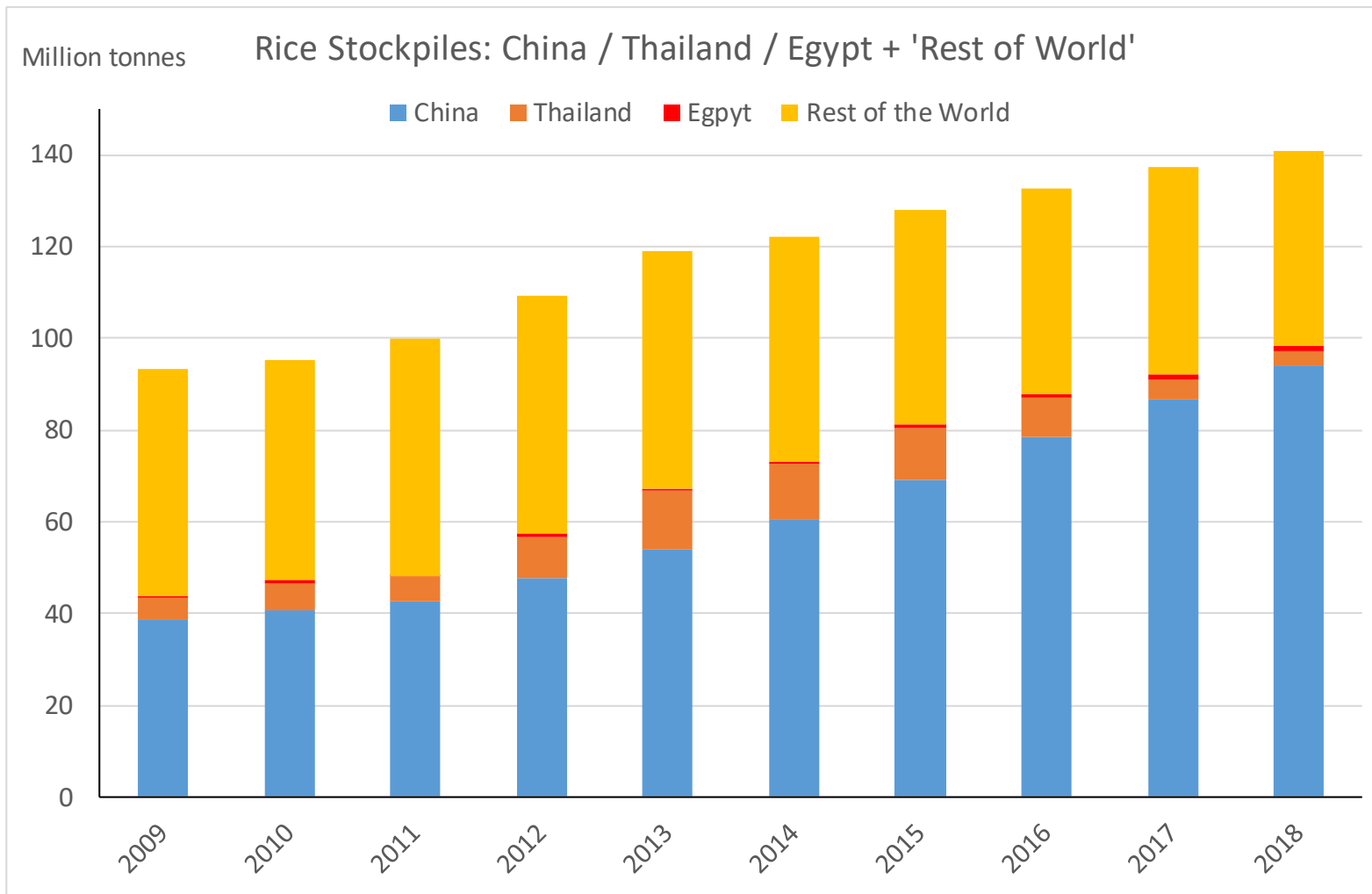


- Water storage continues to show above average due to the 2016/17 record water year
- YTD 2017/18 water accumulation 65% of normal
- Accumulation potential diminishing for balance of the water year
  - Snow water content is at 30% of average
  - Next month's rainfall will be crucial
- Water situation could negatively impact size of the 2018 Californian rice crop





