WESTPEAK RESEARCH ASSOCIATION

Rogers Sugar Inc. (TSE: RSI)

Consumer Staples - Sweeteners

Sweeter Than Sugar

April 23, 2018

Analyst: Miguel Valarao, BCom. '21
contact@westpeakresearch.com

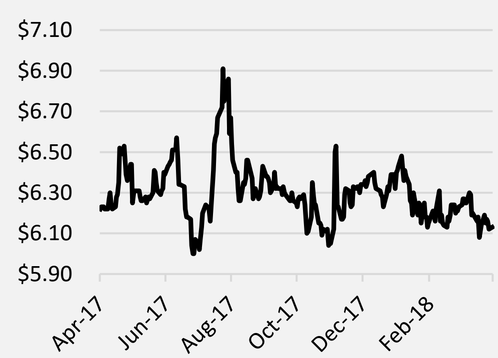
Equity Research	Canada
Price Target	**CAD$ 7.00**
Rating	Buy
Share Price (Apr. 23 Close)	CAD$ 6.08
Total Return	20.9%

Key Statistics	
52 Week H/L	$6.94/$6.00
Market Capitalization	$648M
Average Daily Trading Volume	163K
Net Debt	$271M
Enterprise Value	$957M
Net Debt/EBITDA	3.2x
Diluted Shares Outstanding	106M
Free Float	99.3%
Dividend Yield	5.9%

WestPeak's Forecast

	2018E	2019E	2020E
Revenue	$829M	$858M	$888M
EBITDA	$103M	$104M	$108M
Net Income	$49M	$49M	$51M
EPS	$0.46	$0.46	$0.48
EV/EBITDA	9.3x	9.2x	9.0x
P/E	13.2x	13.3x	12.8x

1-Year Price Performance



Rogers Sugar is a holding corporation for Lantic, the largest refined sugar producer in Canada. Lantic operates cane refineries in British Columbia and Québec, as well as a sugar beet factory in Alberta and a custom sugar-blending operation in Ontario.

Thesis – Correctly Adapting to Changing Preferences

We believe that the market's perception of Rogers Sugar as the major player trapped in a limited Canadian sugar industry overshadows management's efforts to diversify its core business with its new health-conscious product lines and the recent acquisitions of L.B. Maple Treat and Decacer. These acquisitions grant Rogers a protected position within the fast-growing maple syrup market. As the earnings contributions of the acquisitions begin to show, we believe the market will soon appreciate Rogers' newfound growth potential.

Drivers – Import Tariffs and Healthier Consumption

As North American consumers' desire to eat healthier increases, global import tariffs limit Rogers' ability to expand its refined sugar business outside of North America. This means the core business is poised for stagnation, if not decline. The shift away from refined sugar creates a demand for alternative sweeteners, which Rogers can capitalize on through its new product lines. The markets for Stevia and maple syrup, two alternative sweeteners, are poised to grow at CAGRs above 8% over the next 5 years.

Valuation

Given the current share price of $6.13, we believe that Rogers is currently undervalued by the market. Using a discounted cash flow analysis and a comparable company analysis weighted at 50% each, we determined a target share price of $7.00, representing a 12-month total return of 20.9%, which includes its 5.9% dividend yield. We initiate a **Buy** rating on Rogers Sugar.

