

BUY

HOLD

SELL

Financial results

Distribution growth accelerates

We retain a BUY rating with a 12-month price target of \$1.21 p/unit. RFF is a listed property trust with a portfolio of Australian agricultural assets. We are attracted to RFF for its distribution yield (FY16e: 8.1%), favourable asset value drivers and potential to grow the asset base through developments/acquisitions. RFF has confirmed a solid FY15 result with funds from operations of \$11.0M slightly above guidance. RFF reiterated its commitment to growing the asset base via accretive acquisitions and upgraded its sustainable distribution growth to 4% p.a. (was 3%). RFF's valuation metrics remain attractive (FY16e P/NAV: 0.90x).

Key points

FY15 result. Funds from operations of \$11.0M was slightly above our forecast and guidance of \$10.7M. The distribution of 8.59cpu was consistent with our forecast and guidance. NAV of \$1.22 p/unit was 4% above pcg and our forecast and benefited from \$11.2M of property asset revaluations.

Guidance. RFF upgraded guidance for its FY16 distribution from 8.85cpu to 8.93cpu and committed to sustainable distribution growth of 4% p.a. (was 3%).

Forecasts. Modest changes to cash earnings with funds from operations upgraded 1% - 2%. Distribution forecasts upgraded to reflect RFF's commitment to 4.0% annual growth. NPAT changes reflect non-cash movement in asset valuations.

Key financial metrics

Y/E: 30 June		FY14	FY15	FY16e	FY17e	FY18e
Funds from operations (FFO) p/unit	cents	6.12	9.06	9.60	11.26	11.72
- grow th on pcg	%	n/a	n/a	5.9%	17.3%	4.1%
Distribution p/unit	cents	9.21	8.59	8.93	9.29	9.66
- grow th on pcg	%	n/a	n/a	4.0%	4.0%	4.0%
Net asset value p/unit	\$	1.17	1.22	1.23	1.25	1.27
- grow th on pcg	%	n/a	4.1%	0.5%	1.8%	1.9%
Gearing (drawn term debt / assets)	%	41.5%	36.2%	38.4%	38.6%	38.4%

Source: RFF & WHTM.

Valuation. Our 12-month target of \$1.21 p/unit is based on the average of DCF, DDM, yield and P/NAV. The increase primarily reflects a higher DDM valuation, driven by the upgraded distribution growth rate.

Risks and catalysts

Risks. Tenant risk (lease renewal, payment of rent), asset values (influenced by soft commodity prices), sector valuation metrics (bond yields, inflation).

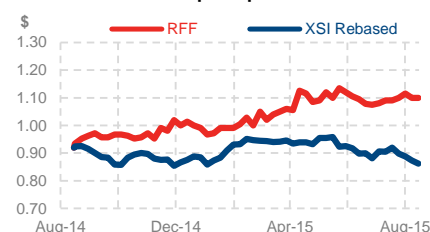
Catalysts. Rent review events, asset development/acquisition opportunities.

12-mth target price (AUD)	\$1.21
Share price @ 27-Aug-15 (AUD)	\$1.10
Forecast 12-mth capital return	9.8%
Forecast 12-mth dividend yield	8.1%
12-mth total shareholder return	17.9%

Market cap	\$146m
Enterprise value	\$248m
Shares on issue	132m
Sold short	0.0
ASX 300 weight	n/a
Median turnover/day	\$0.1m

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12-mth share price performance



	1-mth	6-mth	12-mth
Abs return (%)	1.4	11.3	29.6
Rel return (%)	5.9	20.7	35.8

Year-end June (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F
NPAT rep (\$m)	20.1	10.2	12.4	14.9	15.7
NPAT norm (\$m)	7.4	10.2	12.4	14.9	15.7
Consensus NPAT (\$m)			13.0	14.9	14.9
EPS norm (cps)	6.3	8.4	9.4	11.3	11.8
EPS growth (%)		32.7	11.6	20.6	5.0
P/E norm (x)	17.4	13.1	11.8	9.7	9.3
EV/EBITDA (x)	20.4	16.4	13.6	11.6	11.1
FCF yield (%)	5.3	6.2	9.1	10.0	10.4
DPS (cps)	9.2	8.6	8.9	9.3	9.7
Dividend yield (%)	8.4	7.8	8.1	8.4	8.8
Franking (%)	0	0	0	0	0

Source: Company data, WHTM estimates, S&P Capital IQ

KEY CHANGES	22-Jul	After	Var %
NPAT: FY16F	12.9	12.4	-3.9%
norm FY17F	15.0	14.9	-0.5%
(\$m) FY18F	14.5	15.7	7.9%
EPS: FY16F	9.7	9.4	-3.9%
norm FY17F	11.3	11.3	-0.5%
(cps) FY18F	11.0	11.8	7.8%
DPS: FY16F	8.8	8.9	1.0%
(cps) FY17F	9.1	9.3	2.0%
FY18F	9.4	9.7	2.9%
Price target:	1.15	1.21	5.2%
Rating:	BUY	BUY	