# Global Stockpiles still High



Source: USDA



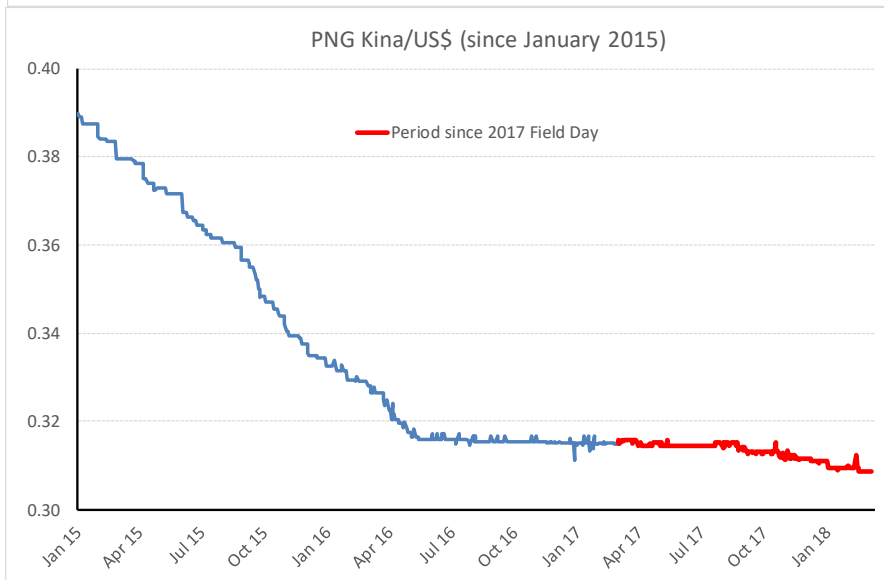
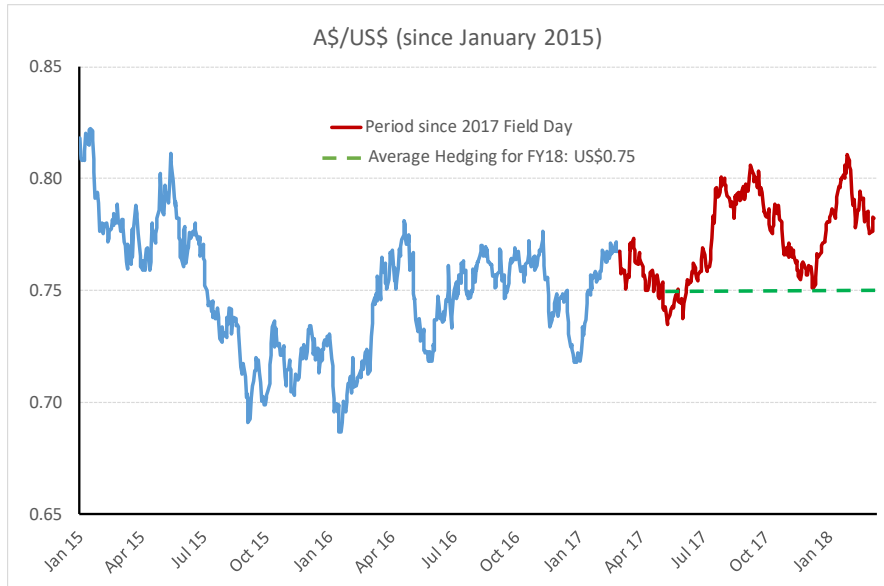
## Large Stockpiles being Unwound in China & Egypt

- As a result of high floor prices for domestic farmers, China has a stockpile of 94 million tonnes, which accounts for 67% of overall global stockpiles
- China is now unwinding this stockpile, especially into lower returning markets, especially in Asia, Africa and the Pacific
- China's exports almost tripled in 2017 and are expected to increase a further 36% in 2018 (the highest level since 2003)
- Egypt is also taking steps to unwind growing stockpiles, lifting restrictions on exports and imposing tariffs on imports
- Thailand has unwound stockpiles to current levels around 3 million tonnes from over 11 million tonnes in 2015
- Typical trend would be for prices to soften as stockpile levels are unwound

**SunRice strategy of selling premium Riverina rice into high returning markets and sourcing rice beyond Australia to satisfy demand in lower returning markets assists in insulating Australian growers from cyclical price trends**



