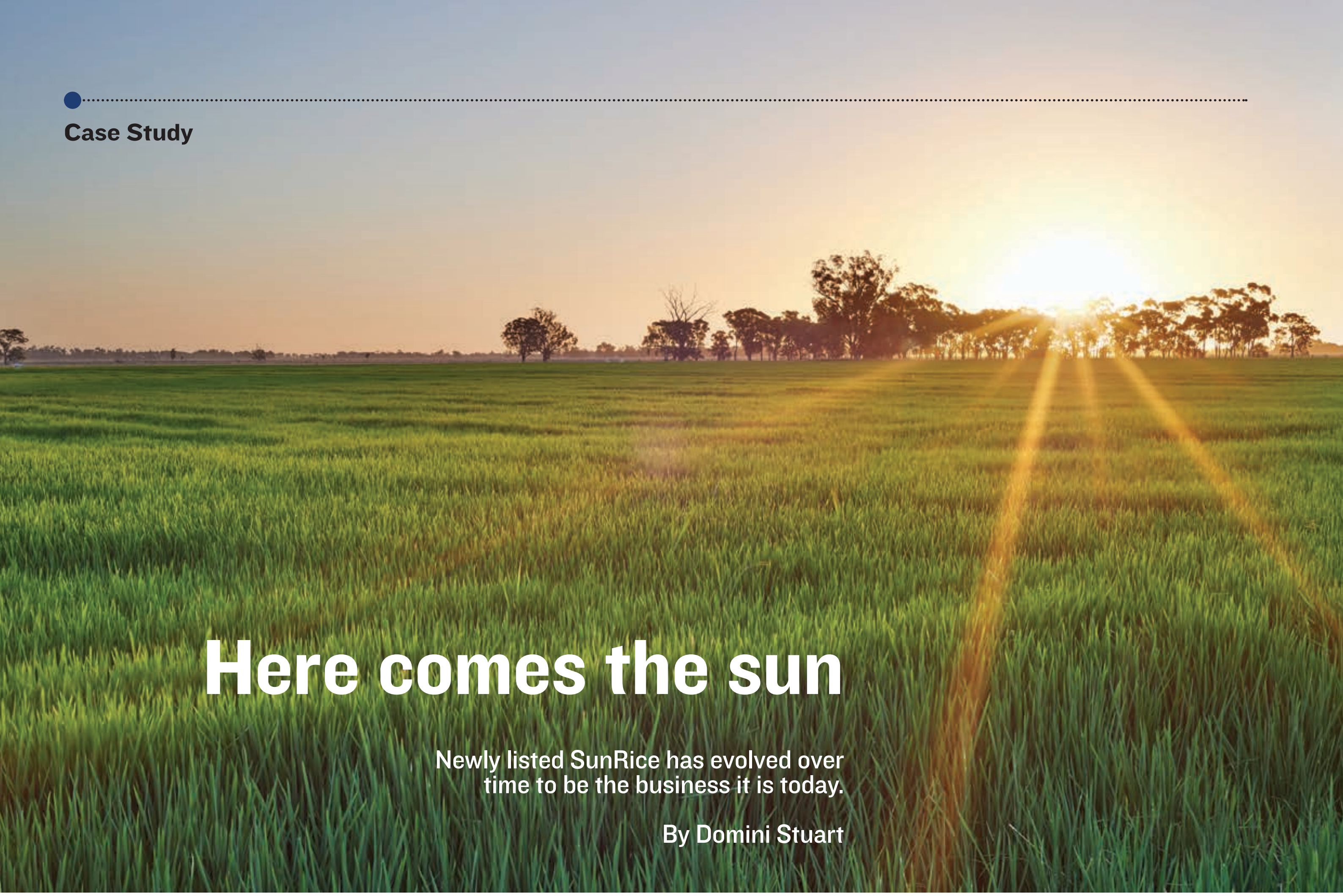

Here comes the sun

Newly listed SunRice has evolved over time to be the business it is today.

By Domini Stuart

In 1950, a group of rice growers pooled its funds to build a rice mill in the Riverina region of New South Wales. This marked the birth of the SunRice co-operative – now a global branded food group with 10 companies servicing about 50 markets and with an annual turnover of around $1.25 billion.

"Many consumers know us best as a brand of rice sold in their local supermarket, but SunRice also provides a range of consumer goods to supermarkets and food service channels all around the world," says CEO Rob Gordon. "A better description would be an Australian-owned international branded food company that specialises in rice."

Since 2012 a number of ambitious growth strategies have added scale and diversity to the company's earnings. The latest, which identifies growth opportunities aligned with new and emerging consumer trends, is likely to require fresh capital. However, like many mutual-style organisations, SunRice was aware that its capital structure was likely to limit its potential.

"The original co-operative demutualised in 2005 and listed on the National Stock Exchange (NSX) shortly afterwards in 2007, but share ownership was still restricted to growers and past growers," says Gordon. "That meant the investor base we could call on for new capital was effectively limited to a relatively small number of farmers in the Riverina whose balance sheets are already under pressure from meeting the challenges of their own farm enterprises. While we could have removed those ownership restrictions on NSX, we also wanted access to a far more liquid and deep exchange where raising capital would be more efficient and open us up to a broader range of investors. We achieved that by moving to ASX earlier this year."