PRICE TARGET		
	Valuation	Price target
DCF (\$ p/sh)	1.19	
FY16 DPU (cents)	8.93	
DPU growth (%)	4.0	
Cost of equity (%)	11.6	
DDM valuation (\$ p/sh)	1.23	
FY16 P / NAV (x)	1.0	
NAV valuation (\$ p/sh)	1.23	
FY16 yield (%)	7.5	
Yield valuation (\$ p/sh)	1.19	
TOTAL (\$/share)		1.21

INTERIMS (\$m)					
Half-year (AUD)	Dec 14	Jun 15	Dec 15	Jun 16	
	1HA	2HA	1HE	2HE	
Sales revenue	10.7	11.5	11.4	12.5	
EBITDA	7.6	7.5	8.6	9.7	
EBIT	7.5	7.2	8.4	9.5	
Net profit	4.9	5.3	5.7	6.7	
Norm EPS	4.1	4.2	4.3	5.0	
EBIT/sales (%)	69.7	62.9	73.2	75.8	
Dividend (c)	4.3	4.3	4.5	4.5	
Franking (%)	0.0	0.0	0.0	0.0	

FINANCIAL STABILITY				
Year-end June (AUD)	FY15A	FY16F	FY17F	
Net debt	91.4	102.8	103.3	
Net debt/equity (%)	56.6	63.3	62.5	
Net debt/EV (%)	36.8	41.4	41.6	
Current ratio (x)	46.2	14.5	6.8	
Interest cover (x)	2.8	3.5	3.8	
Adj cash int cover (x)	2.6	3.7	3.7	
Debt/cash flow (x)	10.1	6.8	7.0	
Net debt (cash)/share (\$)	0.7	0.8	0.8	
NTA/share (\$)	1.3	1.2	1.3	
Book value/share (\$)	1.2	1.2	1.2	
Payout ratio (%)	102	96	82	
Adj payout ratio (%)	114	88	83	

EPS RECONCILIATION (\$m)				
	FY15A		FY16F	
	Rep	Norm	Rep	Norm
Sales revenue	22	22	24	24
EBIT	14.7	14.7	17.9	17.9
Net profit	10.2	10.2	12.4	12.4
Notional earn	0.0	0.0	0.0	0.0
Pref/conv div	0.0	0.0	0.0	0.0
Profit for EPS	10.2	10.2	12.4	12.4
Diluted shrs (m)	121	121	132	132
Diluted EPS (c)	8.4	8.4	9.4	9.4

RETURNS				
	FY15A	FY16F	FY17F	FY18F
ROE (%)	6.8	7.6	9.1	9.4
ROIC (%)	4.3	4.8	5.5	5.7
Incremental ROE	23.0	17.8	139.1	24.7
Incremental ROIC	17.1	12.5	27.7	20.4

KEY ASSUMPTIONS					
Year-end June (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue growth (%)	n/a	49.7	8.2	11.8	3.2
EBIT growth (%)	n/a	24.8	21.9	17.2	4.9
EPS growth (%)	n/a	32.7	11.6	20.6	5.0
Tax rate (%)	0.0	-7.5	3.0	3.0	3.0
ROA (%)	4.9	5.6	6.4	7.3	7.5
ROE (%)	5.4	6.3	7.7	9.1	9.4
Rental income (\$m)	14.8	21.7	23.4	26.2	27.0
Funds from operations (\$m)	7.2	11.0	12.7	14.9	15.5
FFO growth (%)	n/a	53.5	15.6	17.3	4.1
Distribution p/unit (cents)	9.21	8.59	8.93	9.29	9.66
Distribution growth (%)	n/a	-0.1	4.0	4.0	4.0
Net asset value (\$)	1.17	1.22	1.23	1.25	1.27

PROFIT AND LOSS (\$m)					
Year-end June (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F
Sales revenue	14.8	22.1	24.0	26.8	27.6
EBITDA	12.2	15.1	18.3	21.3	22.4
Depn & amort	0.4	0.5	0.4	0.4	0.4
EBIT	11.7	14.7	17.9	20.9	22.0
Net interest expense	4.4	5.2	5.1	5.6	5.8
Tax	0.0	-0.7	0.4	0.5	0.5
Minorities/pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net profit (pre-sig items)	7.4	10.2	12.4	14.9	15.7
Abns/exts/signif	12.7	0.0	0.0	0.0	0.0
Reported net profit	20.1	10.2	12.4	14.9	15.7