# Foreign Exchange Movements – A\$/US\$

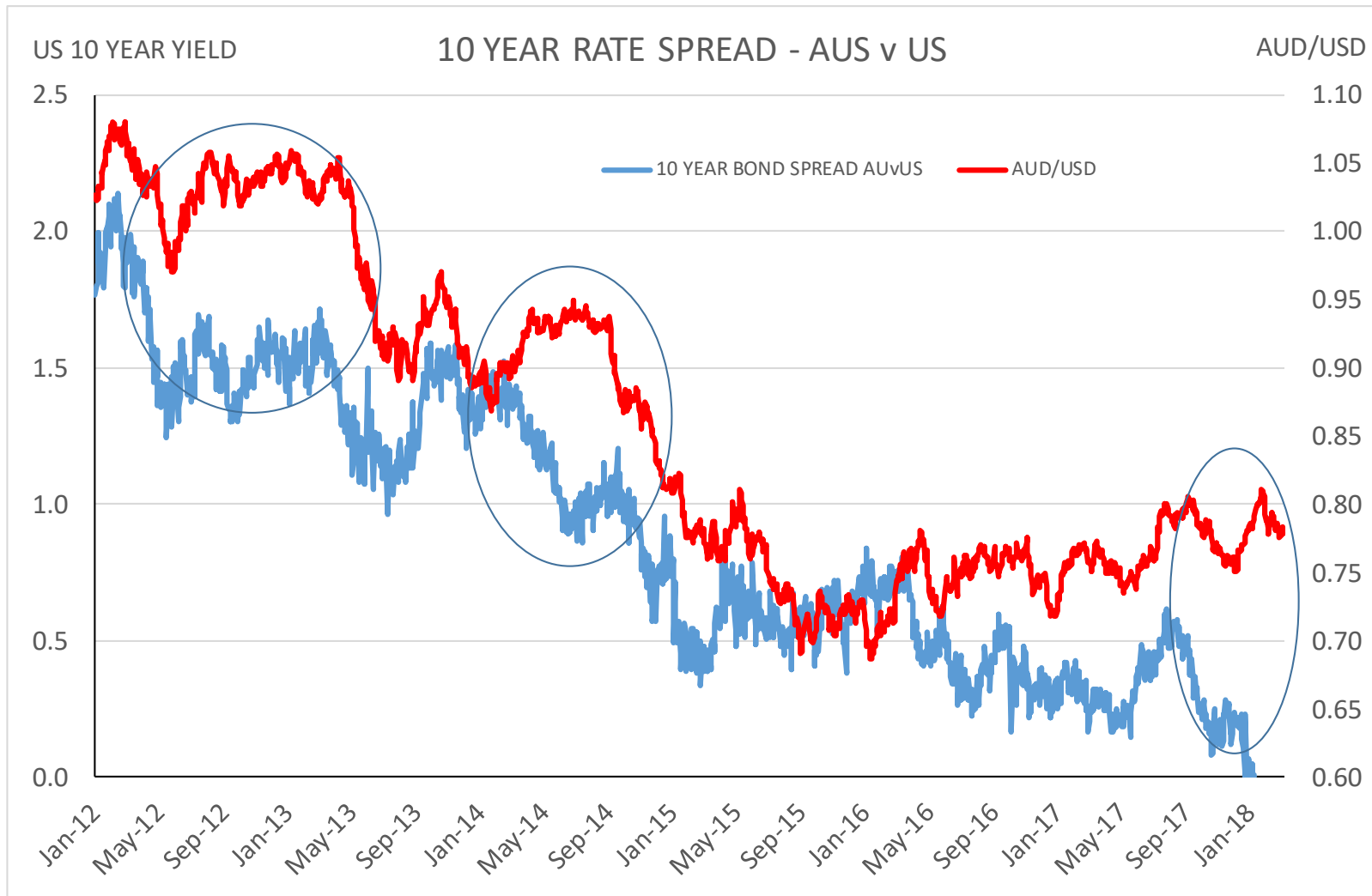


- Stronger A\$/US\$ exchange rate is unfavourable for international rice sales
- SunRice was hedged at average of US\$0.75 for FY18
- SunRice's rice price sensitivity to exchange rate fluctuations: US\$0.01 movement equates to A\$13/tonne
- Most senior US central bankers expect at least three interest rate increases in the US during 2018
- Majority of our banking syndicate are presently forecasting A\$ to depreciate over 2018
- PNG Kina depreciation has continued, albeit at a slower rate over the past year

**Strategy of sourcing rice beyond Australia to satisfy demand in lower returning, and often volatile, markets reduces exposure for Australian growers**



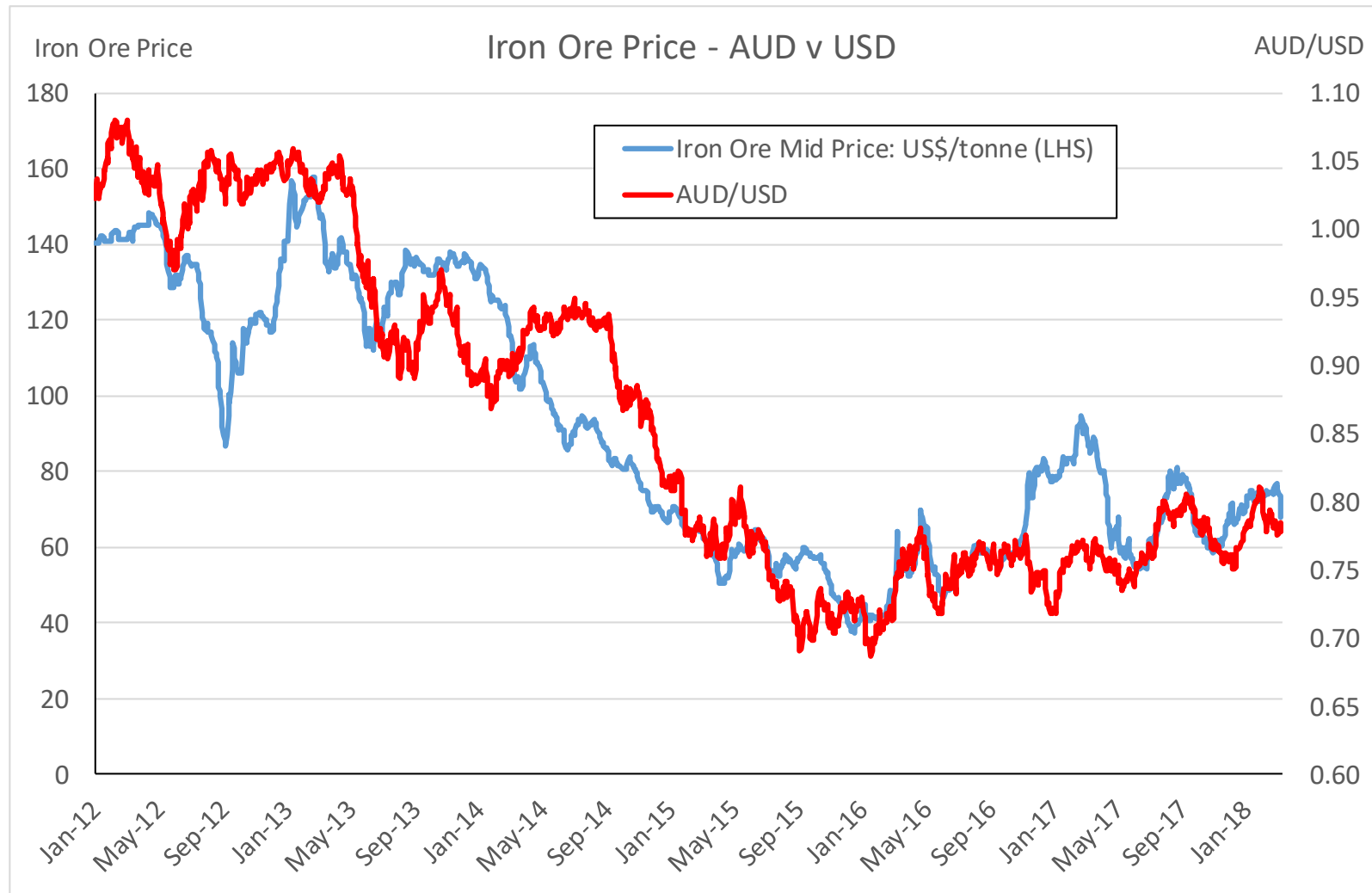
# Is the A\$ Set to Depreciate?