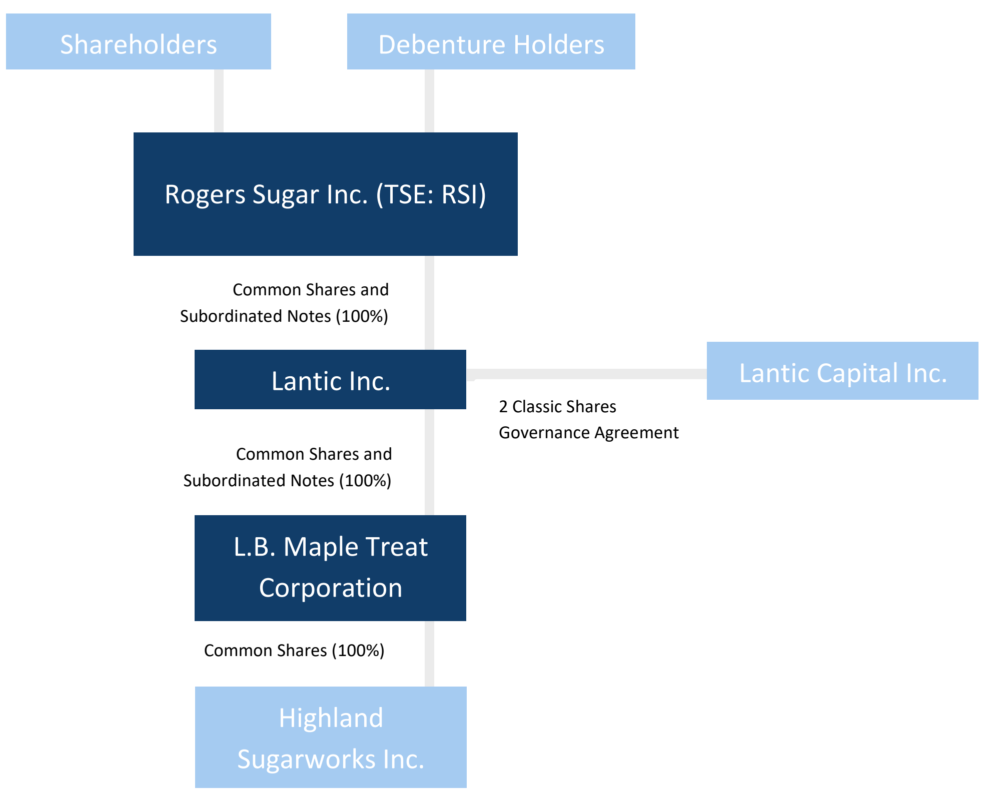
Business Overview/Fundamentals

Rogers Sugar

Rogers Sugar Inc. (Rogers) is a holding corporation for Lantic, the largest refined sugar producer in Canada. Lantic operates cane refineries in British Columbia and Québec, as well as a sugar beet factory in Alberta. Lantic refineries have a combined annual production capacity of approximately 1.0 mm metric tonnes (MT). With volume sales ranging between 0.6-0.7 mm MT and total annual Canadian sugar production averaging around 1.2 mm MT, we estimate Rogers to dominate about 60% of the Canadian sugar industry. Since Rogers is the only sugar producer with facilities across Canada, Rogers is uniquely positioned to service customers across the country more efficiently than its sole competitor, Redpath Sugar.

Aside from sugar production, Rogers operates a custom blending operation in Toronto which blends high sugar and non-sugar products for manufacturing and food processing companies. These blends are then sold in retail format to consumers, as well as in bulk to industrial customers. In August 2017, Rogers acquired L.B. Maple Treat Corporation (LBMT), one of the largest maple syrup bottling and distribution companies in the world.

Exhibit 1: Rogers Sugar Corporate Structure



Source: FY2017 MD&A Filing

Rogers Products

Exhibit 2: Products

Source: Company Website

Sugar

Rogers' sugar is derived from cane and beet plants. Rogers sells white granulated sugar, brown sugar, plantation sugar, berry sugar, and the recently launched coconut sugar. Rogers' coconut sugar won the 2017 Product of the Year award – the world's largest consumer-voted product innovation award, recognizable in 40 countries. For retail, Rogers sells its sugar in cubes, in packs, and as free flowing. Rogers also sells its sugar in bulk units of 20 kg, 40 kg, and 1,000 kg for industrial customers.

Stevia

As a substitute to its sugar products, Rogers sells Stevia. Stevia is a relatively healthy sweetener mainly used for beverages, as Stevia has zero calories and is naturally gluten free. In 2015, Stevia was recognized as a finalist at the Canadian Grand Prix New Product Award.