CASH FLOW (\$m)					
Year-end June (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F
EBITDA	12.2	15.1	18.3	21.3	22.4
Interest & tax	-4.2	-5.3	-5.1	-5.6	-5.8
Working cap/other	-3.9	-0.5	0.5	-0.9	-1.0
Operating cash flow	4.1	9.3	13.6	14.9	15.5
Maintenance capex	3.6	-0.3	-0.4	-0.4	-0.4
Free cash flow	7.7	9.0	13.2	14.5	15.1
Dividends paid	-5.9	-10.3	-11.6	-12.0	-12.5
Growth capex	0.0	0.0	0.0	0.0	0.0
Invest/disposals	2.8	-10.7	-13.0	-3.0	-3.0
Other inv flows	-4.6	0.0	0.0	0.0	0.0
Cash flow pre-financing	0.0	-12.0	-11.4	-0.5	-0.4
Funded by equity	0.2	15.0	0.0	0.0	0.0
Funded by debt	2.3	-5.0	12.0	2.0	1.0
Funded by cash	-2.5	2.0	-0.6	-1.5	-0.6

BALANCE SHEET SUMMARY (\$m)					
Year-end June (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F
Cash	2.7	0.7	1.4	2.8	3.4
Current receivables	3.3	2.7	3.4	3.8	3.9
Current inventories	0.0	0.0	0.0	0.0	0.0
Net PPE	0.0	3.2	3.2	3.2	3.2
Investments	138.1	142.4	153.2	158.8	164.6
Intangibles/capitalised	25.2	40.9	46.4	46.3	46.3
Other	71.9	72.4	73.2	71.5	69.8
Total assets	241.2	262.2	280.7	286.4	291.1
Current payables	4.1	2.0	3.6	4.0	4.1
Total debt	94.3	92.1	104.1	106.1	107.1
Other liabilities	5.4	6.6	10.7	11.1	11.5
Total liabilities	103.8	100.7	118.4	121.2	122.7
Minorities/convertibles	0.0	1.4	1.4	1.4	1.4
Shareholder equity	137.5	161.5	162.3	165.2	168.3
Total funds employed	231.8	253.6	266.4	271.3	275.4



Result review

A summary of RFF's FY15 result is provided in the table below.

Result summary						
Y/E: 30 June		FY14	FY15	% Chg	WHTM est	% Chg vs est.
Total property income	\$M	16.2	22.3	37.5%	21.9	1.7%
Cash EBIT (normalised)	\$M	11.5	16.2	40.7%	15.9	1.5%
NPAT (reported)	\$M	20.1	10.2	(49.6%)	13.1	(22.3%)
Funds From Ops (normalised)	\$M	7.2	11.0	53.5%	10.7	2.3%
Funds From Ops (normalised)	cpu	6.12	9.06	48.2%	8.86	2.3%
Distribution	cpu	9.21	8.59	(6.7%)	8.59	0.0%
NAV (p/sh)	\$	1.17	1.22	4.1%	1.18	3.7%
Net debt / (cash)	\$M	91.6	91.4	(0.2%)	94.9	(3.7%)

Source: RFF & WHTM. Note: FY14 not reflective of current business structure.

Key points

Income statement. Funds from operations (FFO or distributable income) of \$11.0M was slightly above our forecast and guidance.

Property income of \$22.3M was slightly above our forecast.

The distribution of 8.59cpu was consistent with our forecast and guidance.

NAV of \$1.22 p/unit was 4% above pcg and our forecast. Property assets increased in value from \$228M at 30 June 2014 to \$249M at 30 June 2015, driven by \$11.2M of net positive revaluation in the existing asset base, along with \$10.1M of capex deployed on the Tocabil development. Of the \$11.2M revaluation, \$9.5M relates to RFF's water entitlements. Accounting standards require these assets to be carried at historical cost. Both the independent valuer and RFF's debt financiers are supportive of the adjusted valuation metrics. We therefore include the adjusted asset valuation metrics in our financial modelling.

Balance sheet. Net debt was slightly below our expectation due to a lag in the capex deployment on the Tocabil development. During the year, RFF renegotiated its debt facility, which will provide lower funding costs over the remaining term.



Earnings outlook

Guidance

RFF has upgraded guidance for its FY16 distribution from 8.85cpu to 8.93cpu and committed to a sustainable distribution growth rate of 4.0% p.a. (previously 3.0%).

WHTM view

Modest changes to cash earnings with funds from operations upgraded 1% - 2%.

We upgrade our distribution forecasts to reflect RFF's commitment to 4.0% annual growth.

Changes to NPAT reflect non-cash movement in asset valuations.