Source: Bloomberg



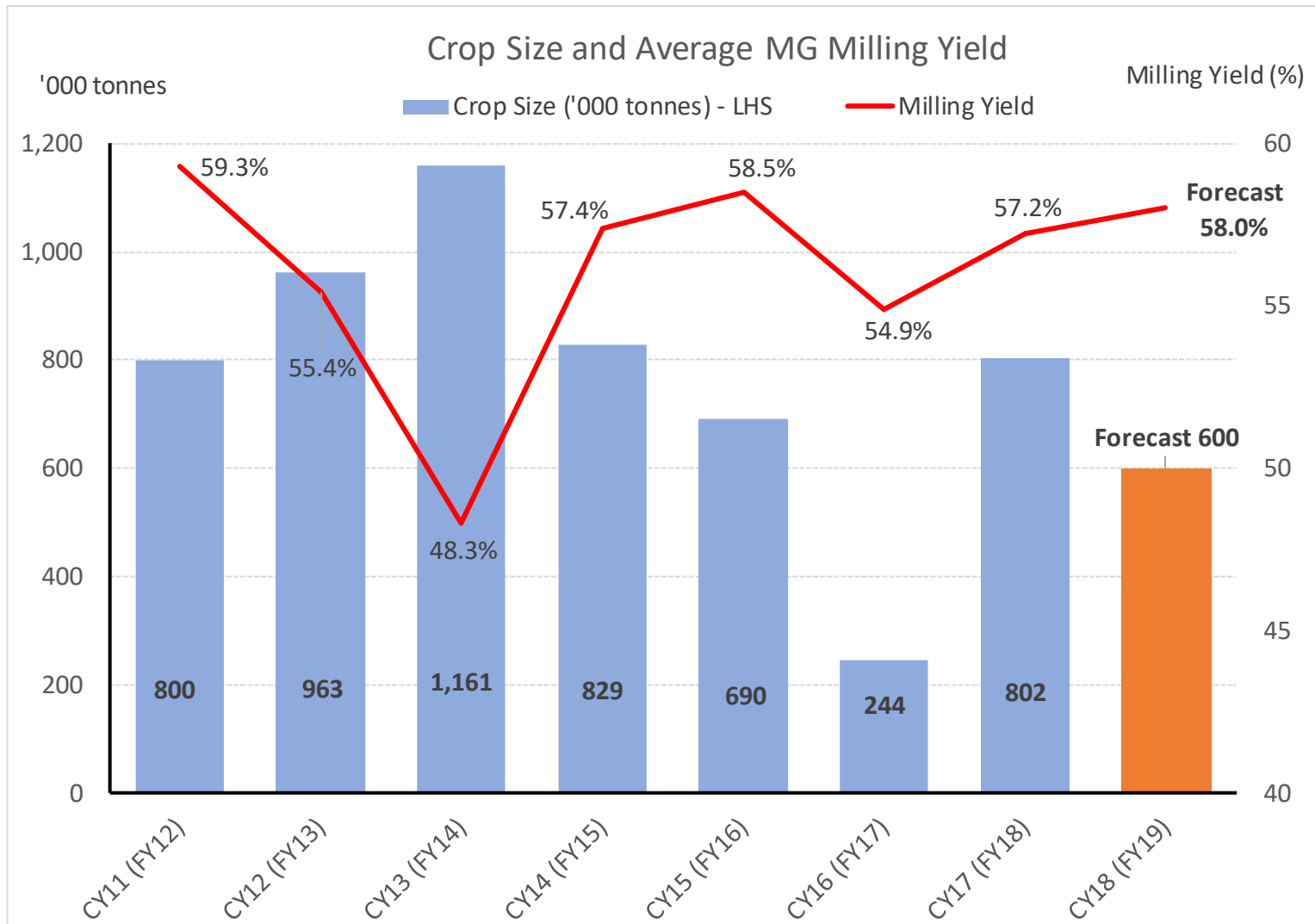
# Iron Ore Pricing versus AUD/USD



Source: Bloomberg



# Crop Size and Milling Yield



Source: SunRice





# Pricing Indicators: On Balance Positive



World Rice Prices



Foreign Exchange



Milling Yields



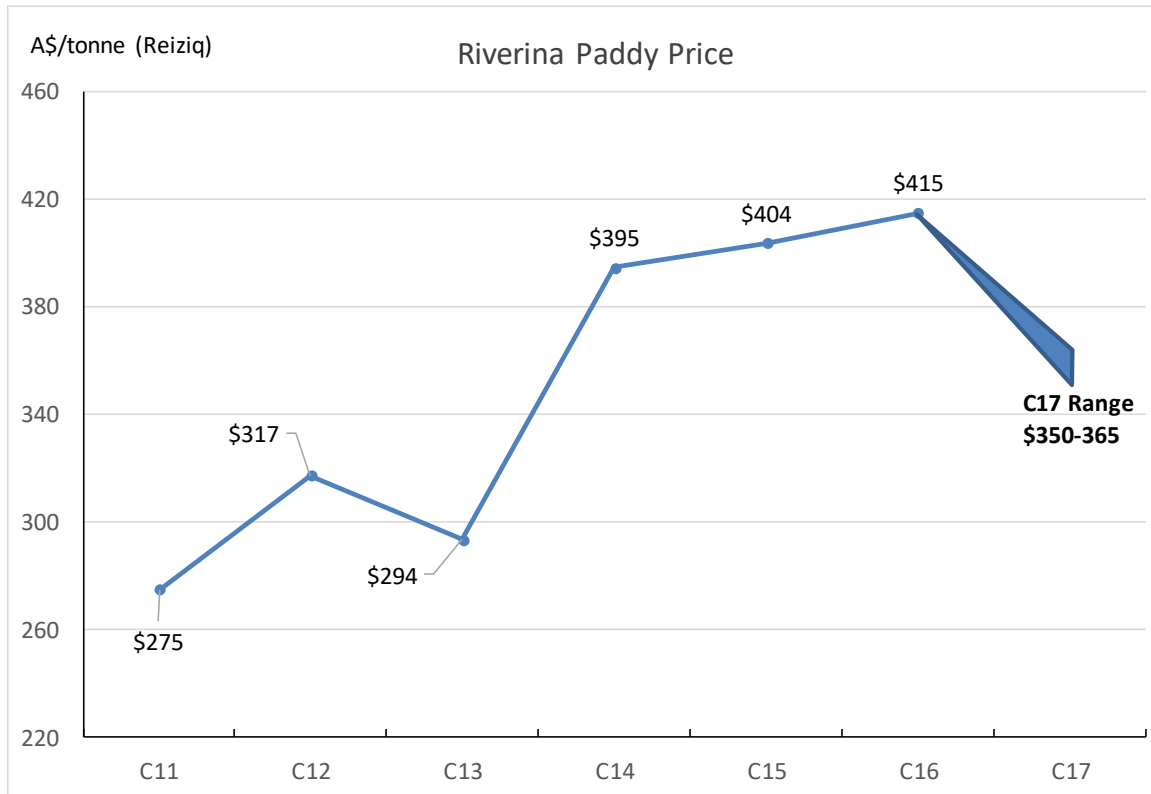
Crop Size



Branded Markets & Sale of Premium Varieties  
Ensure Stronger Pricing



# SunRice Provides Reliable Paddy Price Indicators



- SunRice has developed a consistent track record of providing growers with reliable price range indicators and guidance
- Regular adjustments to price range guidance are communicated to growers depending on market and trading conditions
- Base of the C17 paddy price range has increased by \$50/tonne over the past six months
  - now \$350-365/tonne



# Rice Remains an Attractive Prospect for C19

- SunRice has demonstrated the insulating power that our brands and international trading activities provide against
  - Price cycles
  - Increasing competition in lower returning markets
  - Exchange rate volatility in certain markets
- For previous crops SunRice has provided an opportunity for growers to minimize risk by offering fixed price contracts for certain premium varieties – this practice was well received and will continue in C19
  - Growers can plan for both winter and summer crop rotations, given certainty on pricing for particular rice varieties (in some cases 23 months in advance)
- Base of the C17 paddy price range has increased by \$50/tonne over the past six months (now \$350-365/tonne)
