Rural Funds Group (ASX:RFF)

Growing its agricultural portfolio

17 January 2018

Rural Funds Group (ASX:RFF) is an agricultural real estate investment trust (REIT), focused on Australian assets diversified across six sectors; almonds, cattle, poultry, viniculture, cotton and macadamias. RFF's assets are managed by Rural Funds Management (RFM) – a fund and farm manager with 20 years' sector experience. RFF's investment objective is to generate a stable income stream derived from leasing assets to quality tenants (i.e., Olam Orchards, Select Harvests (ASX:SHV), RFM Poultry, Treasury Wines Estates (ASX:TWE)), and provide capital gains through asset appreciation.

Significant investments in cattle, cotton, and water entitlements in FY17 saw RFF's asset base increasing to A$543m in FY17 from A$379m in FY16, and underpinned a 79% increase in adjusted funds from operations (AFFO) to A$25.6m. In the current year (FY18E) we forecast AFFO increasing by a further 25% to A$31.9m on the back of additional investments (CAM cattle acquisition, development capex in Almonds).

The Australian agricultural sector is fragmented, capital constrained, with ageing owner/operators RFF believes that the need for intergenerational transfer will provide the group with additional acquisition and development opportunities in areas where RFM has operational knowledge. Allied to rental growth through annual lease indexation and market rent reviews, we believe that RFF offers investors a stable income stream (RFF targeting 4%pa growth in dividends) with opportunity for asset appreciation.

Target price: A$2.28ps. Recommendation: Hold

Attaching a 50% weighting to our dividend discount model (DDM) and price-to-book (P/B) valuations of A$2.01ps and A$2.00ps respectively, we calculate a target value for RFF of A$2.01ps. Including a 10% premium for new acquisition/addition potential, we obtain a target price of A$2.21ps. At current share price levels, we believe that this agricultural REIT is fully valued and offers investors a one-year dividend yield of some 4.5%. **We initiate coverage with a Hold (Medium Risk) recommendation**

Key Financials

Year-end June	FY17A	FY18E	FY19E	FY20E	FY21E
Adjusted income generating assets - average (A$m)	469	627	703	747	788
Rental income as %	8.5%	8.0%	8.0%	8.0%	8.0%
Rental income (A$m)	39.8	49.9	56.0	59.5	62.8
Plant & Equip rental (A$m)	1.80	1.80	1.89	1.98	2.08
Revenue (A$m)	41.6	51.7	57.9	61.5	64.8
Reported profit (A$m)	43.3	43.9	61.0	53.2	53.5
AFFO (A$m)	25.6	32.9	37.6	40.1	42.5
EPS Reported (A$c)	17.0	17.2	23.9	20.9	21.0
AFFO per share (A$c)	12.5	12.9	14.7	15.7	16.7
DPS (A$c)	9.6	10.0	10.4	10.8	11.3
Dividend yield (%)	4.2%	4.4%	4.6%	4.8%	4.9%
PE on AFFO (x)	18.2	17.7	15.5	14.5	13.7
Net (debt) / cash (A$m)	(164)	(268)	(274)	(289)	(300)
Capex (A$m)	(162)	(95)	(17)	(25)	(20)

Source: IRESS, Company Data, State One Stockbroking. Share price: $ 2.280 Jan 16, 2018

Share Price: A$2.28

Target Price: A$2.21

Recommendation
Hold

Risk Assessment
Medium

Real Estate

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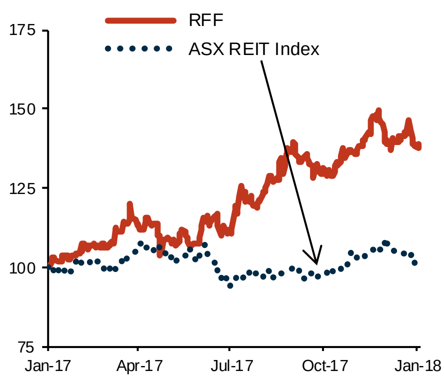
Rural Funds Group

ASX Code	RFF
52-week range (A$)	1.60-2.45
Fully diluted Market Cap (ASm)	574
Fully diluted no. of shares (m)	255
Av Daily Turnover (shares)	465k
ASX All Ordinaries	6,166
FY18E BV per share (A$)	1.47
FY18E AFFO per share (A$c)	12.9c
FY18E Net (Debt)/Cash (A$m)	(268)

Relative price performance



Source: Iress

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Financial Statements

Rural Funds Group

Year ending June

Profit & Loss Statement (A$M)	FY17A	FY18E	FY19E	FY20E	FY21E
Revenue	41.6	51.7	57.9	61.5	64.8
Raw materials / rental / lease	(4.4)	(5.4)	(6.0)	(6.3)	(6.6)
Employee	(1.5)	(1.8)	(2.1)	(2.2)	(2.3)
Other	(2.5)	(3.1)	(3.4)	(3.5)	(3.6)
EBITDA	**33.2**	**41.4**	**46.5**	**49.5**	**52.3**
Depreciation & Amortisation	(1.6)	(2.2)	(2.2)	(2.3)	(2.3)
Operating profit	**31.6**	**39.2**	**44.2**	**47.2**	**50.0**
Asset fair value adjustments	20.0	14.3	27.3	18.1	19.2
EBIT	**51.7**	**53.5**	**71.5**	**65.3**	**69.2**
Interest income+ investment income	1.4	1.4	1.4	1.4	1.4
Interest expense	(7.9)	(9.9)	(10.3)	(10.7)	(11.2)
Tax expense	(1.8)	(1.1)	(1.6)	(2.8)	(5.9)
Reported NPAT	43.3	43.9	61.0	53.2	53.5
Adjusted FFO	**25.6**	**32.9**	**37.6**	**40.1**	**42.5**
EBITDA Margin (%)	80%	80%	80%	80%	81%
Operating profit margin (%)	76%	76%	76%	77%	77%
Reported EPS (A$c)	17.0	17.2	23.9	20.9	21.0
AFFO per share (A$c)	12.5	12.9	14.7	15.7	16.7
AFFO payout ratio (%)	77%	78%	71%	69%	68%
DPS - Declared (A$c)	9.6	10.0	10.4	10.8	11.3
Avg. no. of fully-diluted shares (m)	205	255	255	255	255
YE no. of fuly-diluted shares (m)	255	255	255	255	255

Cash Flow Statement (A$M)	FY17A	FY18E	FY19E	FY20E	FY21E
EBITDA	33.2	41.4	46.5	49.5	52.3
Investment in working capital	4.0	0.1	0.7	0.7	0.8
Tax expense	(0.7)	(1.1)	(1.6)	(2.8)	(5.9)
Operating Cash Flow	**36.5**	**40.4**	**45.6**	**47.4**	**47.1**
Capex	(162.3)	(95.2)	(16.5)	(25.2)	(20.0)
Other investments	(4.8)	(15.0)	0.0	0.0	0.0
Investing Cash Flow	**(167.1)**	**(110.2)**	**(16.5)**	**(25.2)**	**(20.0)**
Net interest received / (paid)	(6.5)	(8.5)	(8.9)	(9.3)	(9.8)
Debt drawdown / (repayment)	18.2	105.0	6.0	15.0	11.0
Dividends	(24.6)	(25.6)	(26.6)	(27.6)	(28.8)
Equity raised / (repaid)	142.1	0.0	0.0	0.0	0.0
Financing Cash Flow	**129.2**	**70.9**	**(29.5)**	**(22.0)**	**(27.5)**
Non-operating & Other	2.2	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	**0.8**	**1.1**	**(0.4)**	**0.2**	**(0.4)**

