

25 February 2016



SELECT HARVESTS

## Select Harvests strategy paying off - strong result, significant cash generation, low debt and healthy dividends

### Overview of Results

- Reported 1H16 NPAT of A\$23.9 million exceeded 1H15 Restated NPAT of A\$17.0 million - up 41%
- Excluding the impact of non-recurring items, 1H16 NPAT of A\$21.1 million exceeded 1H15 NPAT of A\$19.6 million - up 8%
- Operating Cash Flow of A\$80.8 million (1H15 A\$18.4 million) - up 339%
- Net Debt (including lease liabilities) is A\$52.6 million and Gearing (Net Debt/Equity including lease liabilities) at 31 December 2015 is 17.8%
- 1H16 Interim Dividend (Unfranked) 21 cps - up 40%

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Select Harvests today announces results for the 6 months ended 31 December 2015 (1H16) with a Net Profit after Tax (NPAT) of A\$23.9 million.

The Directors announce an interim dividend (unfranked) of 21 cents per share (1H15 interim dividend 15cps), payable on 15 April 2016 and with a Record Date of 4 March 2016.

Select Harvests delivered a strong result today, dominated by operating cash flow of A\$80.8 million, which flows on to debt reduction, low gearing and an increased dividend.

Over the last few years, the company has executed a strategy to grow its Almond and integrated Food business. The primary focus of that strategy was to increase the critical mass of almonds and improve the profitability of the value-added Food Division. The value of that strategy is now clear, with the significant cash flow being generated and deployed to funding growth, debt reduction and dividends from a strong balance sheet foundation.

With an average tree age of between 11-12 years, a funded expansion plan in place to increase almond production to over 20,000MT per annum by 2022/23, a strong and high growth industrial sales base and improved Consumer Brands business with record Lucky Market share, and strategies in place to expand sales into China and other overseas markets, shareholders can reasonably look forward to ongoing cash generation.

### **Global Almond Market**

Spot almond prices have retracted from their record highs in the last half of CY15. There has been a lot of speculation that this price movement is driven by an increase in almond supply out of the US. US production has only increased approximately 1.8%. The price pullback is primarily a reaction to record prices.

End users are reluctant to commit to inventory in such an uncertain market and are conducting their buying activities on a hand to mouth basis. The recent Californian Almond Board January Position Report reveals that trading is improving with shipments up 12% YOY, although grower inventory remains above historical averages. The current market prices will stimulate demand in the most price sensitive markets: India, China and the Middle East.

## **Select Harvests Almond Division**

### **2016 Almond Harvest Estimate**

As the 2016 harvest and marketing program has just commenced, our almond price forecast is based on sales and up to date market intelligence about current prices and crop size on pre-harvest yield estimates. The first trees were shaken on 8 February 2016 and the 2016 crop yield estimate is 13,700 MT, down 5% on the record 2015 crop of 14,500 MT. This estimate accounts for the underlying slight biennial nature of the pollinator varieties, the removal of some older trees at the Kyndalyn Park orchard and the first harvest of the Boundary Bend replant. We estimate harvest will finish late April, weather permitting - the current forecast looks favorable over the harvest outlook period.

We have currently sold 16% of our 2016 crop (last year 30% sold at this time), reflective of the lower volumes that are being traded in the market at this point in time. Our current 2016 pool price **estimate** is A\$9.00/kg, reflecting the spot price and contracted commitments.

### **2015 Almond Crop**

The 2015 crop has been now processed, and largely sold or contracted. The realized EBIT from this crop is A\$4.0 million higher than the estimated EBIT reported in the FY15 full year result, impacting the 1H16 result positively.