- C18 paddy price outlook and fixed price contracts for specialty varieties will be announced after March board meeting

**Having demonstrated resilience during the cyclical downturn, SunRice is now poised to take advantage of demand in high returning markets for our premium Australian rice**



# Pure, Premium & Sustainable

- Resilience Proved
- Five-Year Strategy
- Vietnam Developments
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# Resilience Proved: Focus returns to Expansion

- Over the past five years, SunRice's strategy to expand the business has succeeded in:
  - Improving financial performance, with turnover now well exceeding A\$1 billion;
  - Building a resilient business to weather cyclical downturns;
  - Increasing grower returns: paddy prices A\$350-\$415/tonne;
  - Increasing shareholder returns: dividend yield of ~8% per annum
  - Diversifying our source of supply from beyond the Riverina; and
  - Increasing demand for SunRice product: in FY19 (C18) anticipated at between 1.4-1.5 million paddy tonnes.
- There is an excellent foundation for further growth of the business
  - Taking advantage of global trends
  - Leveraging SunRice's distinct competitive advantages



# Five-year Strategy: Pure, Premium & Sustainable

- Our five-year strategy identifies where these growth opportunities exist and outlines what we need to do to maximise the benefits

- Three overarching themes to the refreshed strategy:

## 1. The **provenance** of Australian rice

Riverina growers to focus on growing premium, high-value varieties (such as Medium Grain, Low GI, Opus and Koshihikari) to meet increasing demand for quality, 'clean and green', healthy products