Balance Sheet (A$M)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Equivalents	3.8	5.0	4.6	4.8	4.3
Receivables	4.6	5.7	5.8	5.6	5.2
Inventories	0.0	0.0	0.0	0.0	0.0
Other Current Assets	1.8	1.8	1.8	1.8	1.8
Property / bearer plants/ water rights	504	611	653	694	730
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	29	44	44	44	44
Total Assets	**543**	**668**	**709**	**750**	**786**
Payables and other current Liabilities	11.5	12.8	13.5	14.0	14.4
Short Term Debt	3.2	3.2	3.2	3.2	3.2
Long Term Debt	165	270	276	291	302
Other Non Current Liabilities	6.1	6.1	6.1	6.1	6.1
Total Liabilities	**185**	**292**	**298**	**314**	**325**
Total Equity	**358**	**376**	**410**	**436**	**461**
Net Cash/(Debt)	(164)	(268)	(274)	(289)	(300)

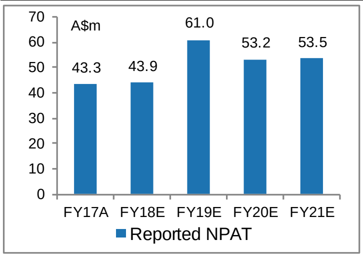
Substantial Shareholders	%	Date
JP Morgan Nominees	15.3	
HSBC Custody Nominess (Australia)	7.6	Sep-17
Netwealth Investments Ltd	5.8	

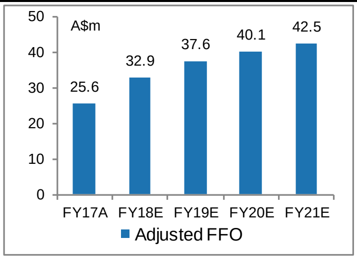
Source: Company, IRESS, State One Stockbroking forecasts

Asset calculation (A$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Adjusted income generating assets - beginning of year	366	572	682	725	769
Additions	93	42	17	25	20
Acquisitions	64	53	-		-
Fair value adjustments	49	14	27	18	19
Adjusted income generating assets - end of year	572	682	725	769	808
Fair value adjustments as % prior year asset value	n/c	2.5%	4.0%	2.5%	2.5%

Note: Asset values pre-depreciation. Includes property/plants/water rights/financial assets

Revenue calculation (A$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Average asset base	469	627	703	747	788
Effective rental income as % average asset base	8.5%	8.0%	8.0%	8.0%	8.0%
Rental income	39.8	49.9	56.0	59.5	62.8
Plant & equipment rental	1.8	1.8	1.9	2.0	2.1
Total rent / revenue	**41.6**	**51.7**	**57.9**	**61.5**	**64.8**
YoY % change in revenue	*nm*	*24.4%*	*12.0%*	*6.2%*	*5.5%*





Leverage	FY17A	FY18E	FY19E	FY20E	FY21E
Net Debt/Equity	46%	71%	67%	66%	65%
Gearing (ND/ND+E)	30%	40%	39%	39%	38%
Interest Cover on EBITDA (x)	5.1	4.9	5.2	5.3	5.3
Debt as % Total assets	31%	41%	39%	39%	39%
=> room to max loan to value ratio	19%	9%	11%	11%	11%

Valuation Multiples (x)	FY17A	FY18E	FY19E	FY20E	FY21E
P/E on reported earnings	13.4	13.3	9.5	10.9	10.9
P/E on AFFO	18.2	17.7	15.5	14.5	13.7
Price/OP Cash Flow	15.9	14.4	12.8	12.3	12.3
EV/EBITDA	22.2	20.3	18.2	17.4	16.7

Book value per share	FY17A	FY18E	FY19E	FY20E	FY21E
Book value per share (A$c)	1.40	1.47	1.61	1.71	1.81
Price / book value multiple (x)	1.63	1.55	1.42	1.33	1.26

Return on Equity and Assets	FY17A	FY18E	FY19E	FY20E	FY21E
AFFO ROE (%)	7.2%	8.7%	9.2%	9.2%	9.2%
AFFO ROA (%)	4.7%	4.9%	5.3%	5.4%	5.4%
Reported profit ROE (%)	12.1%	11.7%	14.9%	12.2%	11.6%
Reported profit ROA (%)	8.0%	6.6%	8.6%	7.1%	6.8%

Dividends	FY17A	FY18E	FY19E	FY20E	FY21E
Annual % change in DPS	-	4.0%	4.0%	4.0%	4.0%
Dvidend yield (%)	4.2%	4.4%	4.6%	4.8%	4.9%

Weighted Target Price

<table>
<tr><th rowspan="2">Valuation method</th><th rowspan="2">Target (A$)</th><th rowspan="2">Weighting (%)</th><th colspan="2">Share price (A$)</th><th rowspan="2">Capital gain (%)</th></tr>
<tr><th>Target</th><th>Current</th></tr>
<tr><td>DDM</td><td>2.01</td><td>50%</td><td rowspan="2">2.01</td><td rowspan="4">2.28</td><td rowspan="4">-3%</td></tr>
<tr><td>P/B multiple</td><td>2.00</td><td>50%</td></tr>
<tr><td colspan="3">New acquisitions / additions upside (10%)</td><td>0.20</td></tr>
<tr><td colspan="3">Total</td><td>2.21</td></tr>
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Valuation

REITs are focused on managing property and other assets to derive rental income, and distribute most of their taxable revenue to shareholders – quite different to how most (listed) companies are managed. With a significant component of reported earnings derived from (non-cash) fair value adjustments, PE multiple valuations have limited use.

We believe a Dividend Discount Model (DDM) and Price to Book (P/B) provide more appropriate valuation guides.

Dividend Discount Model (DDM)

Predicated on FY18's forecast dividends of 10.03cps, targeted dividend growth of 4%pa (in line with management's stated dividend growth objective) and a cost of equity / expected equity return of 9%, we calculate RFF's DDM-derived share price valuation at A$2.01.

Figure 1: DDM valuation – sensitivity to cost of equity

D_1 (A$c)	10.03	10.03	10.03	10.03	10.03
r	11%	10%	9%	8%	7%
g	4%	4%	4%	4%	4%
P (A$)	1.43	1.67	2.01	2.51	3.34

Dividend Discount Model

$$P = \frac{D_1}{r - g}$$

Source: State One Stockbroking forecasts
Note: P = share price, D_1 = next year's dividends, r = cost of equity, g = dividend growth rate

Our assumed expected return on equity of 9% is based on the average ASX All Ordinaries Index return of 6% per annum over the past five years, plus an average dividend yield of 3%.

