Prime Value
Building Wealth Together
Australian Financial Services Licence No: 222 055

INVESTMENT UPDATE

JUNE 2020

Prime Value Citrus Trusts

Imperial mandarins on Nangiloc prior to picking - May 2020

Dear Investor,

We are pleased to provide you with an update on our citrus farms and progress of the 2020 season.

Season 2020 Outlook

Harvesting commenced at Sunmar in late April and the other farms in mid May. Early season navels, Clementines and Imperial mandarins across all our farms have been picked and we are now moving into the main harvest of mid season navels. Domestic demand has been strong and pricing has been commensurately firm. Lower mandarin yields in Queensland have also been supportive for our Imperial and Clementine pricing. Yields thus far are coming in as expected, slightly lower than 2019, but with substantially better fruit size. The very early season navels both across the region and on our farms had a higher than average degree of external blemish due to the strong 2019 spring winds. Very strong consumer demand in the COVID19 environment however supported prices for the early second and third grade fruit. In addition to the firmer demand, the mid season fruit quality is on target and much less affected by blemish. Afourer mandarin harvesting will commence in mid July.

Our farm managers, Southern Cross Farms (SCF) swiftly implemented additional COVID19 protocols over and above our already strict biosecurity measures, and thus far, we have had no disruption to our operations and our picking crew has been secured for the season. Significant planning and safety measures have been put in place to manage the risk of COVID19 impacting our farm staff and contract labour.

There has been considerable press over recent weeks regarding agricultural exports to China in light of political disagreements and COVID19. Whilst the citrus export season is just getting underway, Mildura Fruit Company and Nutrano (our fruit packers and marketers) have reported strong interest from all export markets. The first shipments to China arrived last week, the fruit cleared ports and pricing appears to be firm. China typically pays the highest price for Class 1 fruit so we are hopeful their exports will not be disrupted however MFC estimates a closure of the Chinese market this year would reduce the average price received across all grades by only 10-15% and as demand from the rest of Asia, USA and Canada is strong, the risk of not being able to sell all of our fruit is very limited and shipments can be redirected if necessary.

The Ministry of Agriculture in China did recently approve the entry of all Chilean citrus into China. As a southern hemisphere producer, this will increase competition in the Chinese market in the future but Australia does have an advantage with shorter shipping times, a reputation for premium fruit, and the benefit of a head start in establishing relationships and marketing channels. Nonetheless, it reinforces the necessity for multiple export markets and diversification - the marketers at MFC and Nutrano have long understood this and work hard to establish and maintain a geographic cross-section of export clients.

Positive developments in the export markets include:

- the ratification of the Australia - Indonesian free trade agreement, reducing tariffs to zero for 10,000T of oranges and 5,000T of lemons and only a 10% tariff on 7,500T of mandarins; and
- India's approval of in-transit cold treatment for Australian fruit. This means fruit can be cold treated for fruit fly when it is on ship, rather than having to treat it locally before it is transported. The result is fruit that is fresher and of a higher standard when it arrives at its destination. This has been a significant factor in the reputation for quality that Australian fruit has earned in China.


Nangiloc harvested fruit - June 2020


Thompson navels - picking has commenced - fruit is a much better size than last year.

Water markets

After the temporary water price for Murray Zone 7 peaked at $1,000/ML in Spring 2019, prices declined steadily to FY19/20 closing levels of $200-250/ML. There were a number of factors at play driving prices over the 2019/20 season - a very hot early summer, low storage levels in dams and predictions of reduced allocations which prompted irrigators to bring forward their seasonal purchases and cover in advance their needs for their peak water use period of October 2019 to March 2020.

This early buying, combined with concern for the outlook, drove the spike in prices but a much cooler and wetter period of weather from January to April this year resulted in substantially lower water requirements for irrigators. Demand dropped and prices fell correspondingly. (Our usage was around 20% lower than the same period last year.) Large rain events in northern Australia also saw the Darling River begin to flow with inflows into the Murray Darling Basin's catchments and storages.

The price decline gathered pace as the Bureau of Meteorology predicted a wetter than average autumn and winter as the Indian Ocean Dipole moved back from record positive levels (associated with drought on the east coast) to neutral. Other recent indicators are pointing to a much greater chance of a La Niña forming during the southern hemisphere spring. (La Niña is normally associated with higher than average winter, spring and early summer rainfall over much of Australia.) http://www.bom.gov.au/climate/enso/outlook/

Whilst the outlook is more favourable for water prices than it was this time last year, we note storages are still around the levels they were in Autumn 2019 (approximately 35%) and early allocations for the FY20/21 water year are similar to where they were at this time last year. Water prices will be very much dependent on rainfall and we do expect prices to rise again unless we see reasonable inflows and the dam storages increase from current levels. We have secured prices for approximately 20% of our water requirements for the coming year and we are forecasting substantially lower water costs for FY20/21. Should the dam storage levels increase to 50%+, then we are likely to see the lower water prices sustained for longer, further lowering our operating costs.

Development

The irrigation redevelopment and expansion plans for our Nangiloc farm continue to progress. The main objective is to convert our existing overhead sprinklers to drip-lines and to improve the pumping and pipeline infrastructure for the farm. The development work will result in substantial water savings going forward and enable us to plant out an additional 30 ha of land as well as foster a better root structure for the existing orchard. In March 2021, the 30 ha will be planted with high value navels and mandarins and take the total citrus plantings to 180 hectares. (There were approximately 100 hectares of citrus when we acquired the farm in Autumn 2017.)

The total investment in the new plantings and irrigation upgrade is circa $1.6 million with a pay-back period of approximately 2.5 years (based on an average water price of $500/ML) on the irrigation works. The development will be debt financed to take advantage of low interest rates and our debt/equity ratio will remain below our mandated maximum of 49%.

This spring we will be planting 8,000 navel trees (approximately 12 ha) to replace the old and poor performing trees removed last year on Nangiloc and Orange One and also plant out some small vacant areas within the existing orchard areas. These will be planted and drip line irrigation installed ahead of the wider redevelopment. We will also be planting around 3,500 trees (5 ha) at Wiela (South Australian, Riverland) to replace the uneconomic Sumo trees removed last year.

It has also been confirmed an additional 60 hectares of vacant land at Wiela is suitable for citrus and almond crops. The study undertaken has raised the value of the land holding and opened up the opportunity to expand the planted hectares at the farm. We continue to seek further opportunities to invest in additional farms, but with the value of developed farms continuing to rise, the option to increase plantings at our existing farms is becoming a more attractive option.

We look forward to providing a mid season harvest update in August when we will have clearer picture of export pricing and the annual distribution payable in January 2021.

Warm regards,

Quek, James and Elizabeth