Syrups

In terms of custom-blended cane syrups, the Company sells Rogers Pancake Syrup and Rogers Golden Syrup. Rogers Pancake Syrup is mainly for pancakes, waffles, and desserts, whereas Rogers Golden Syrup is used more as a cooking additive or as a glaze. In 2014, Rogers launched its Organic Agave Syrup product line, which is 25% sweeter than sugar for the same nutritional sugar content.

Mixes

Rogers also offers custom mixes in the form of Jam and Jelly, Iced Tea, and Hot Chocolate.

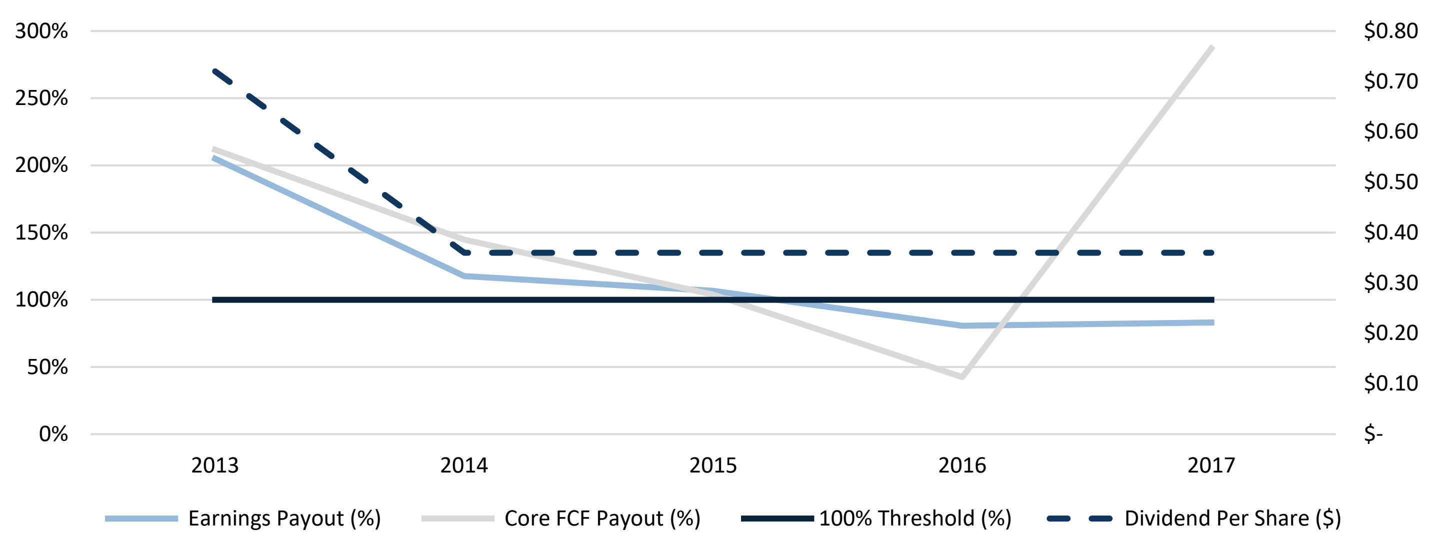
Rogers Products Conclusion

The increasing variety of Rogers' product line is representative of the company's vision to broaden its position from being a pure sugar producer/refiner to being a more holistic provider of sweetener solutions. The introduction of health-conscious sweeteners like Stevia and Organic Agave Syrup are indicative of management's understanding of and continued willingness to adapt to changing consumer preferences toward healthier living.

Dividend Policy

As a company with historically low growth potential, Rogers has compensated its investors with its high dividend yield. Until 2011, Rogers operated as an income fund before converting into a corporate structure. Since 2014, Rogers has paid an annual dividend of $0.36 per share, which translates to a current yield of 5.9%. This is on the lower end of its 10-year average yield of 8.5%. As shown in Exhibit 3, the sustainability of this dividend policy has been questionable, with its earnings and core FCF payout ratios often above 100%.