## **Select Harvests Food Division**

The Food Division posted Revenues of A\$91.7 million, an increase of 30% from A\$70.6 million last year. This is a strong result and should give confidence that the trend towards target EBIT of A\$10.0 million by FY18 is well on track. This strong performance is due to the combined impact of growth in revenues within the industrial ingredient supply business, driven by price, volume and margin improvements, and increase in branded sales. The increasing focus on exports is evident, an example being our Sunsol muesli is now available in 6 countries. With the recent Chinese Free Trade Agreement (FTA) we will be increasing our focus and investment in the Chinese market.

The first half result includes a non-recurring gain on sale of assets of A\$4.0 million pre-tax (A\$2.8 million post tax). Tax expense includes A\$2.8 million of Research & Development (R&D) tax benefits arising from prior year claims.

### **Managing Director Comment**

Select Harvests' Managing Director Paul Thompson said: *"Our strategy remains focused on delivering significant operating cash flows, implementing the investment in our growth, maintaining a prudent balance sheet, plus payment of healthy dividends. Our Balance Sheet is strong and funding is secure. The productivity of our orchards is improving, the Food Division profitability continues to increase and the two major cost-out projects are on track. Most importantly, the company is investing in additional capacity to grow its future earnings base. We have restructured the business over the last few years to profit and grow in all environments, throughout the cycle."*

## **Key 1H16 Initiatives - Almond Division**

### **Sale and Leaseback of almond orchards**

On 20 August 2015, the Company announced the sale and leaseback of three existing properties in Victoria and South Australia, to First State Super. The transaction comprised selling 995 hectares (2,458 acres) of planted almond orchards, 292 hectares (722 acres) of planted citrus orchards, and 1,012 hectares (2,500 acres) of land suitable for the planting out of new greenfield almond orchards. Net proceeds of the sale were A\$64.0 million. A pre-tax gain on sale of A\$4.0 million is included within the 1H16 result. The orchards are leased back to Select Harvests under a 20 year lease term with options to extend the lease.

### **Almond orchard acquisitions**

In the first half of the financial year the Company acquired a small almond orchard in New South Wales for A\$5.0 million. The acquisition includes 81 hectares (200 acres) of planted almond orchards, and 69 hectares (170 acres) available for new plantings, along with permanent water rights. This investment is part of the strategy to further leverage the scale and critical mass of almonds, now in place in this state.

### **Greenfield Developments**

The development of new almond orchards are progressing to plan.

At the Company owned orchards near Loxton in South Australia, the plant out of 354 hectares (948 acres) was completed in July 2015, with the first crop from this extension of the orchard being in 2018.

As part of the First State lease agreement, funding is being provided to support the development and plant out of 1,012 hectares (2,500 acres) in South Australia and Victoria - 810 hectares (2,000 acres) will be planted out during the winter of 2016 and the balance due for plant out in the winter of 2017. The installation of infrastructure is on time and on budget for these plantings.

### **Western Australia**

On 10 December 2015, the Company announced the sale of its Western Australian assets for A\$9.5 million. Proceeds will be settled in April 2016.

### **Future Almond Growth**

The company has successfully delivered significant productive growth in scale and geographic diversity of its almond orchard portfolio in recent years. It has also missed out on acquiring orchards where it felt property prices were not justified by market fundamentals. The recent pull back in almond prices validates this disciplined, commercial approach.

The Company remains committed to growth and further expansion of the almond orchard portfolio through the identification of additional land banks, and acquisition of existing almond orchards, where it makes economic sense to do so.

**Current investments (i.e. trees in the ground or that have been announced to be planted in 2016 and 2017) will enable production of almonds to exceed 20,000 MT per annum, once all developing trees reach maturity by 2022/23.**

## **Water**

The Company has continued to implement its risk mitigation and water strategy to ensure the almond orchards have a secure and economic supply of water aligned to the maturity profile of the portfolio. This includes A\$5.0 million of new purchases of permanent water rights in the first half of the financial year, along with entering into new lease and spot purchases of temporary water.