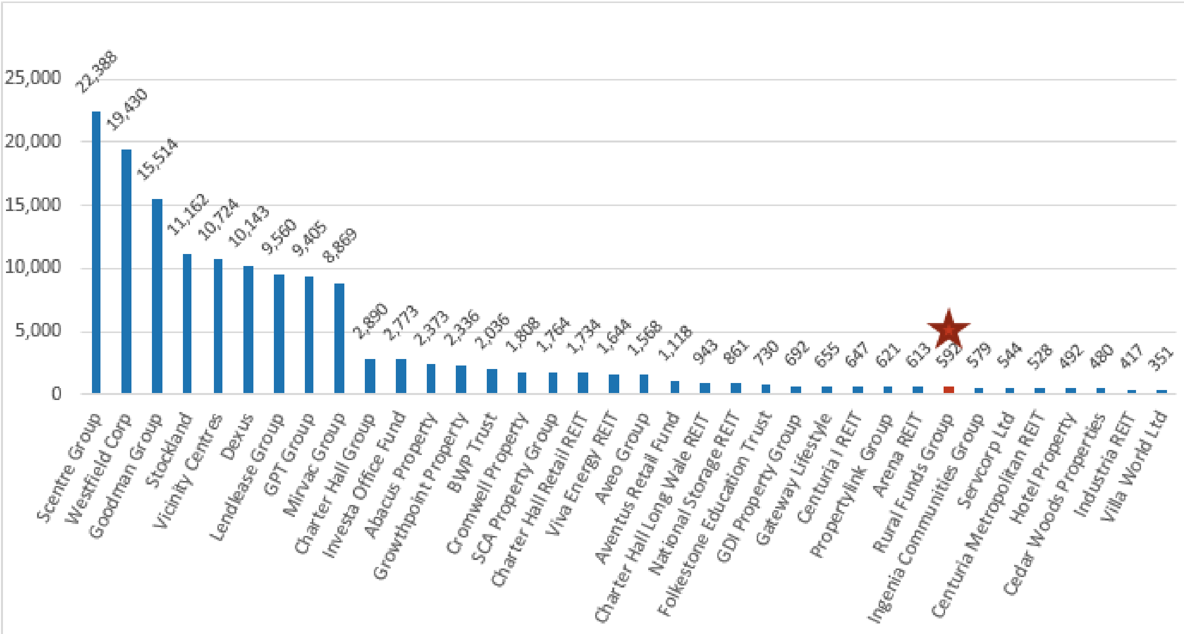
Figure 2: ASX All Ordinaries Index: five-year history (2013-2017)

Source: IRESS

Price to Book (P/B) multiple

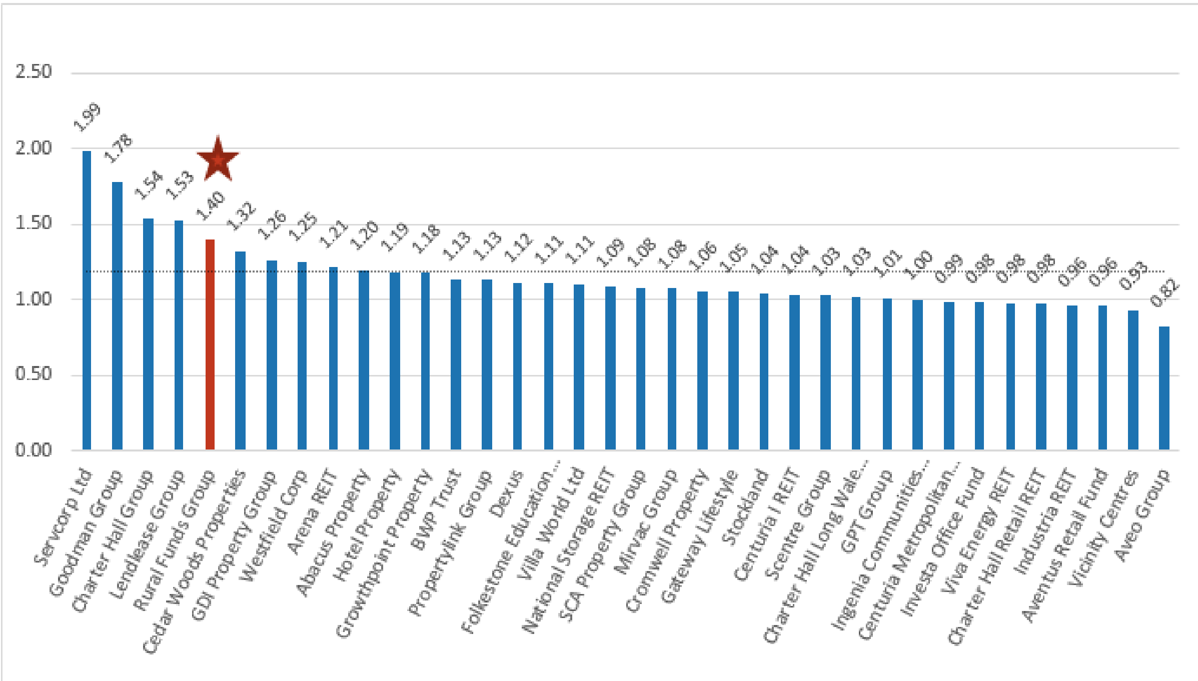
At a market capitalisation of A$574m, RFF is one of the smaller REITs on the ASX. However, on a P/B multiple basis, RFF is one of the highest rated REIT's; RFF's P/B multiple of 1.4x is some 17% above the peer average of 1.2x.

Figure 3: S&P/ASX 300 REIT stocks – market capitalisation (A$m)



Source: IRESS, compiled by State One Stockbroking

Figure 4: S&P/ASX 300 REIT stocks – P/B multiples (x)



Source: IRESS, compiled by State One Stockbroking

Note: P/B multiples calculated on the average IRESS forecast FY18E and FY19E book values

Predicated on State One's forecast longer-term ROE for RFF of ~12%, and at an assumed cost of equity of 9%, we calculate an appropriate P/B multiple for the group of 1.3x. At our forecast average FY18/19E book value of A$393m, we calculate RFF's valuation at A$511m or A$2.00 per share.

Target price and recommendation

Attaching a 50% weighting to our DDM and P/B multiple valuations, we calculate a target value for RFF of A$2.01ps. Because of the lack of visibility on the timing or quantum of acquisitions, we have not factored in new acquisitions beyond the current financial year (FY18E). However – as illustrated in the slide below - RFF believe that there are numerous acquisition opportunities in the Australian agricultural sector. As a result, we suggest that our forecast revenue / rent stream and asset profile is understated. To compensate for this, we escalate our DDM/PB valuation by 10% to A$2.21ps. At current share price levels, we believe that RFF is fully valued; **we initiate coverage of RFF with a Hold (Medium Risk) recommendation.**

Target price:

