



Australian Agricultural Projects Ltd

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Full year 2017/18 Financial Results and Operating Review

ANNOUNCEMENT

31 AUGUST 2018

Financial result

The Company advises that the trading result for the year ended 30 June 2018 was a loss of \$852,707 (2017: profit of \$442,641), reflecting the lower than expected harvest which was completed in June. The key components of this result are:

- A harvest of 429,300 litres (2017: 710,400 litres) from the orchard at Boort resulting in management and lease fees of \$1,654,827 (2017: \$2,658,993). The principal factors behind this lower than expected result are:
 - The decreasing yield from the barnea variety which are being progressively replaced; and
 - Climatic conditions which resulted in a lower yield across most of South East Australia.
- A significant reduction in third party harvesting and processing fees as a consequence of minimal fruit on their trees;
- Lower than budgeted operating expenses due principally to the lower than expected fruit yield as well as below budget water prices; and
- An impairment of the orchard asset of \$74,003 (2017: upward revaluation of \$216,075).

The table below summarises the annual financial performance over the past five years and details how business EBITDA is heavily reliant upon the size of the annual harvest. This relationship has been strong over the period, especially so as up until this year, the price the Company receives for its oil has been fixed under the olive oil supply agreement.

	2018	2017	2016	2015	2014
Harvest volume	Litres	Litres	Litres	Litres	Litres
VOOP	252,400	409,600	493,400	505,800	347,500
VOOP II	96,300	160,700	210,700	208,000	142,100
Peppercorn	80,600	140,100	141,800	237,900	119,100
Total harvest (litres)	429,300	710,400	845,900	951,700	608,700
	\$	\$	\$	\$	\$
EBITDA attributable to AAP	(160,226)	823,931	819,599	1,400,654	285,402
Depreciation	(286,908)	(284,315)	(275,096)	(283,940)	(283,970)
Interest	(331,570)	(313,050)	(352,864)	(386,501)	(416,984)
Revaluations/other add backs	(74,003)	216,075	189,318	(161,933)	223,315
Tax	-	-	-	-	-
NPAT to AAP	(852,707)	442,641	380,957	442,641	380,957

The Company's surplus operating cash flow for 2018 amounted to \$469,902, 40% greater than the 2017 surplus of \$334,022. This result came about despite the operating receipts from the 2017 harvest being lower than the 2016 harvest. These surplus funds were committed to the replanting programme as noted below.

Management expects operating cash flows over the next twelve months will be appreciably lower due to the size of the 2018 harvest and the resulting reduction in current year cash receipts. The planned expenditure on the 2019 tranche of the replanting programme has been fully financed by the additional facilities made available by the CBA Bank. The total long term debt with the bank has now been extended to \$3.6m (from \$2.205m) and is on an interest only basis until 2021.

The olive orchards

Operations

Other than the barnea variety which is the subject of the replanting programme, the orchard is generally in good health. The trees have recovered well from the June harvest and the annual pruning operations are well advanced.

The significant features of this season were:

- The extremely low fruit volumes at the time of harvest. While yields were expected to be low as a consequence of this being an off year combined with the impact of the deteriorating barnea, the actual volumes were still 25% to 30% below expectations. This experience seemed to be consistent across most of the Victorian region and especially so on other orchards close to the Company's;
- The refurbishment of the orchard filtration and irrigation control systems which allows for more precise irrigation across the orchard; and
- The planting of around 26,000 trees as part of the replanting programme described in more detail below.

Management is expecting the 2019 season to be an "on year" with fruit and oil production per productive hectare being above average and greater than the 2018 harvest. We will continue to comment on orchard activity and likely harvest yields in our quarterly updates.

Replanting programme

This past year saw the first tranche of the replanting programme completed with 26 hectares of the barnea variety replaced with a combination of arbequina and arbossona.



The replanting has been completed on a high-density basis of 1,000 trees per hectare rather than the existing 333 trees in the current layout. It is anticipated that the higher density format will:

- Allow the replanted areas to return to commercial production quicker;
- Reduce the harvest risk associated with managing these areas as the equipment required to harvest the higher density trees is both lighter and quicker reducing the impact of wet weather over the harvest period; and
- The yields per hectare at maturity will be similar to those of the existing trees planted on a less dense basis.

The second tranche comprising 104 hectares will be completed over the 2019 financial year. This will result in the majority of the identified areas replanted with the third tranche to be completed in one of the following two years.

Management's long term expectation for future harvest volumes once the replanting programme has been completed is between 800,000 and 1,200,000 litres across

all of the projects currently managed.

Oil Price

All of the oil produced this year has been accepted by Boundary Bend under the Olive Oil Supply Agreement in support of their retail brands including Cobram Estate and Redisland.

The oil price this year is to be determined by a formula derived from the farm gate price Boundary Bend receives for sale of packaged goods in Australia. The price will not be finalised until the final invoice under the sale agreement is raised in April 2019, but the Company expects the current year price will improve by at least 8% over last year. The Company notes that Boundary Bend has negotiated price increases across all of its brands and private label and the final price will depend upon how quickly the benefits of this increase flow.

The Directors remain confident that the Olive Oil Supply Agreement is in the best long term interests of the Company in that it ensures the sale of each year's production to secure markets at a price that reflects the margins of that market.

Orchard Valuation

The orchard is the principal asset operated by the Company and it is leased to two of the projects the Company manages. Accordingly, in the financial statements the property is valued as an investment property having consideration of the discounted future cash flows generated by the property.

The replanting programme impacts this valuation in two ways:

- The budgeted capital cost of the programme reduces the net present value of the future cash flows; and
- The redevelopment of the orchard increases the amount of the rental that the Company may expect at 2025, the date at which the projects have the option to renew the lease for a further term.

In the current year, this valuation led to an impairment of the asset of \$74,003 after capital expenditure of \$329,164, albeit, the current year valuation was negatively impacted by higher than normal short term water prices.

The expectation is that, barring abnormal circumstances, the value of the property will continue to increase over the medium term.

For banking purposes, the Directors have had the property independently valued on a going concern basis. This valuation, as with past valuations, supports the valuation recorded in the financial statements.

Looking forward

The Company is focused in the short term on the current replanting project and considers this is the best means of securing shareholder value in the longer term. However, the Company always remains open to other agricultural investments that would complement its current asset and skill base but, in the interim, will continue to focus on the long term improvement to the underlying orchard assets. Consistent with this approach is the ongoing strengthening of the balance sheet in order to provide an environment where the agricultural risk associated with the business can be best managed.

Appreciation

On behalf of the board, I thank our small management team who continue to manage the orchard to a high standard. The Directors take this opportunity to record their appreciation.

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