

Rural Funds Group | ASX: RFF

Managed by:



Rural Funds Management Ltd

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ASX Release

7 June 2017

Subject: \$78.6 million Entitlement Offer

Rural Funds Management Limited (RFM), as responsible entity and manager of Rural Funds Group (**RFF**), is pleased to announce that it will undertake a \$78.6 million Entitlement Offer.

RFF will use the proceeds of the Entitlement Offer to initially reduce gearing from 42.7% to 29.5%¹, following the debt funded acquisition of two key assets over the past six months. RFM Managing Director, David Bryant said, "RFF has acquired \$60.5 million of strategic new assets since December 2016 in sectors where RFM has existing expertise and knowledge. The assets are currently underdeveloped and contain a number of identified opportunities to improve productivity and drive long term income and asset value growth for RFF unitholders."

In December 2016, RFF acquired Lynora Downs, a 4,880 ha cotton property located in central Queensland for \$26.5 million. The property comprises 780 ha of developed irrigation fields and substantial underutilised water entitlements. Lynora Downs will be further developed during 2017 with the construction of an additional water storage and development of a larger irrigation area. RFM and Queensland Cotton Corporation Pty Ltd, a subsidiary of Olam International Limited have established a joint venture, Cotton JV Pty Ltd, which leases and operates Lynora Downs.

During the same month, RFF acquired 9,549 ML of Murrumbidgee River high security water entitlements for approximately \$34 million. This asset is a cornerstone resource for RFF's next horticultural development, and in the interim, the water allocation will be sold on an annual basis. This parcel of water represents one of the largest parcels of Murrumbidgee River high security entitlements traded.

RFF's target gearing range is 35%, plus or minus 5%. The reduction in gearing will create balance sheet capacity to further build RFF's portfolio of quality agricultural assets. RFM is currently undertaking due diligence on an asset within the Australian cattle sector. The asset is similar in functionality to RFF's other cattle assets, in that it provides the potential third party lessee, with an integrated breeding and backgrounding operation.

¹ Gearing shown on a pro forma basis. For more information see slide 5 of the Investor Presentation lodged with the ASX on 7 June 2017.

The assets acquired in December 2016, grow the natural resource predominant component of RFF's portfolio, balancing the infrastructure intensive assets owned by RFF. One of the features of natural resource assets is the higher level of capital growth they can achieve when compared to infrastructure assets which tend to deliver higher levels of income but depreciate over time.

The recent purchases of Lynora Downs and the Murrumbidgee River high security water entitlement, as well as the cattle assets that have been identified by RFM will provide a number of benefits to RFF, including:

- increased exposure to natural resource "growth" assets that contain productivity improvement potential;
- acquisitions secured by long-term leases to quality tenants in sectors that Australia possesses both comparative and competitive advantages, longevity and scale;
- the Murrumbidgee River high security water entitlement is a strategic asset as it may be used in time to seed a large horticultural development of greater value;
- enhancing RFF's scale, sector and climatic zone diversification; and
- RFM as manager has direct operational knowledge in all sectors to which acquisitions pertain.

Impact of the transaction and FY18 guidance

Following completion of the transaction:

- Gearing will reduce from 42.7% to 29.5% on a pro forma basis as at 30 April 2017, within RFF's target range
- AFFO and DPU forecast for FY17 remains consistent with previous guidance
 - FY17 AFFO per Unit expected to be 12.42 cents
 - FY17 DPU expected to be 9.64 cents
- FY18 AFFO per Unit is forecast to be 12.5 cents
- FY18 DPU is forecast to be 10.0 cents
 - represents growth of 4% p.a. over FY17 DPU and a conservative payout ratio of 80%

Equity Raising

The Equity Raising will comprise a fully-underwritten 2 for 9 non-renounceable entitlement offer to raise \$78.6 million.

The fixed issue price of \$1.70 per Unit represents a:

- 4.0% discount to RFF's last close price on 6 June 2017 of \$1.77
- 4.8% discount to RFF's 5-day VWAP to 6 June 2017 of \$1.79
- 3.3% discount to the TERP of \$1.76
- forecast FY18 AFFO yield of 7.4% and FY18 distribution yield of 5.9%

New Units issued will rank equally with existing Units in RFF and will be fully entitled to the distribution for the quarter ending 30 June 2017, which is expected to be 2.41 cents per Unit.

RFM holds approximately 3.39% of RFF Units on issue, has committed to take up its full entitlement under the Entitlement Offer equating to approximately \$2.7 million.

The Equity Raising is fully underwritten by UBS AG, Australia Branch, Bell Potter Securities Ltd and Wilsons Corporate Finance Ltd.

The institutional component of the offer will be conducted today, and the retail component will open on 14 June 2017 and close at 5.00pm on 26 June 2017.

Additional information

Additional information regarding the Entitlement Offer is contained in the investor presentation released to the ASX today. A retail offer booklet will be released separately and sent to Eligible Retail Unitholders. Those Unitholders who have elected to receive notices by email will receive an email with a direct link to their personalised Entitlement and Acceptance Form and the Retail Offer Booklet. Those Unitholders who have not elected to receive notices by email will receive both documents by post.

If you have any questions about the Retail Entitlement Offer, please do not hesitate to contact RFM Investor Services on 1800 026 665 (from within Australia) or +61 2 6203 9700 (from outside Australia) between 8:30am and 5:00pm (AEST), Monday to Friday during the Retail Offer Period.

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Key dates of the Equity Raising

Event	Date
Trading halt, Institutional Entitlement Offer opens	Wednesday, 7 June 2017
Institutional Entitlement Offer closes	Wednesday, 7 June 2017
Trading of Units recommences on ASX on an 'ex-entitlement' basis	Thursday, 8 June 2017
Record Date for determining entitlement to subscribe for New Units	Friday, 9 June 2017
Retail Entitlement Offer Booklet is dispatched and Retail Entitlement Offer opens	Wednesday, 14 June 2017
Early Retail Closing Date	5.00pm (AEST), Tuesday, 20 June 2017
Settlement of New Units issued under the Institutional Entitlement Offer and Retail Entitlement Offer for applications received by the Early Retail Closing Date	Wednesday, 21 June 2017
Allotment and normal trading of New Units issued under the Institutional Entitlement Offer and Retail Entitlement Offer for applications received by the Early Retail Closing Date	Thursday, 22 June 2017
Retail Entitlement Offer closes	5.00pm (AEST), Monday, 26 June 2017
Allotment of remaining New Units issued under the Retail Entitlement Offer	Friday, 30 June 2017
Dispatch of holding statement and normal trading of remaining New Units issues under the Retail Entitlement Offer	Monday, 3 July 2017

All dates and times referred to are based on Sydney time and are subject to change. RFF reserves the right to vary these dates or to withdraw the entitlement offer at any time.

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About Rural Funds Group (RFF)

RFF owns a diversified portfolio of high quality Australian agricultural assets. RFF's investment objective is to generate a stable income stream derived from leasing its assets to suitable counterparts and capital growth through any appreciation in the value of those assets. RFF is a stapled security, incorporating Rural Funds Trust (ARSN 112 951 578) and RF Active (ARSN 168 740 805), trading under the ASX code 'RFF'. Rural Funds Management Ltd (RFM) is the responsible entity of RFF.

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