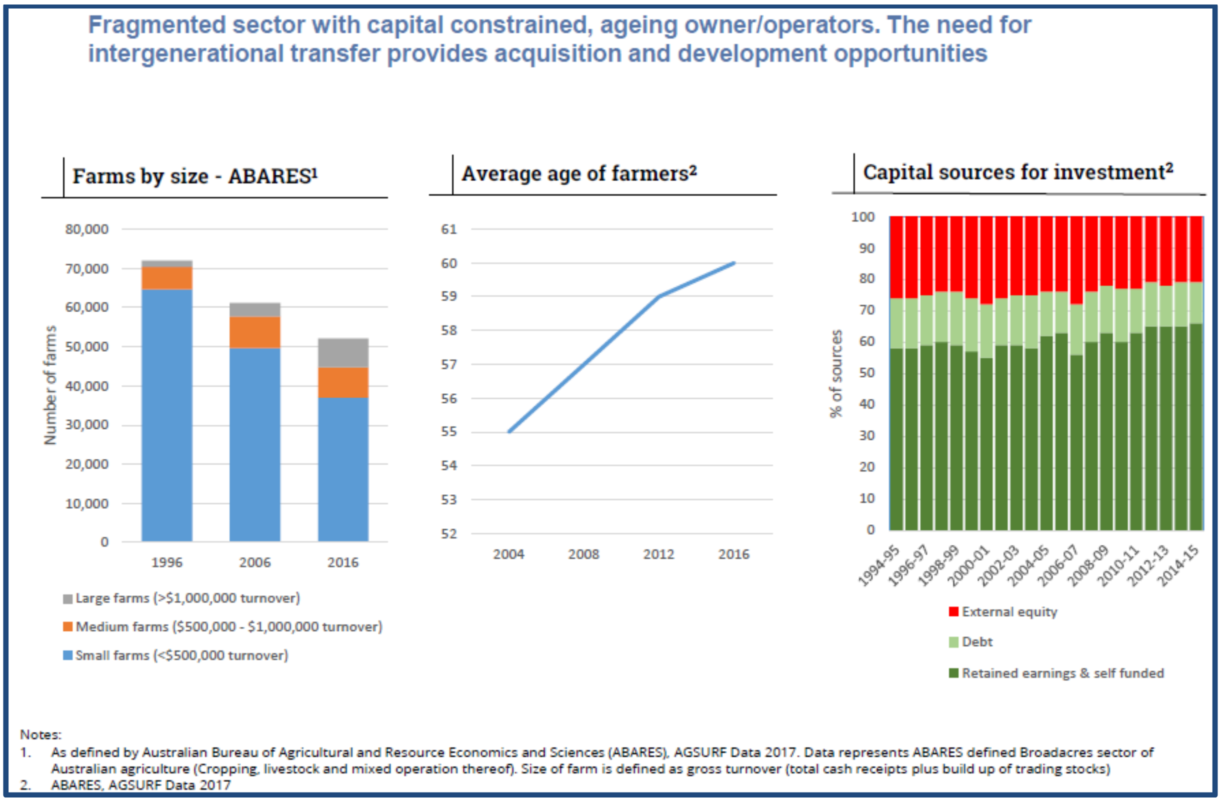
A$2.21 per share

Figure 5: Target price calculation

Valuation method	Target value (A$)	Weighting (%)	Target price (A$)	Current share price (A$)	Capital gain / (loss)
DDM	2.01	50%	2.01	2.28	-3%
P/B multiple	2.00	50%			
New acquisitions / additions upside (10%)			0.20		
Total			**2.21**		

Source: IRESS, State One Stockbroking forecasts

Figure 6: Acquisition environment



Source: Company (November 2017 presentation)

Recommendation and risks

Recommendation:

Hold (Medium risk)

At current share price levels, we calculate that RFF is fully valued and offers a dividend yield of some 4.5%. **We initiate coverage on RFF with a Hold (Medium risk) recommendation**.

Risks to our earnings profile and target price include, but are not limited to:

- **Counterparty:** All land and infrastructure assets owned by RFF are leased and as such Unitholders are not directly exposed to agricultural operational risk. There is a risk that a counterparty may default on its financial or operational lease obligations to RFF. RFF has several lessees, with the largest lessee (with ~25% of group rental income) being RFM Poultry.
- **Timing of productivity capex:** Some 80% of capex over the next three years is allocated to the development of the 2,500ha Kerarbury almond orchard (lessee Olam Orchards). Project development delays may result in a reduction or deferral of rent received.
- **Suspension event**: Suspension events for all chicken growing contracts include: act of God, epidemics / diseases, fires, industrial disputes, livestock husbandry issues, chicken meat importation. A suspension event if triggered could lead to the suspension of payments to RFM Poultry from Bartter Enterprises.
- **Acquisition risk:** There is no guarantee that RFM will be able to acquire additional acquisitions in the future.
- **Gearing and refinancing:** RFF maintains a gearing range of 30%-40%. RFF has secured a debt facility limit of up to A$250m to end 2019. Beyond this, there is the risk that the debt providers (Rabobank, ANZ) could reduce the gearing limit. Depending on underlying asset value momentum, this may require RFF to sell assets and/or reduce or suspend distributions to retire debt.
- **Asset valuations:** The asset value (and associated rental income) of RFF's land, water, and infrastructure assets may rise or fall due to general economic conditions, local and global agricultural conditions, demand for end-market products (i.e., chicken meat, beef, almonds, wine), and changes in discount rates / independent valuation methodologies.
- **Water entitlements:** Lease terms with Treasury Wines, RFM Almonds, and Olam require the supply of water to vineyards. A reduction in RFF water entitlements may result in higher water costs and/or rent abatements.
- **Distributions:** Our Dividend Discount Model (DDM) valuation is dependent on next year's forecast dividend and a constant 4%pa dividend growth rate. RFF must meet its operating expenses, capital commitments, and debt servicing obligations before distributions can be made to Unitholders. Consequently, distributions may vary.
- **Other:** Destruction or damage of property, property illiquidity, climate risk and climate change risk, environmental management, change in political and regulatory environment, key management / personnel risk.

Background

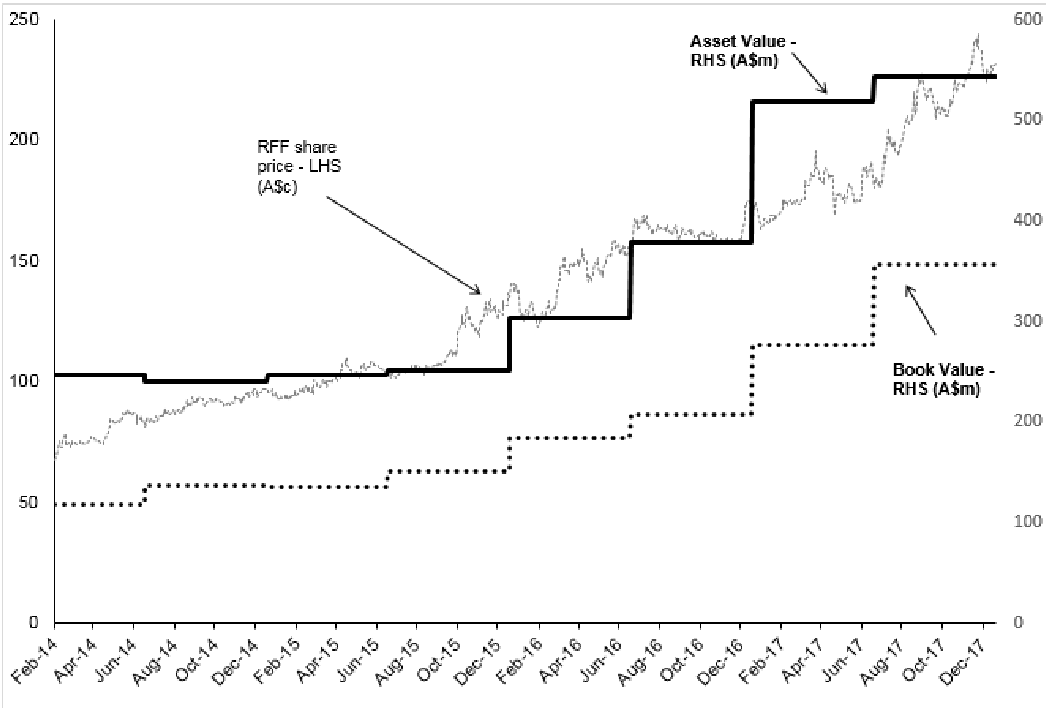
Rural Funds Group (ASX: RFF) - listed on the ASX as a REIT in February 2014 - is a stapled security comprising two trusts: Rural Funds Trust and RF Active. Rural Funds Trust holds the majority of RFF's assets including the agricultural land, water and infrastructure from which it derives a passive income. RF Active holds around 9% (as at end FY17) of RFF's assets comprising Murrumbidgee River high security water entitlements, breeding cattle and plant and equipment. RFF is externally managed by Rural Funds Management which charges a combined funds and asset management fee of ~1.05% of gross asset value, and an expense recovery fee of 1-1.5%pa.

