

# AGRICULTURAL HOTSPOTS: RURAL FUNDS MANAGEMENT (ASX:RFF)

Nina Hendy, Contributing Columnist

Tim Sheridan spends his days cherry picking the best agricultural assets in Australia and equipping them with everything they need to grow into a farming powerhouse.

The chief operating officer of Rural Funds Management (RFM), spends his working days sitting in a corporate office in Canberra, but from here, he has a birds eye view of \$2.4 billion worth of agricultural assets that fall within his wheelhouse.

With a business degree from the University of Canberra under his belt, Sheridan started with the company as a financial analyst in 2008 handling financial modelling and new acquisitions, eventually moving into the COO role in 2018. After spending all day working to make all those farms operationally stronger, Sheridan spends his weekends tending to his hobby farm.

As you'd expect, he's a straight talker with a penchant for growth. Raised on his family's sheep and cattle farm near Wagga, he oversees one of Australia's most experienced agricultural fund managers, deploying the latest technology and science-based precision agricultural management practices to ensure each farm reaches peak yields.

A pragmatic and practical person to the core, Sheridan looks for financial analysis to drive the strategy and decisions he and his team make each day. It's obviously working.

RFM is the manager of the ASX-listed Rural Funds Group (RFF), a fund that has been acquiring, developing and leasing-out Australian farmland, agricultural infrastructure and other assets including water entitlements for a decade, rewriting the rulebook when it comes to investing in agriculture in Australia.

The agricultural real estate investment trust, or "REIT", owns over 740,000 ha of prime Australian farmland and 170GL of water entitlements.

Since listing on the ASX in 2014, RFF has achieved distribution growth of around 3% per annum and has paid out 44 consecutive quarterly distributions. The agricultural REIT appeals to the roughly 20,000 mostly mum and dad investors, who are invested alongside a number of institutional investors.

In the most recent annual report, the listed entity generated earnings of \$117.2m or 30.3 cents per unit through a combination of property revenue and independent asset valuations. Independent valuations also drove an increase in the company's adjusted net asset value of 7.2% to end the year at \$3.14 per unit.

The farming sectors within the fund are diverse, with approximately one third of the portfolio cattle, one third almonds, 20% macadamia farms, 10% cotton, and 5% vineyards, with other assets, including water entitlements completing the balance.

The sector diversification is extremely purposeful, giving the REIT exposure to good fundamentals for the underlying agricultural industries. Macadamias are the only commercialised Indigenous nut in Australia, while a significant proportion of the vineyards fruit is used to make Penfolds wine. Cattle properties owned by the fund are leased by farming giant the Australian Agricultural Company, which is the largest integrated cattle and beef producer in the nation.

"We're always trying to be first movers into different sectors in terms of corporate capital, and in order to do that, we've had to surround ourselves

with people who know how to do it. But before we invest in anything we undertake thorough analysis to understand what the future could hold for that property in 30 years and beyond," Sheridan says.

"Our key focus is to drive the cash generation of our assets, and drive investor distribution growth over the short term. We've always taken a long term view with everything we look at."

While the value of the farming land has increased rapidly over the years, the higher interest rate environment has increased the cost of debt. "We've had to work through that, but we're still managing to deliver results which continue to grow."

To achieve this the team works to improve farm profitability or convert farms to produce more profitable commodities. "When we look at assets and decide where to invest, we take a very long-term view, we model out what they will look like for the next 30 years."

The team, which boasts an average tenure of 12 years, has no qualms admitting when investments outlook may change. This resulted in the sale of some high yielding assets a few years ago, including poultry farms that required additional capital, but would have achieved lower yields, leading to a decision to reinvest in other sectors.

This has also assisted in geographic diversification for the fund. "We did have a concentration mostly in NSW years ago, but we've worked hard to provide investors with geographic diversification into different climatic zones to mitigate our risks," he says.

In recent years RFF has had a capital expenditure budget of around \$100 million per year, as it develops assets, particularly macadamia orchards.

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“You can’t kid yourself and think you can sit in Canberra and roll out extraordinarily successful farms from afar. We need to have people on the ground rolling out developments that we trust, and we’ve got to make sure we completely trust the people we work with,”

Tim Sheridan, COO of Rural Funds Management (RFM)

These farms are being developed with irrigation infrastructure and orchard monitoring technology that will assist in handling seasonal fluctuations. At the same time, reigning in the farms cost of production and maximising the return from its resource base has been a critical element of its strategy.

“We work hard to be efficient with our water and invest in technology and irrigation systems that haven’t been done before so that we can apply the exact amount of water required to crops so that it’s not wasted.”

While the impacts of climate change is still something Sheridan considers, the agricultural REIT has developed strategies to provide comfort to investors by reducing the inherent risks that come with agricultural farming.

The millennial drought gave farmers a taste of what no rain for years on end can do to a farm, driving a push to ensure each property has plentiful water supplies.

“We’ve spent more capital acquiring water entitlements knowing that what we’ve invested in is going to be there forever. For example, we’ve invested in technology to increase water points on our properties, which means farms can increase the head of cattle or plant more nutritious crops for the cattle to graze on,” Sheridan says.

“Water will be a scarce resource and we’re equipping each property with plenty of it. We’ve acquired water entitlements knowing that what we’ve invested in is going to be there forever. Shoring up resources is one of the ways we improve the profitability of our farms,” he says.

The 250 staff working in the company work closely together, whether they

are located at a corporate office, or on-farm. In many instances they know each other’s families. “We’ve worked hard to keep that family business style culture we’ve always had despite the fact that we’ve morphed into a much larger corporate organisation with staff across Canberra, Sydney and Queensland,” Sheridan says.

But farming knowledge isn’t something easily taught. It takes years of practical experience to pick up, and finding available talent has been a challenge, but Sheridan believes the unique approach RFM takes to farming will assist in attracting good people. “We’re exploring a number of long term solutions to employ a significant number of people to work in assets that will be around for a long time,” he says.

“I try and surround myself with good quality people to support what I want to do and make sure I’ve got the expertise we need to grow.

“You can’t kid yourself and think you can sit in Canberra and roll out extraordinarily successful farms from afar. We need to have the right people on the ground rolling out developments, and we’ve got to make sure we completely trust the people we work with.”

### ABOUT RURAL FUNDS MANAGEMENT (RFM)

RFM is one of Australia’s most experienced agricultural fund managers, with extensive sector experience in acquiring, operating and developing assets. Established in 1997, it has grown to now manage \$2.4 billion in assets under management using science-based and precision agricultural management practices.

### ABOUT RURAL FUNDS GROUP (RFF)

RFF is an agricultural Real Estate Investment Trust (REIT) listed on the ASX under the code RFF. RFF owns a diversified portfolio of Australian agricultural assets which are leased predominantly to corporate agricultural operators. Developments seek to achieve low-cost of production assets through productivity improvements or conversion for higher and better use. RFF focuses on agricultural commodities where Australia has a competitive advantage.

**Market cap** \$726.8 million

**Price** \$1.87

**Historical dividend yield** 6.3%

*\* As at 02 December 2024*