Exhibit 3: Historical Dividend Policy



Source: 2017 Annual Report

Company Strategy

Management has emphasized its core strategic focus on 3 areas: (1) operational excellence, (2) market access, and (3) acquisitions. We believe that this focus will allow Rogers to maintain its market leader in the sweetener space, adapt to changing consumer preferences, and create new product lines that synergize with their core refined sugar business. Moreover, it will allow management to achieve its vision of transforming the business from a sugar refiner/producer into a more holistic natural sweetener provider with a growing product portfolio.

Operational Excellence

Rogers' refined sugar business faces issues of minimal volume growth, higher energy costs due to newly introduced carbon tax levies, and restricted export opportunities as a result of higher import tariffs in many countries. These issues limit the core sugar business's ability to grow in terms of profit potential. Cognisant of these issues, management has set its focus on lowering costs and improving its system controls. In addition to capital investment, management is constantly revaluating current operational practices with the hopes of increasing energy efficiency, reducing waste, automating tasks, and increasing safety in the workplace. This strategy slightly offsets the low growth potential of the refined sugar business by controlling margins via cost savings.

Market Access

Management is committed to maintaining its unique market accessibility by fostering strong relationships. The company leverages its relationships to consolidate its foothold in the sweetener industry, so the company can participate effectively when changes in market conditions provide trading opportunities. Doing so has strengthened the company's position in the sweetener space and has resulted in additional repeat business. Management is also determined to continue to renegotiate its existing trade agreements to adapt to the current macroeconomic environment.

Acquisitions

Lastly, management is cognisant of the shift in consumer preferences toward healthier consumption and the low growth potential of the refined sugar business. They realize that, in order to grow, Rogers needs to do so inorganically. As such, Rogers completed its first two major acquisitions in recent history with the maple syrup bottling and distribution companies, LBMT and Decacer.

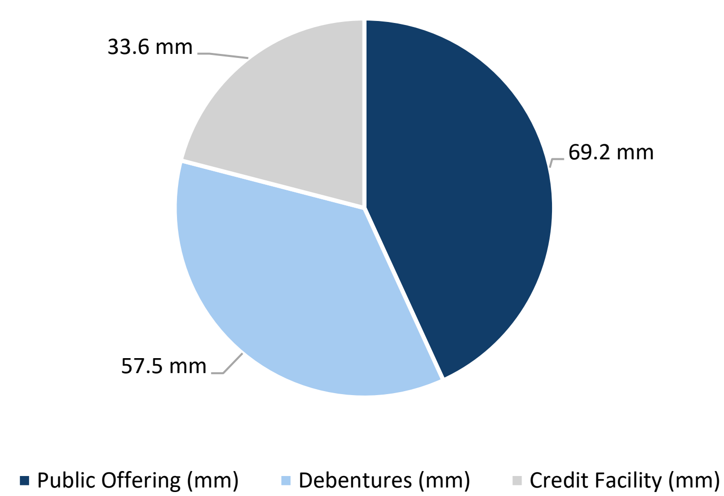
Exhibit 4: Maple Syrup Acquisitions

Source: 2017 Annual Report

L.B. Maple Treat Acquisition

On August 7, 2017, Rogers completed the acquisition of LBMT for $160.3 mm. The deal was financed through a combination of (1) the net proceeds of a public offering for gross proceeds of $69.2 mm, (2) $57.5 mm of convertible unsecured subordinate debentures, and (3) a draw-down on Rogers' $275 mm credit facility (estimated as $33.6 mm). With $18.4 mm in LTM EBITDA before the purchase announcement, this implies an acquisition multiple of 8.7x.

Exhibit 5: Estimated LBMT Acquisition Financing Breakdown



Source: 2017 Annual Report

The LBMT acquisition allows Rogers to immediately establish itself as a leader in the growing maple syrup market. With two bottling plants in Québec, one bottling plant in Vermont, as well as product distribution centers across Canada, the US, and Australia, LBMT is well positioned to benefit from positive market trends within the fragmented maple syrup industry.