Water supply for the 2016 crop is now fully secured and funded with the focus now on ensuring carry over supply is in place leading into the new season. Water prices have trended upwards during the period, but the overall impact on earnings is not significant in the overall cost profile of the orchards in FY16.

## **Key 1H16 Initiatives – Food Division**

The Food Division is beginning to deliver strong growth on the back of measures that have been progressively implemented in the last 3 years. It has been a tough environment for the Food Division to prosper in, given the relentless retailer price pressure and commodity cost increases. Nonetheless, there is inherent value in an integrated food business, particularly when the commodity prices start to retract. Our recent investment in researching insights, rationalizing range, new product development, formulations, branding, new channels and markets is now starting to bear fruit.

The Food Division is growing and the Project Parboil investment in a dedicated, modern, efficient, world class almond value-adding processing facility will give it the support it needs to grow to the next level.

## **Balance Sheet, Funding and Cash Flow Developments**

Operating cash flow of A\$80.8 million was delivered in the first half of the financial year with significant proceeds received from the sales of the 2015 crop. The quality of this cash flow is even more impressive in that the full and enhanced high input orchard program has been funded.

With the average age of the almond trees across the portfolio at between 11 and 12 years this performance now clearly demonstrates the cash generating capacity of the asset base the Company now has. These assets will support sustainable cash flows for many years to come.

During 1H16 the company continues to invest in important strategic cost out initiatives as well as upgrading irrigation infrastructures. Investing cash flows include capital in progress for the construction of the co-generation plant (Project H2E) and the new almond value added processing facility at Carina West (Project Parboil), both of which are on track for commissioning by the end of the 2016 calendar year.

Proceeds from sale and leaseback have been applied to reduce bank debt and support funding of growth and cost out initiatives.

On 12 February 2016, the Company completed the renegotiation of its bank facilities to support its medium term funding requirements and taking advantage of lower funding costs. The new facility comprises a 3 year term facility and seasonal working capital facility, being A\$115.0 million in total, excluding acquisition lines, with National Australia Bank, Rabobank and Commonwealth Bank of Australia.

The introduction of an additional partner, being Commonwealth Bank of Australia, further diversifies and strengthens the company's funding sources and provides flexibility to support the company's growth agenda and headroom to manage the annual funding cycle.

Net Debt (excluding lease liabilities) is \$ 15.6 million and Gearing (net debt/equity excluding lease liabilities) at 31 December 2015 is 5.3 %.

Net Debt (including lease liabilities) is \$ 52.6 million and Gearing (net debt/equity including lease liabilities) at 31 December 2015 is 17.8 %

The Company has a strong balance sheet, strong operating cash flows and low gearing.

## **Outlook**

On the basis of current estimates for the 2016 almond crop yield and almond price potential, the Company is on track for another strong year of earnings and cash flow performance, albeit uncertainty remains as to the US dollar almond prices which will prevail as the Company advances the sale program for the 2016 crop.

The Australian growing season to date has been normal and the harvest has commenced. Select Harvests' prime focus is now on safely, quickly and efficiently completing the harvest, and progressing with the processing and selling of the crop.

Global consumers are continuing to demand almonds. This demand led growth, combined with the sustained weakening of the AUD against the USD over the last 12 months, has ensured that Select Harvests remains well placed. The Company is committed to investing behind its core business of almonds, with a belief that the fundamentals of the industry are positive and intact.

The macro fundamentals of almonds and healthy eating remain favorable for Select Harvests. The focus within the business in the near term is:

- Planting out the 1,012 hectares (2,500 acres) of greenfield orchards through 2016/17 to deliver a world class addition to the almond orchard portfolio;
- Continuing to evaluate additional investments in mature & Greenfield almond orchard developments, in order to further enhance the production capacity in almonds;
- Continued improvement in the performance of the Select Harvests portfolio of almond orchards (inc. replant program and higher input horticulture programs);
- Maintaining the positive growth in the Food Division through new product innovation, supply chain integration and efficiencies and export market growth;
- Commission the recently announced Biomass Electricity Cogeneration Plant and Value Added almond processing plant at Carina West to deliver material energy and supply chain costs savings by 2017;
- Continue to evaluate new growth alternatives for the company which includes potential investments in adjacent nut related categories, and expansion into healthy eating categories to increase exposure to Asian export markets.