Helping with the transition

Listing on ASX can provide an effective solution for co-operatives and mutuals that outgrow their capital structure. However, as these were generally set up to generate member benefits rather than investment returns, they wouldn't normally conform with ASX rules. To resolve this issue and help SunRice make the transition, ASX developed a flexible approach to the application of the listing rules.

"We recognise many of these organisations would benefit from access to one of the world's largest investment pools and ASX has a long history of bringing them to market," says Eddie Grieve, head of listings and issuer services at ASX.

One major concession has been the acceptance of a dual class share structure where one class is held exclusively by active growers and the other by investors. This provides differential voting rights between classes. In normal circumstances, companies are required to have one class of ordinary shares with each share carrying an equal right to vote.

Managing a dual obligation

SunRice Class A shares, held by active growers, confer the right to vote at general meetings, elect grower directors to the board and effectively control the constitution as any constitutional changes must be voted on at general meetings. Class B shares represent the market capitalisation of the business and the right to receive dividends as and when they're paid. Voting here is restricted to changes that would affect Class B shareholder rights or the sale of the enterprise.

"We have the dual obligation to enhance shareholder returns and provide an enhanced return on farm gate for our growers in terms of the price we pay," says Gordon. "This is nothing new for us – we have managed a dual structure successfully for more than a decade on NSX and have a strong track record of delivering for all our stakeholders. But, as we opened the register to all investors, we needed to work closely with ASX to establish the right governance framework for existing shareholders and new investors while also ticking the boxes of the ASX listing rules."

SunRice also took the opportunity to change its constitution to acknowledge the increasingly international dimension of the business by increasing the number of independent, non-executive directors from two to three. Seven more directors are elected by growers, including three who hold cross directorships on the Rice Marketing Board for New South Wales, and Gordon brings the total to 11.

"Our grower members need the assurance the board won't compromise their returns by constraining the price of rice to enhance dividends," says Gordon. "And it's just as important for our investors to know they won't be disadvantaged by a grower-controlled company lifting returns to the grower at the expense of the shareholder. Our business model and the governance practices guiding this are very specific and built into our constitution, and we have a clear conflict resolution policy to manage any perceived conflicts between the cost of the product and the profitability of the business."

The structure is proving to be mutually beneficial. "Parts of our business are dedicated to making a return for the grower – for example, selling branded rice sourced from Australian growers to the Middle East," says Gordon. "We also go to market there with rice grown in other countries and this margin goes back to our B Class shareholders. Both A and B Class shareholders benefit from the fact the costs of maintaining a distribution channel and supporting the brand in the Middle East are shared."

An attractive opportunity

There are good reasons for investing in Australian agriculture. At farm-gate, the sector contributes three per cent to Australia's total gross domestic product (GDP) and, in 2016-17, the gross value of Australian farm production was $60 billion. Agriculture is also continuing to grow steadily, consistently out-performing other sectors – and SunRice has a much bigger story to tell.

"IT'S IMPORTANT OUR INVESTORS KNOW THEY WON'T BE DISADVANTAGED BY A GROWER-CONTROLLED COMPANY LIFTING RETURNS TO THE GROWER AT THE EXPENSE OF THE SHAREHOLDER."

Rob Gordon, SunRice

"We have our roots in agriculture but we're much more than a commodities company," says Gordon. "Many of the institutional investors, brokers and family super funds we've been talking to are surprised to discover the geographical diversity of our business and how our branded, value-added product portfolio provides resilience of earnings through the volatility of a normal agricultural cycle."

SunRice currently exports 80 per cent of its domestic produce and has the capability to source rice from its subsidiary in California, a mill recently opened in the Mekong Delta in Vietnam and trading partners across Asia, with other regions currently under review. Export destinations include the Pacific and the Middle East and the company has an increasing presence in South East Asia, selling rice to Thailand, Singapore, Hong Kong and even Japanese-style rice to Japan. The company's animal feed division, CopRice, provides food for stock and companion animals while its wholly-owned subsidiary Riviana Foods is one of the country's leading food importers.

"All of this offers diversity in earnings and lots of natural hedge," says Gordon. "We're finding this is an attractive theme for investors, particularly when our track record includes decades of equity built up with consumers in different markets around the world."

Performing through the drought

SunRice originally planned to raise about $25 million of fresh capital when it listed on ASX but, given the severity of the drought affecting its Australian growing region, decided to wait.

"Our balance sheet is very healthy and under-leveraged so it was clear we'd be better off funding our short term growth and strategic initiatives from our own balance sheet and debt headroom," says Gordon. "When we get through the drought we'll look at bringing a raising to market so investors can take a meaningful piece of the register."

Meanwhile, Gordon is encouraging prospective investors to observe how the company performs through this challenging cycle.

"Our breadth and diversity means we're likely to experience less volatility than non-branded companies," he says. "For example, in Australia we've just harvested less than 10 per cent of the amount we'd expect in a normal year but our fully-integrated supply chains in California and Vietnam have provided a hedge against these extremely dry conditions. In fact, we've just informed the market that we'll be looking to sell about 1.1 million tonnes in the coming financial year despite a local harvest of just 54,000 tonnes. So, by the time we're ready to capital raise, investors should be well informed about risks and opportunities associated with our business."

A successful model

Gordon hopes the structure SunRice developed in association with ASX will prove valuable for other organisations.

"We believe the model we brought to market reflects a very high-governance yet business-minded approach by ASX," he says. "Many co-operatives with an agricultural heritage face similar challenges of how to source capital to fund growth, so our structure may provide a blueprint for others to follow."