The company has built an extensive supply chain and distribution network that includes long-standing partnerships with 1,400+ maple syrup producers. With such a large supplier base, LBMT can attain low maple syrup purchase costs at premium quality with little concentration risk. Fostering these long-lasting relationships with producers have allowed LBMT to consolidate its market leader position within the maple syrup space.

Financially, the LBMT acquisition is expected to add 10% accretion to Rogers' FCF per share for FY2018, the first full year after the transaction was completed. Additional integration gains are also expected to take effect in FY2019.

Decacer Acquisition

Two months after the LBMT acquisition, Rogers announced the acquisition of Decacer, another maple syrup company, for $40.0 mm. The deal was financed through a draw-down on Rogers' $275 mm credit facility. With $5.1 mm in LTM EBITDA, the implied acquisition multiple was 7.8x. The acquisition multiples of LBMT and Decacer are comparable to BBX Capital (NYSE: BBX) acquiring specialty candy retailer IT'SUGAR in April 2017 for $57 mm at 8.4x LTM EV/EBITDA.

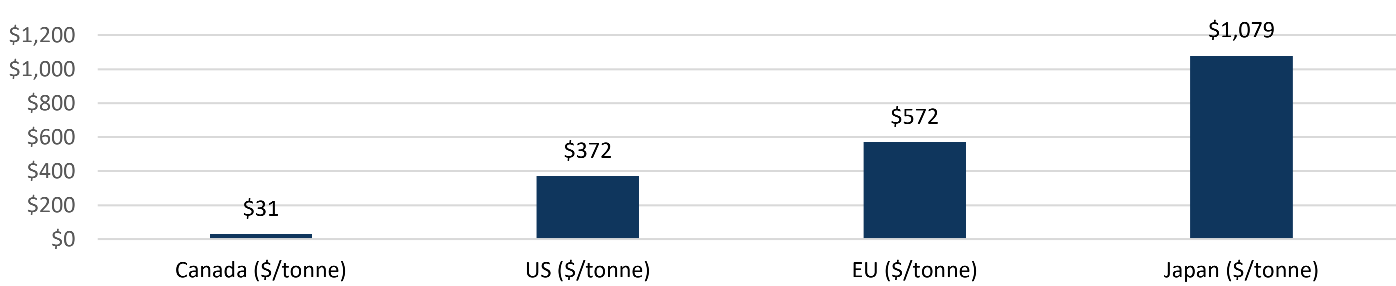
Based in Dégelis, Québec, Decacer is a major bottler and distributor of maple syrup products. With 53% of Decacer products sold outside of Canada, the Decacer acquisition extends the company's geographic diversification and strengthens Rogers' position in the global maple syrup market. On an operational level, Decacer complements LBMT's product line with its unique maple syrup dehydration technology along with its own product offering. With this second acquisition, we expect additional operational and marketing synergies to be realized.

Industry Analysis

Canadian Sugar – Commoditized Duopoly with No Room to Grow

The Canadian sugar industry is structured as a duopoly between Rogers and Redpath, with Rogers operating 4 sugar facilities across Canada and Redpath operating a single blending and packaging facility in Bellville, Ontario. Canadian sugar producers receive no government subsidies or market price support. Canada also has one of the lowest sugar tariffs in the world.