RFF provides investors leverage to the Australian agricultural sector with (non-cash) capital returns available from asset appreciation, and (cash) rental income from long-term leases to tier 1 listed and non-listed lessees/operators. Growth in rental income is via structured rent indexation (typically linked to CPI) and/or market rent reviews (typically linked to underlying asset value - market appreciation or asset improvement via productivity capex).

Since listing in mid-February 2014, RFF's asset value has grown from A$247m (as at 1H FY14) to A$543m (as at end FY17), with net assets attributable to unit holders (book value) increasing from A$118m to A$358m. This growth is due to acquisitions, property additions, and fair value revaluations, and funded via a combination of retained earnings, debt, and new equity.

Reflecting the growth in the underlying asset base, RFF's share price has posted impressive gains over the past three years, appreciating from A$0.68 in February 2014 to current share price levels of A$2.32.

Figure 7: Share price history (A$c) versus group asset and book value

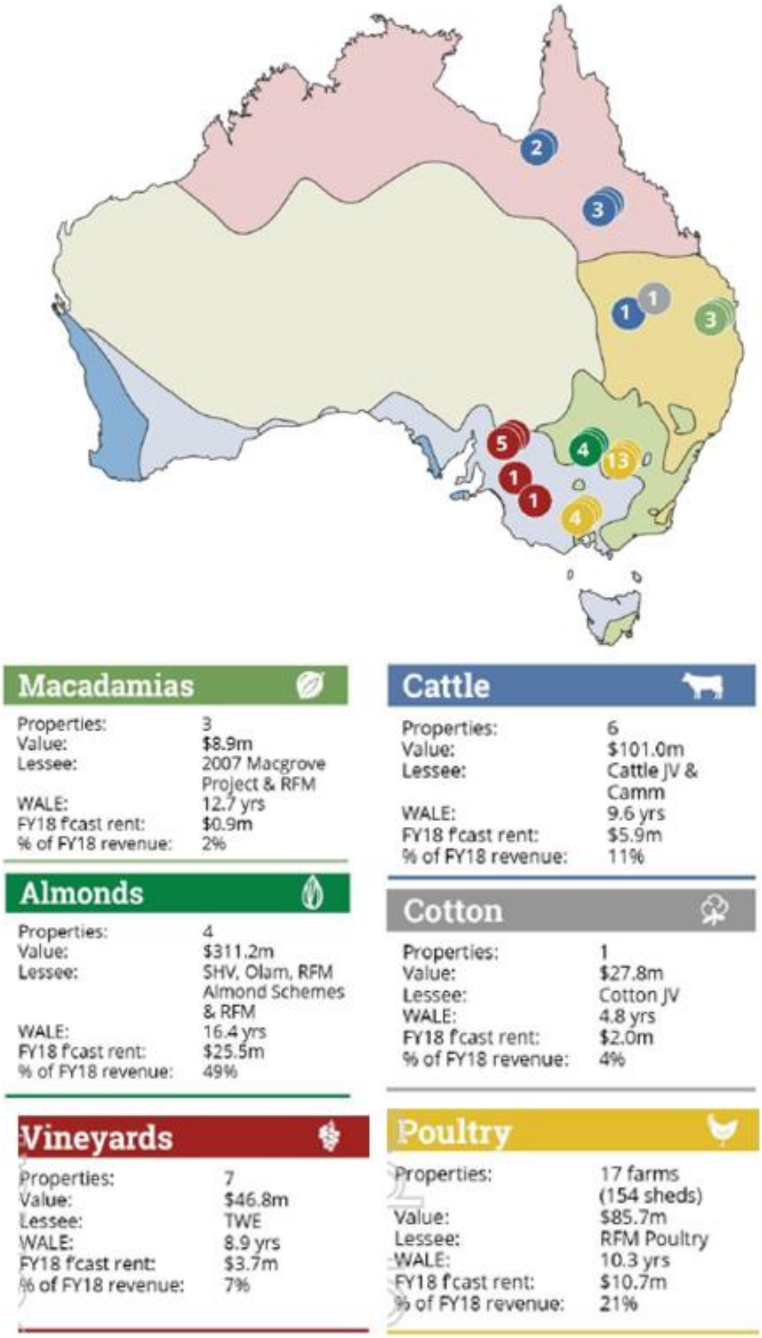


Source: IRESS, Company, compiled by State One Stockbroking

Asset base

Rural Funds Group (ASX: RFF) is an agricultural real estate investment trust (REIT) which owns a diversified portfolio of high quality Australian agricultural assets that are leased to experienced agricultural operators (lessees). Assets are diversified across six agricultural sectors and leased to a range of ASX-listed and privately-owned lessees.

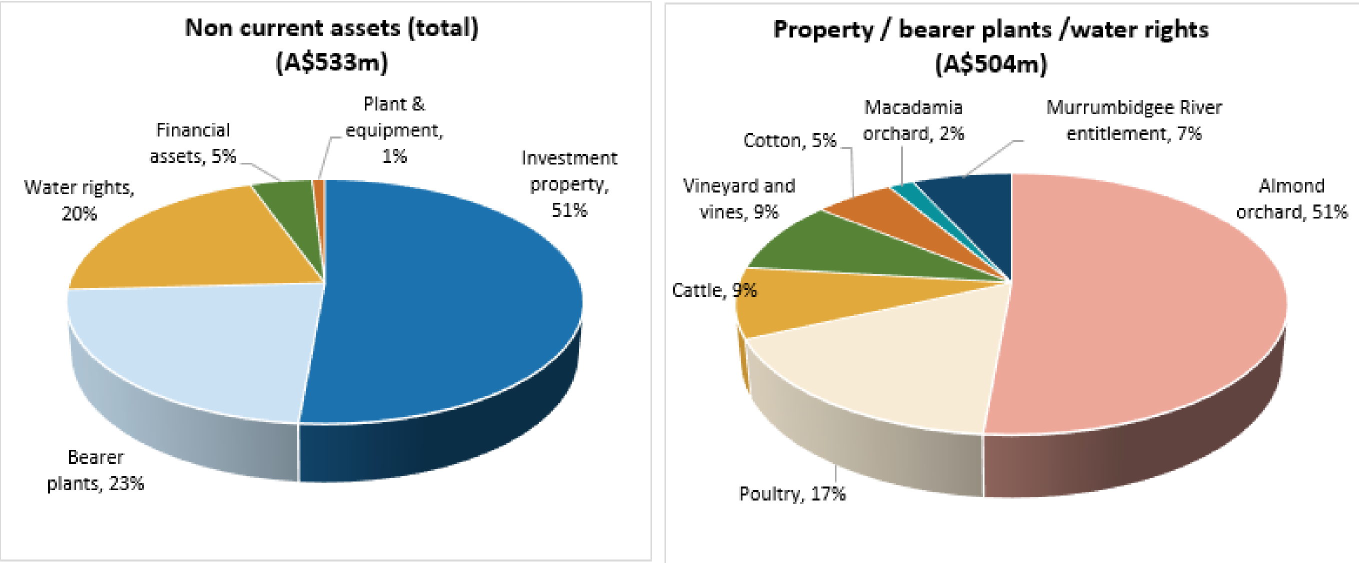
Figure 8: Agricultural assets portfolio



Source: Company (November 2017 presentation). Note: WALE = Weighted Average Lease Expiry. Shaded areas on map denote different climatic zones. Total assets as tabulated above excludes A$6.9m in plant and equipment rental and P&E assets held by RF Active but includes A$44.5m in adjustments (on top of 30 June 2017 valuations) for water entitlements, and the acquisition of CAM cattle assets (effective December 2017)..