## 2. Utilising our various **sustainable global supply chains** to respond to increased demand

Lower returning and more volatile markets will be supplied with affordable yet high-quality rice grown outside of Australia

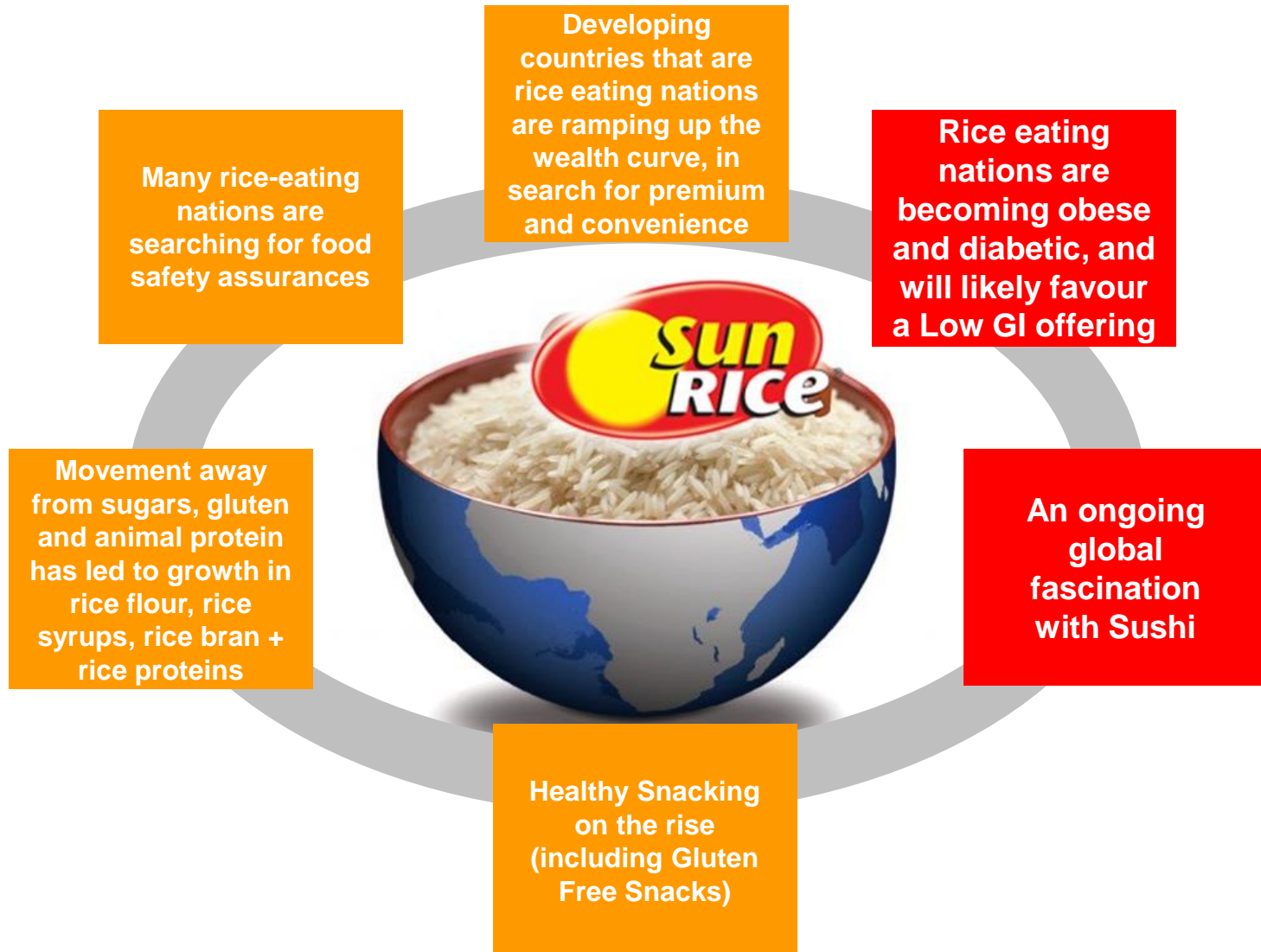
## 3. Matching **global food trends** from our diversified product portfolio.





# Fortunately, being an Australian-owned branded rice player today is exciting given that the world is changing in our favour