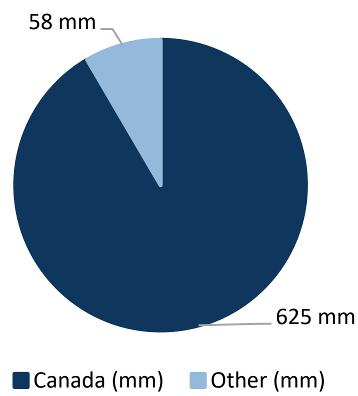
Exhibit 6: Sugar Import Tariffs Per Tonne



Source: Statistics Canada

Since import tariffs are relatively low, Rogers and Redpath have minimal control over sugar pricing, with domestic sugar prices moderately linked to world prices. Raw sugar enters Canada duty free, although a global import tariff of $30.86/tonne on refined sugar slightly protects the Canadian sugar industry from world market distortions. US, EU, and Japan, in contrast, have much higher import tariffs. These tariffs limit Rogers from expanding its sugar business globally, as exporting to other countries would deem unprofitable. Disruptions from foreign entrants into the Canadian sugar industry cannot be offset by selling to foreign markets, as a result of other countries' higher import barriers. This means that Rogers and Redpath are highly dependent on global sugar supply and domestic sugar demand.

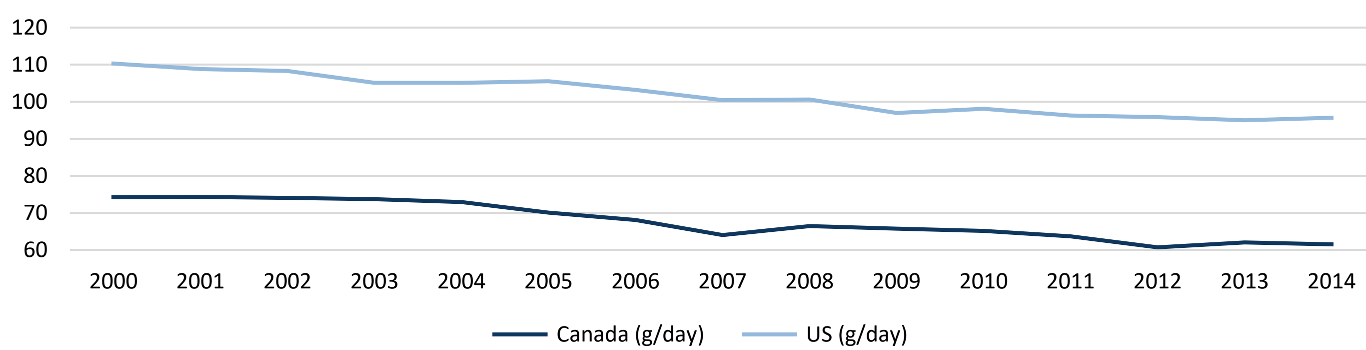
Exhibit 7: Rogers Sugar 2017 Geographic Revenue Breakdown



Source: Notes to 2017 Financial Statements

Canadian sugar consumption has been declining over the last two decades as a result of consumers' increasing health consciousness. Sugar No. 11 futures have dropped 35% year-to-date from $17.04 to $11.21, which can be taken as a proxy for the outlook of global sugar supply and demand. While consumers have become wary of products with excessive sugar content, there has been a recent preference shift toward all-natural products. Industrial beverage and snack producers are starting to substitute high fructose corn syrup (HFCS) with traditional refined sugar. This is increasing the demand for raw and refined sugar, which should offset the decrease in sugar consumption in the next few years. In the next year however, we project industry revenues to decline approximately 4% based on a outlook on global sugar prices.

Exhibit 8: Average Added Sugar Consumption Per Person Per Day



Source: Canadian Sugar Institute

Stevia – The Natural Shift

Despite the decline in sugar consumption, we believe that people will always have an appetite for sweet additives – what changes is what is used. As consumers move away from sugar in the long run and toward natural ingredients, the consumer demand for a plant-based sweetener like Rogers' Stevia increases. Food and beverage product manufacturers are constantly looking for healthier sweeteners that enable them to reduce calorie content without sacrificing taste. As obesity and diabetes are on the rise, Stevia is often touted as the best sugar alternative due to its zero-calorie property. With growing awareness on both the retail and industrial side, the potential for domestic Stevia growth is high. The global $68.1B Stevia market is also expected to grow at a compounded annual growth rate (CAGR) of 8-9%. However, we doubt Rogers' ability to capitalize on the global market, as there are larger players with greater geographic reach and resource pools, such as Cargill and PureCircle.