As at end-June 2017, the fair value of RFF's non-current assets was A$533m, comprising investment property (land) A$274m, bearer plants A$121m, water rights A$109m, financial assets A$24m and plant & equipment A$5m. A$395m in combined investment property and bearer plants account for 74% of FY17's non-current asset base with water entitlements accounting for an additional 21%. On a product or sector basis, almond orchards account for 51% of combined property/ bearer plant/water rights fair value, with poultry, cattle, vineyards, cotton, and macadamia orchards accounting for 17%, 9%, 9%, 5% and 2% respectively of the total. See charts and table below.

Figure 9: Non-current asset composition (as at end-June 2017)



(A$m)	Property	Bearer plants	Water rights	Total	% of total
Almond orchard	96	95	68	259	51%
Poultry	83	0	1.5	85	17%
Cattle	44	0	0	44	9%
Vineyard and vines	25	20	0.5	46	9%
Cotton	24	0	3.7	28	5%
Macadamia orchard	2	6	0.8	9	2%
Murrumbidgee River entitlement	n/a	n/a	34	34	7%
Property / plants / water	**274**	**121**	**109**	**504**	**100%**

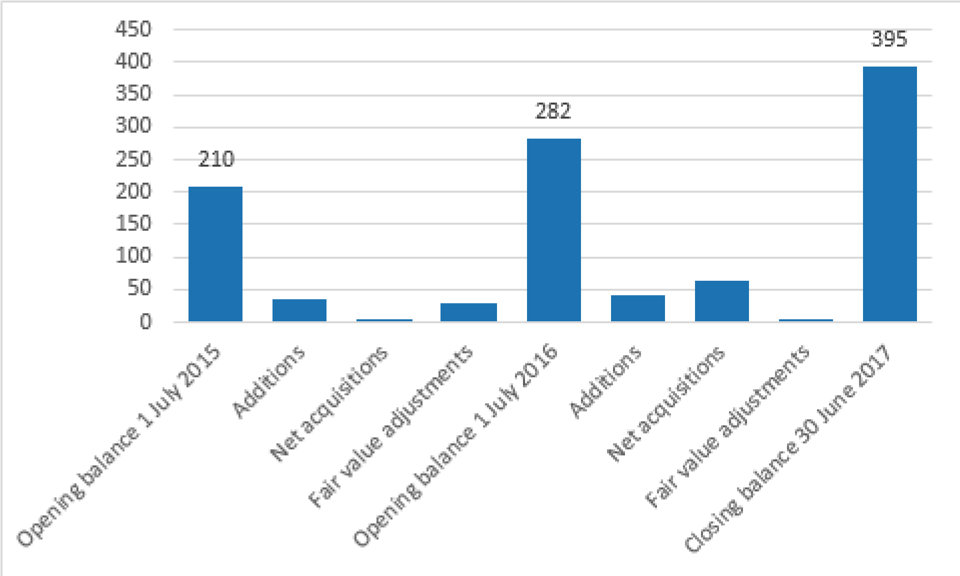
Source: Company, compiled by State One Stockbroking
Note: Excludes A$10.2m in current assets (cash, accounts receivable, other)

Water rights and entitlements are held at historical cost (less accumulated impairment losses). Book values ascribed to the investment properties and bearer plants are Level 3 fair value measurements (as per AASB 13), and are based on independent valuations and the Directors' assessments of fair value. Valuation methods employed include:

- current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences,
- discounted cash flow projections based on reliable estimates of future cash flows and,
- capitalised income projections based upon a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

The book value of investment properties and bearer plants assets has increased by A$185m or 88% over the past two financial years from A$210m as at 1 July 2015 to A$395m as at 30 June 2017. We note that only A$35m or 19% of this increase was due to fair value adjustments. The bulk (81%) of the increase was due to asset additions (expansionary/improvement capex) and asset acquisitions.

Figure 10: FY16-FY17 property/bearer plants asset growth

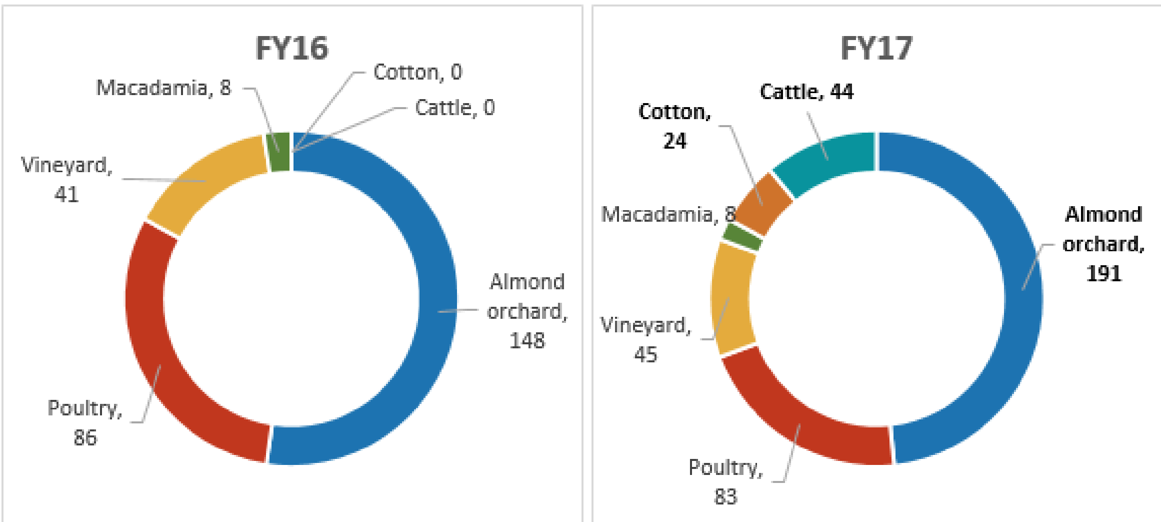


Source: Company, compiled by State One Stockbroking

Note: Excludes investments in intangible assets (water rights and entitlements). In FY17, additions investment of A$49m (net of impairments and depreciation) increased the book value of intangibles to A$109m from A$60m. Excludes investments in financial assets and plant & equipment.

Looking at the A$113m in asset growth between FY16 and FY17, we see that this was driven by RFF making acquisitive investments in two new sectors – Cotton and Cattle – with Almond orchards posting a significant increase due to on both net additions and fair value adjustments.

Figure 11: Property/bearer plants assets - FY16 vs FY17 (A$m)



Source: Company, compiled by State One Stockbroking

In October 2017, RFF increased its exposure to the cattle sector via the A$53m acquisition (effective December 2017) of a 390,000ha North Queensland cattle property aggregation from the Camm Agricultural Group (CAG). The acquisition fits in with RFF's strategy of preferentially growing its asset base in the natural resources end of the investment spectrum (offering the potential for positive capital growth potential albeit at lower income) - rather than investing in the infrastructure end (which attracts higher rental income, but with depreciating assets). CAG joins an impressive list of tier 1 clients in RFF's counterparty portfolio. See graphs below.