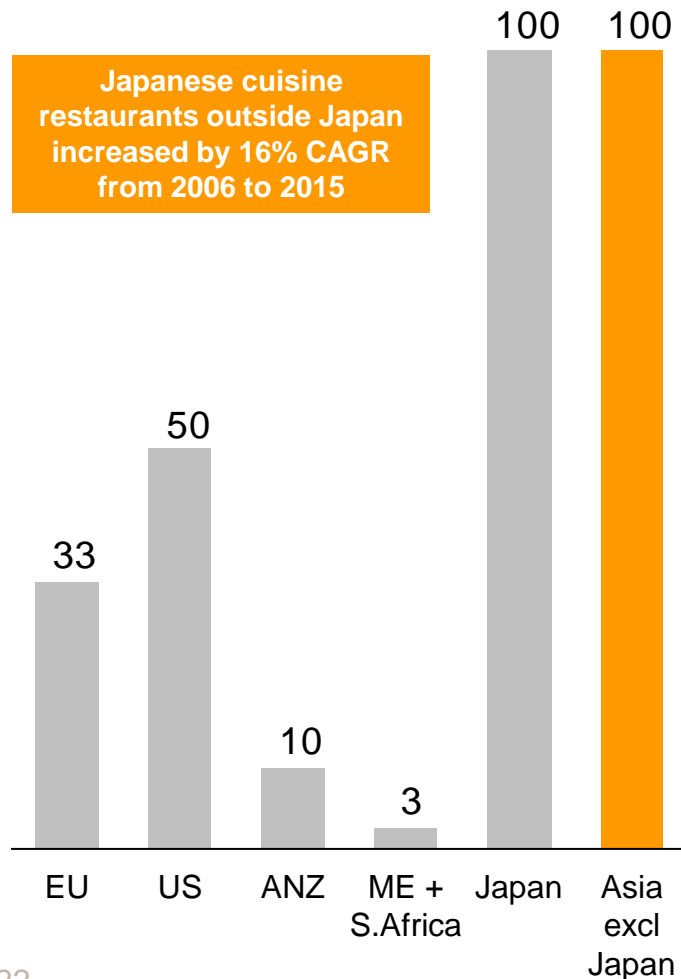
## Food trends that affect SunRice



# Our greater emphasis on sushi and Low GI rices will likely resonate with the Asian consumer – we will further emphasise these varieties in the Riverina going forward

## Global Sushi demand

Indexed: Japan size indexed to 100



## Overweight populations in Asia



Overweight prevalence (%) in adults

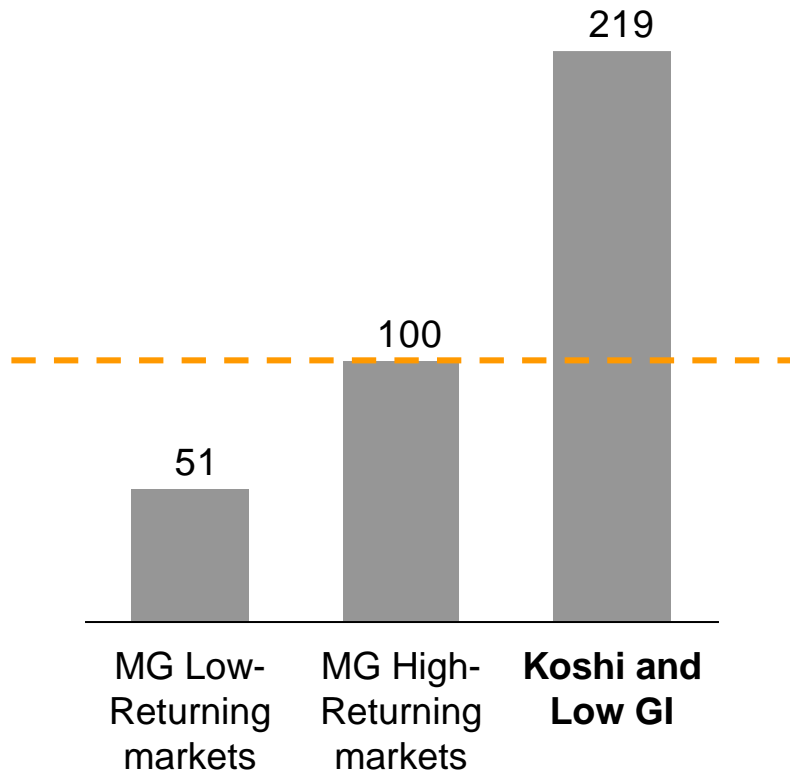
- Diabetes is the world's fastest growing chronic disease
- **60% of diabetics** in the world live in **Asia**
- Several Asian nations have reached critical levels, where 25-45% of population is overweight
- A disproportionate number of diabetics live in Asia relative to other regions
  - Analysts have pointed to the growing need for a competitive Low GI rice product



# Expansion of Short Grain would Benefit Growers

## Indexed – a comparison of paddy returns

Medium Grain to High-returning markets =  
Indexed at 100



- Riverina should be positioned as the *premium* Medium Grain source for *premium* Medium Grain markets
- Riverina well positioned to grow high-returning varieties, such as short grain, that are growing in demand and have less global competition
- We need not abandon our lower returning markets, but serve them from lower cost supply sources
  - Require permanent offshore supply to serve these lower-returning markets



# The 2017 Strategy aims to reposition the higher-cost Riverina supply as our *premium* supply source intended for *premium end-markets*.

→ This means growing higher-returning varieties, investing in equipment that ensures a premium finish, and increase efficiency

We aim to ensure that the Riverina grower can compete against cotton through the SunRice 5R Proposition. The Riverina is well positioned to grow some high-returning varieties that are growing in demand and have less global competition

- **We will promote fewer but higher-earning varieties**
  - Focus on Premium-market Medium Grain, Short Grains and Low GI
  - More streamlined supply chain
  - Supportive agronomic packages
- **Greater forward-pricing arrangements and a minimum guarantee for the pool**
- **Invest in operations and storage to streamline operations, increase efficiency and reduce cost**
- **SunRice's 5R Proposition:**
  - Maximise reliable
  - Manage farmer Risks, Relationship and Research
  - Enhance the Reputational image of the industry and the quality of our message