**ENDS**

**FOR FURTHER INFORMATION, PLEASE CONTACT:**

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**BACKGROUND:**

*Select Harvests Ltd (ASX:SHV) is an ASX listed, fully integrated almond business consisting of orchards (company owned, leased, joint venture and managed), primary processing (hulling & shelling), secondary processing (blanching, roasting, slicing, dicing, meal), trading (industrial products) and consumer products (Private Label & Brands - Lucky, Sunsol, Soland, Nuvit, Renshaw & Allinga Farms). Select Harvests also import a full range of nuts (in addition to almonds) for inclusion in their Consumer Products range of nut products. Australia is a significant global almond producer and Select Harvests are one of Australia's largest almond companies, supplying almonds domestically and internationally, to supermarkets, health food shops, industrial segments and the almond trade. The company is headquartered at Thomastown on the outskirts of Melbourne, Australia while its orchards are located in North West Victoria, Southern New South Wales and South Australia. Its primary processing facility (Carina West) is located at Wemen in North West Victoria and the secondary processing facility is located at Thomastown.*

## Half Year Results – Key Financial Data

\$000's	1H FY2015 (Note 1)	1H FY2016	%
<b>Revenues</b>	<b>100,582</b>	<b>166,384</b>	<b>+65.4%</b>
<b>EBITDA</b>	<b>36,580</b>	<b>33,693</b>	<b>-7.9%</b>
Depreciation	5,988	4,901	
<b>EBIT</b>			
Almond Division	29,676	25,058	-15.6%
Food Division	4,091	6,724	+64.4%
Corporate	(3,175)	(2,990)	-5.8%
<b>Total EBIT</b>	<b>30,592</b>	<b>28,792</b>	<b>-5.8%</b>
Interest Expense	(2,600)	(2,592)	
<b>Profit Before Tax</b>	<b>27,992</b>	<b>26,200</b>	<b>-6.8%</b>
Tax expense	(8,398)	(5,087)	
<b>NPAT (before non - recurring items)</b>	<b>19,594</b>	<b>21,113</b>	<b>+7.8%</b>
Non - recurring items (Note 2)	(2,636)	2,800	
<b>NPAT Reported</b>	<b>16,958</b>	<b>23,913</b>	<b>+41.0%</b>
<b>EPS (before non – recurring items)</b>	<b>31.6</b>	<b>29.5</b>	<b>-6.6%</b>
<b>Net Debt (exc lease liabilities)</b>	<b>98,652</b>	<b>15,585</b>	
<b>Net Debt (inc lease liabilities)</b>		<b>52,630</b>	
<b>Gearing (exc lease liabilities)</b>	<b>37.6%</b>	<b>5.3%</b>	
<b>Gearing (inc lease liabilities)</b>		<b>17.8%</b>	

**Note 1:** The 1HFY2015 earnings have been restated to take into account the early adoption of Changes to Accounting Standards in FY2015 (AASB116 and AASB141 whereby almond trees are classified as Bearer Plants and depreciated).

**Note 2:** Non-recurring item in 1H2016 is the gain on sale of assets impacting EBIT by A\$4.0 million and NPAT by A\$2.8 million. Non recurring item in 1H2015 is transaction costs associated with acquisitions impacting EBIT by -A\$3.8 million and NPAT by -A\$2.6 million.

**General:** It should be reiterated that, as is always the case at the time the Company develops this crop value estimate, there is the potential for changes to occur both in the pricing environment, in particular noting the level of price uncertainty in the almond market at this point in time, and in yield outcomes, as the harvest progresses.