Figure 12: Income and growth characteristics of investment opportunities

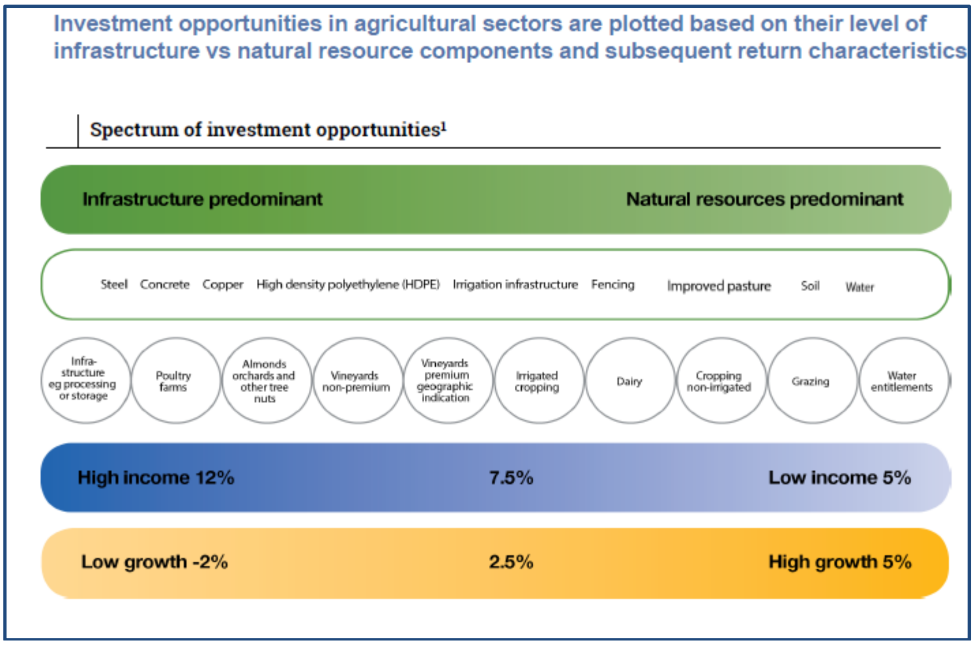
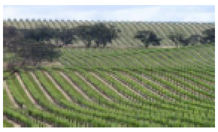


Figure 13: Key assets and counterparties (Source: Company)

	Almond orchards	Poultry farms	Vineyards	Cattle assets	Cotton assets
					
Brief description:	1,814 ha mature almond orchards and 3,100 ha of orchards under development	154 sheds on 17 farms	666 ha mature vineyards on seven properties	Six cattle properties and breeding herd	4,880 ha cropping property
Water:[1]	80,065 ML HSE: 67,399 ML	1,432 ML HSE: 915 ML	948 ML HSE: 948 ML	70 ML HSE: 70 ML	18,487 ML HSE: 12,085 ML
Valuation[2]**:**	$311.2m	$85.7m	$46.8m	$101.0m properties + $11.0m cattle	$27.8m
FY18 forecast rent:	$25.5m	$10.7m	$3.7m	$5.9m	$2.0m
Key lessees/ counterparts:	**Olam Orchards Australia Pty Ltd** - wholly owned subsidiary of SGX-listed Olam International Ltd, A$5.6b, 2nd largest global almond grower **Select Harvests (ASX:SHV)** - Australia's largest vertically integrated nut and health food company **RFM**	**RFM Poultry (NSX: RFP)** - RFP has grower contracts with Baiada Poultry Pty Ltd and Turi Foods **Baiada Poultry Pty Ltd**[3] - One of two largest processors in Australia. Key brands: Steggles, Lilydale **Turi Foods Pty Ltd** - Largest processor in Victoria, third in Australia	**Treasury Wine Estates (ASX:TWE)** - World's largest listed pure-play wine company, A$9.2b - Key brands: Penfolds, Wolf Blass, Seppelt	**Cattle JV Pty Ltd (CJV)** - Wholly owned subsidiary of RFM **DA and JF Camm Pty Ltd** - Part of the Camm Agricultural Group (CAG) an integrated corporate cattle business operating since 1978	**CotJV Pty Ltd** - 50:50 joint venture between Queensland Cotton and RFM - Queensland Cotton is a wholly owned subsidiary of the Olam Group, one the world's largest cotton companies - RFM has been farming cotton for approx. 20 yrs

Forecast rental income

In the last financial year (FY17) RFF generated revenue (rental income) of A$41.6m. In a November 2017 presentation, management forecasts A$48.7m in rent from property/bearer plants/water rights and A$1.8m in rent from plant & equipment. Including A$1.2m in revenue from water sales (130mL @ A$9,500/mL) we forecast total FY18E rental income at A$51.7m. Predicated on our forecast average FY18E income-generating asset base of A$627m, we calculate that this equates to an asset base yield of 8.0%.

Over our forecast period we maintain the effective asset yield at 8.0%.

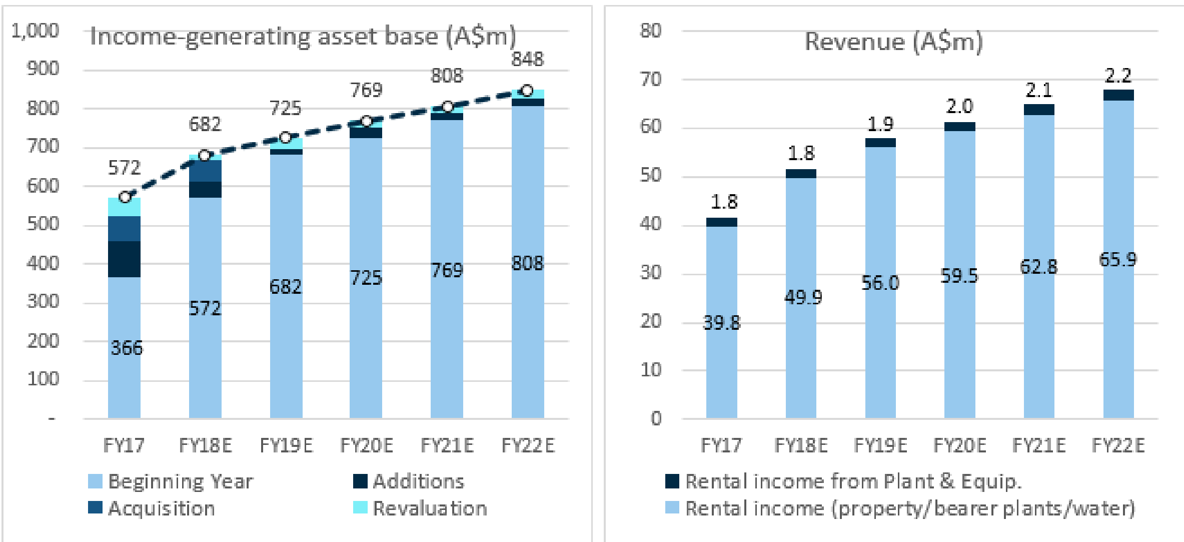
Figure 14: Forecast adjusted asset base and revenue profile to FY22E (A$m)

Asset base calculation (A$m)	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
Beginning Year	366	572	682	725	769	808
Additions	93	42	17	25	20	20
Acquisition	64	53	0	0	0	0
Revaluation	49	14	27	18	19	20
End Year	**572**	**682**	**725**	**769**	**808**	**848**
Revaluation as % prior Y/E assets	nm	2.5%	4.0%	2.5%	2.5%	2.5%
Revenue calculation (A$m)	**FY17**	**FY18E**	**FY19E**	**FY20E**	**FY21E**	**FY22E**
Average asset base	469	627	703	747	788	828
Rental income as % ave. asset base	8.5%	8.0%	8.0%	8.0%	8.0%	8.0%
Rental income (property/bearer plants/water)	39.8	49.9	56.0	59.5	62.8	65.9
Rental income from Plant & Equip.	1.8	1.8	1.9	2.0	2.1	2.2
Total rental income (revenue)	**41.6**	**51.7**	**57.9**	**61.5**	**64.8**	**68.1**
YoY % change in revenue	*nm*	*24.4%*	*12.0%*	*6.2%*	*5.5%*	*5.0%*

Source: Company, State One Stockbroking forecasts. Note: asset base includes A$24m in financial assets.