Earnings revisions		FY16e	FY17e	FY18e
Y/E: 30 June				
Cash revenue - old	\$M	23.8	26.5	27.3
Cash revenue - new	\$M	24.0	26.8	27.6
- % chg	%	0.6%	1.1%	1.3%
Funds from Operations - old	\$M	12.6	14.8	15.2
Funds from Operations - new	\$M	12.7	14.9	15.5
- % chg	%	0.7%	0.5%	2.1%
NPAT (reported) - old	\$M	12.9	15.0	14.5
NPAT (reported) - new	\$M	12.4	14.9	15.7
- % chg	%	(4.1%)	(0.6%)	8.0%
- % growth	%	8.0%	8.4%	8.7%
FFO p/unit - old	\$M	9.54	11.19	11.54
FFO p/unit - new	\$M	9.60	11.26	11.72
- % chg	%	0.6%	0.6%	1.6%
- % growth	%	5.9%	17.3%	4.1%
DPU - old	\$M	8.85	9.11	9.39
DPU - new	\$M	8.93	9.29	9.66
- % chg	%	1.0%	2.0%	2.9%
NAV p/unit - old	\$	1.19	1.21	1.23
NAV p/unit - new	\$	1.23	1.25	1.27
- % chg	%	3.2%	3.3%	3.6%

Source: Wilson HTM



Key financial metrics

Y/E: 30 June		FY14	FY15	FY16e	FY17e	FY18e
Property income	\$M	14.8	21.7	23.4	26.2	27.0
- growth on pcip	%	n/a	46.8%	7.6%	12.0%	3.2%
- gross yield	%	n/a	9.6%	9.2%	9.8%	9.9%
Funds from operations (FFO)	\$M	7.2	11.0	12.7	14.9	15.5
- growth on pcip	%	n/a	n/a	15.6%	17.3%	4.1%
- yield on income generating assets	%	3.0%	4.2%	4.5%	5.2%	5.3%
- yield on NAV	%	5.2%	6.8%	7.8%	9.0%	9.2%
Weighted number of units on issue	M	116.9	121.1	132.1	132.1	132.1
Funds from operations (FFO) p/unit	cents	6.12	9.06	9.60	11.26	11.72
- growth on pcip	%	n/a	48.2%	5.9%	17.3%	4.1%
Distribution p/unit	cents	9.21	8.59	8.93	9.29	9.66
- growth on pcip	%	n/a	(6.7%)	4.0%	4.0%	4.0%
- yield on unit price	%	8.3%	7.7%	8.0%	8.4%	8.7%
Assets	\$M	241.2	262.2	280.7	286.4	291.1
- growth on pcip	%	n/a	8.7%	7.0%	2.0%	1.6%
NAV	\$	1.17	1.22	1.23	1.25	1.27
- growth on pcip	%	n/a	4.1%	0.5%	1.8%	1.9%
- prem / (disc) to unit price	%	(5.4%)	(9.2%)	(9.6%)	(11.2%)	(12.9%)
Gross debt	\$M	94.3	92.1	104.1	106.1	107.1
- LVR (draw n term debt / assets)	%	41.5%	36.2%	38.4%	38.6%	38.4%
- ICR (Cash EBITDA / gross interest)	x	2.6x	3.1x	3.5x	3.6x	3.6x

Source: RFF & WHTM.



Rural Funds Group (RFF)

BUSINESS DESCRIPTION

Rural Funds Group (RFF) is a listed property trust with a diversified portfolio of Australian agricultural assets. RFF had total assets of \$247M and net assets of \$137M at 30 June 2014. RFF generates lease revenue and potential capital growth through owning agricultural assets.

INVESTMENT THESIS

RFF is a listed property trust with a portfolio of Australian agricultural assets. We are attracted to RFF for its distribution yield (FY16e: 8.1%), favourable asset value drivers and potential to grow the asset base through developments/acquisitions. RFF has confirmed a solid FY15 result with FFO of \$11.0M slightly above guidance. RFF reiterated its commitment to growing the asset base via accretive acquisitions and upgraded its sustainable distribution growth to 4% p.a. (was 3%). RFF's valuation metrics remain attractive (FY16e P/NAV: 0.90x).

REVENUE DRIVERS

- Asset values
- Gross rental income yield

MARGIN DRIVERS

- Asset values
- Gross rental income yield
- Property, fund and management fees

KEY ISSUES/CATALYSTS

- Asset valuations
- Rent review events
- Asset developments/acquisitions

RISK TO VIEW

- Lease renewals
- Asset values
- Sector valuation metrics

BALANCE SHEET

- FY15 LVR: 35.7%
- FY15 cash EBITDA/interest expense: 3.1x

BOARD

- Guy Paynter, Non-Executive Chairman
- David Bryant, Managing Director
- Michael Carroll, Non-Executive Director

MANAGEMENT

- Stuart Waight, Chief Operating Officer
- Andrea Lemmon, Executive Manager Funds Management
- Melanie Doyle, Chief Financial Officer

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Recommendation structure and other definitions

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

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