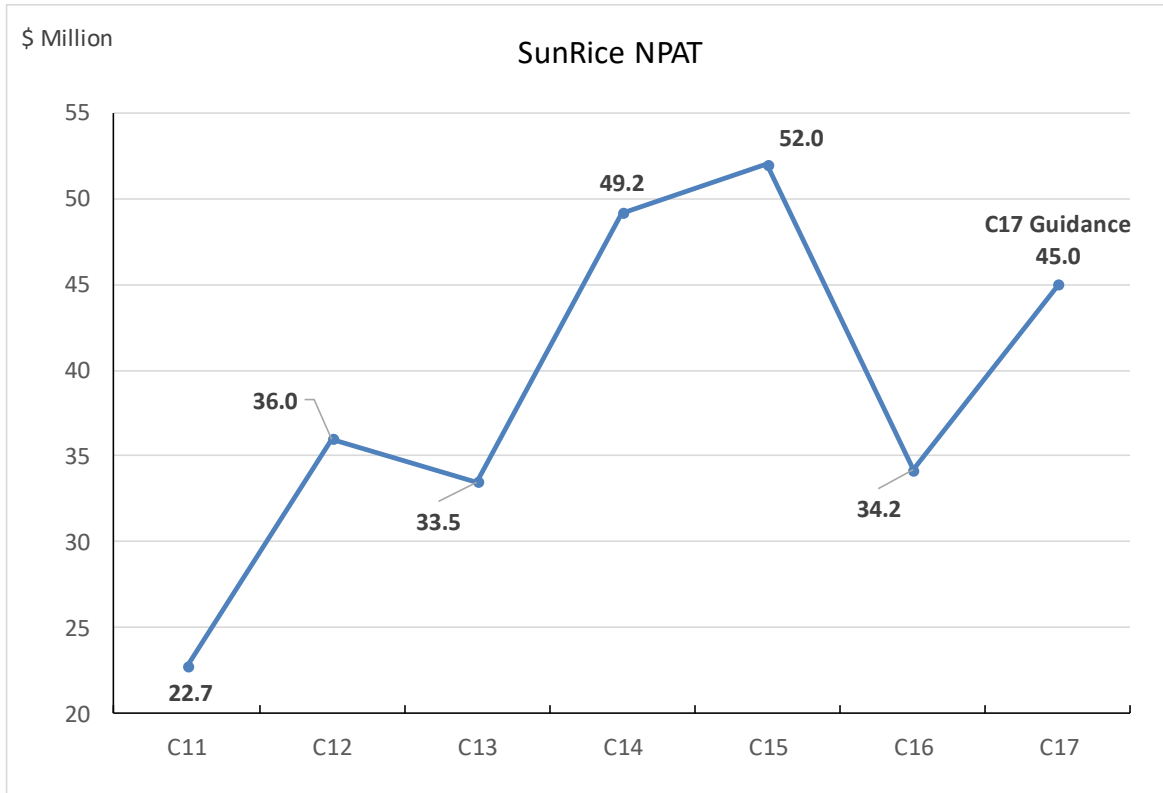


## **Vietnam: Ensuring SunRice is able to service our high volume yet low value markets from a lower cost supply source**

- 600,000 paddy tonnes of exports per annum: SunRice is one of Vietnam's larger rice exporters (5% of total exports and ~50% of Japonica exports)
- SunRice has ensured that the mills we contract are ISO and HACCP accredited
- Pesticide, fertiliser and input management through using certified growers, and through working directly to control agronomic practices
- Competitive pricing: over four years have delivered an increase in returns over long grain to farmers by an average of 30% at farm-gate
- Export and logistics capability through extensive network of providers: over the past 18 months there were 724 shipments across 24 ports
- Establish breeding programmes to improve yields and address consumer preferences: yields have increased from 7 to 10 tonnes/hectare
- Assessment of viable mills in relevant growing regions has intensified



# Profits Businesses Critical to Ongoing Success



In C17, the rice pool was supplemented by Profits Businesses, recognizing the loyalty of growers who dedicated resources to rice

- Includes International Rice Business, Rice Food, Riviana and CopRice
- Diverse mix of profit businesses
  - Riviana
  - SunFoods
  - Trukai
- Increasing globally traded volumes requires intensified global sourcing
  - Last year secured 500,000 paddy tonnes to fill Riverina shortfall





# Attracting Customers & Facilitating Growers

## Customer Engagement

- Initiation of 'paddy to plate' tours to the Riverina for present and potential customers in key markets to educate on our premium offering and traceability through our vertically integrated supply chain
  - 10 touring parties visited in the past year from Japan, Korea and China
  - Record sales to Japan in FY18 (35,000 milled tonnes)
  - Two year contract signed in November to supply short grain to Japan
  - Category Business Teams established to focus on growth markets, as well as Low GI and ingredients

## Ongoing R&D is Critical

- Rice partnership + RRAPL
- YRM70 (Viand) & YRK5 varieties
- Research to develop a Low GI Medium Grain variety
- Research into tropical varieties in Queensland and Vietnam
  - Including a unique 'puffing rice' variety for Kellogg's



## Summary: International Focus, Local Benefits

**Meeting the ever increasing demand of our global customers, who are willing to pay for a sustainable supply of premium Riverina rice, and matching consumer trends with relevant products.**

- We will concentrate Riverina supply on higher value varieties to service the most premium markets to lift paddy returns
- Traditional high volume, low value markets will be serviced from lower cost supply chains
- Both growers and shareholders will benefit from a more internationally focused SunRice