Key assumptions: FY18E, FY19E, FY20E development capex (for additions) of A$42m, A$17m, and A$25m respectively as per management disclosed guidance. We assume additions capex after FY20E at A$20m per annum. Revaluation of A$49m in FY17 includes A$44m revaluation of water entitlements; acquisition capex of A$53m in FY18E refers to the CAM acquisition. We assume no further acquisition capex after FY18E. We assume a normalised / steady-state fair value increase on assets of 2.5%pa. Our higher revaluation rate of 4% in FY19E assumes the benefit of CAM revaluation.

Figure 15: Forecast adjusted asset base and revenue profile to FY22E (A$m)



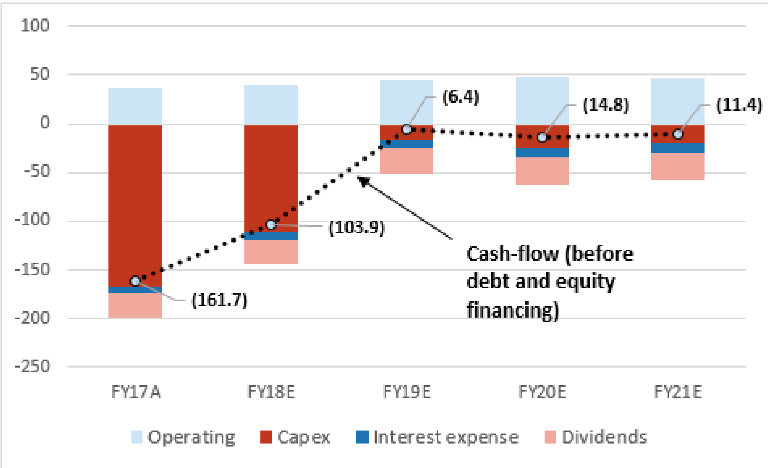
Source: Company, State One Stockbroking forecasts

Cash flows / debt

FY17A's large acquisition capex was funded by a debt drawdown of $18m and $142m in new equity (primarily a $61m Entitlement Offer in July 2016, and a $79m Entitlement Offer in June 2017). Because of the lack of visibility attached to the timing and quantum (and issue price) associated with equity issues, we do not factor in additional equity injections over our forecast period, but assume that future funding requirements will be met from new/refinanced debt facilities. Note: we forecast long-term debt increasing from $165m in FY17 to $302m in FY21E. While this additional $137m in forecast debt is above the $85m undrawn portion of the group's current $250m debt facility, we believe that RFF has provision to access an additional A$50m of debt. Importantly, we calculate that predicated on our asset growth profile, debt of ~A$300m will not exceed the group's gearing threshold of 40%.

We assume debt increasing by over $130m between FY17A and FY21E

Figure 16: Forecast cash flows (FY17A-FY21E) (A$m)



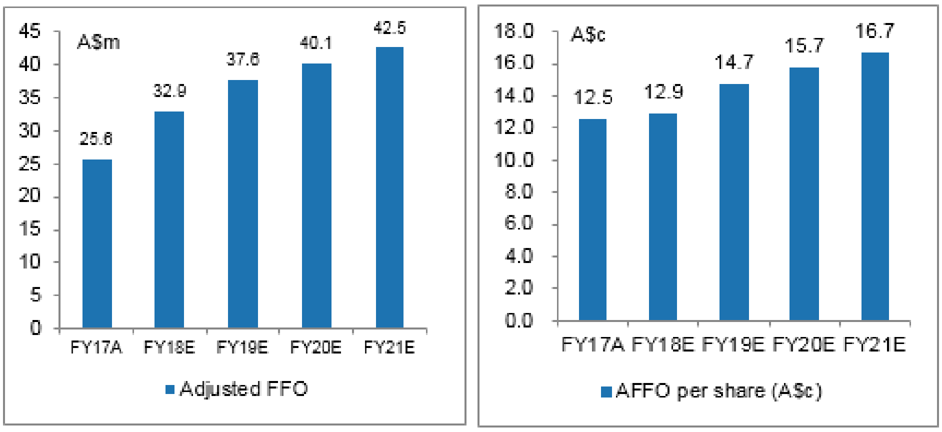
Source: Company, State One Stockbroking forecasts

AFFO profile

We forecast adjusted funds from operations (AFFO) growing to $32.9m in FY18E, +29% on FY17A's $25.6m on the back of the strong asset growth in FY17A/18E. However, as a result of share dilution (to 255m shares from 205m) from capital raises in FY17A, this translates to a smaller 4% increase to 12.9cps in FY18E from 12.4cps in FY17.

AFFO up 29% in FY18E but up only 4% on a per share basis

Figure 17: Forecast NPAT (A$m) and EPS (A$c)



Source: Company, State One Stockbroking forecasts

Board (Source: Company)

Guy Paynter
Non-Executive Chairman

Guy Paynter is a former director of broking firm JB Were. Guy brings to RFM more than 30 years of experience in corporate finance. Guy is a former member of the Australian Securities Exchange (ASX) and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia). Today, Guy is chair of Bill Peach Group Limited (previously known as Aircruising Australia Limited).

David Bryant
Managing Director

David Bryant established RFM in February 1997 and since that time has led the team that is responsible for the acquisition of large-scale agricultural property assets and associated water entitlements. As of 30 June 2017, RFM manages over $640 million of agricultural assets.

On a day-to-day level, David is responsible for leading the RFM Executive, maintaining key commercial relationships and sourcing new business opportunities.

Michael Carroll
Non-Executive Director

Michael Carroll serves in a board and advisory capacity for a range of agribusiness entities. Michael is a Director of Tassall Group Ltd, Select Harvests Limited, Paraway Pastoral Company and Sunny Queen Ltd. Former board positions include the Australian Farm Institute, Warrnambool Cheese and Butter Factory Company Holdings Limited, Queensland Sugar Limited, Rural Finance Corporation of Victoria, the Gardiner Dairy Foundation and Meat and Livestock Australia. Michael's advisory clients include government, major banks, institutional investors, and successful family owned agribusinesses.

Julian Widdup
Non-Executive Director

Julian Widdup is a former executive of infrastructure investment management companies, Palisade Investment Partners and Access Capital Advisers (now Whitehelm Capital) where he was responsible for the acquisition and asset management of major infrastructure assets, risk management, portfolio construction, institutional client management and overseeing all aspects of investment operations.

Previously Julian had worked with Towers Perrin (now Willis Towers Watson) as an asset consultant, the Australian Bureau of Statistics and the Insurance and Superannuation Commission (now APRA).

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