Maple Syrup – Protected Home-Harvested Global Growth

A growing space that Rogers can dominate worldwide is the $750 mm maple syrup industry. With LBMT and Decacer combined, Rogers controls an estimated 28% of total global market share. Although management acknowledges increasing competitive pressures as a response to their consolidation, we believe Rogers can grow its leadership position in the highly fragmented market. Canada produces more than 80% of maple syrup worldwide, 90% of which is produced in Québec – a region where LBMT and Decacer have long-lasting relationships with suppliers and regulators. LBMT also has a foothold in Vermont, the largest maple syrup production region in the US, which generates about 6% of global maple syrup supply. Ultimately, the regulatory and geographic barriers associate with harvesting maple trees make supply operations hard to replicate by potential competitors. This allows incumbents to generate sustainable returns in the long run, so long as there is demand. With the shift to natural sweeteners, the maple syrup industry is poised to grow at a CAGR of 8% (USDA).

Management Team

John Holliday – President and Chief Executive Officer

After 30 years of operational experience in the North American food processing industry, John Holliday was appointed as President and Chief Executive Officer of Rogers Sugar and Lantic on February 3, 2015. Since the start of his tenure, Rogers Sugar's stock has risen from $4.63 to $6.13, a 32% increase (10% CAGR). Before his appointment, Holliday was President of North American Malting Operations. Holliday also held positions at Cargill and the J.M. Smucker Company. As of April 23, 2018, Holliday owned 69K Company shares, equivalent to a market value of $425K.

Manon Lacroix – Vice President Finance and Secretary

With more than 15 years of finance experience in Canada and the United Kingdom, Manon Lacroix brings her expertise in matters regarding accounting policies, cost controls and financial instruments. Prior to joining Lantic in 2008, Lacroix worked with a major Canadian audit firm and served in various positions in the private sector. As of April 23, 2018, Lacroix owned 19K Company shares, equivalent to a market value of $118K.

Management Conclusion

With Holliday and Lacroix's respective operational and finance backgrounds, we believe that management is capable of successfully executing its core strategies. Holliday's operational history provides reassurance that the company vision of becoming a more holistic provider of sweetener solutions is led by someone who understands the sweetener industry and facility processes. Lacroix's financial expertise can help guide the company's hedging strategies and cost controls in light of fluctuations in commoditized sugar prices.

Investment Theses

Market View

The market views Rogers as a mature company that, despite having the dominant leadership position in the Canadian sugar industry, has insignificant pricing power and no growth potential. With the shift toward healthier consumption, the demand for sugar is likely to trend downward in the long run. Thus, Rogers appears to be particularly susceptible to probable macroeconomic headwinds, as the major player in the commoditized Canadian sugar industry. While holders may currently benefit from the high dividend yield, payout ratios have bordered levels of unsustainability. Considering the unfavorable outlook on sugar consumption, investors may be wondering if Rogers will be able to maintain its dividend policy.

Thesis 1: Adapting to Changing Consumer Preferences

The market is overlooking management's awareness of changing consumer preferences and their willingness to adapt accordingly. This willingness to adapt is evidenced by Lantic's increasingly diversified, health-conscious product line and the company's vision to transform from solely being a sugar producer/refiner to being a more holistic provider of sweetener solutions. Although being the leader in the low-growth Canadian sugar industry does not seem favorable in itself, its dominant position allows the company to market its new products effectively, as well as synergize its new sweetener solutions with its pre-existing product lines. Moreover, the global outlook for Rogers' Stevia and maple syrup product lines are highly favorable, with +8% in projected CAGR for both industries. If Rogers' transformation into a holistic sweetener provider is successful, Rogers' exposure to new markets should make up for the stagnation/decline in the sugar business.

Thesis 2: Maple Syrup Acquisitions Provide Visible Contribution

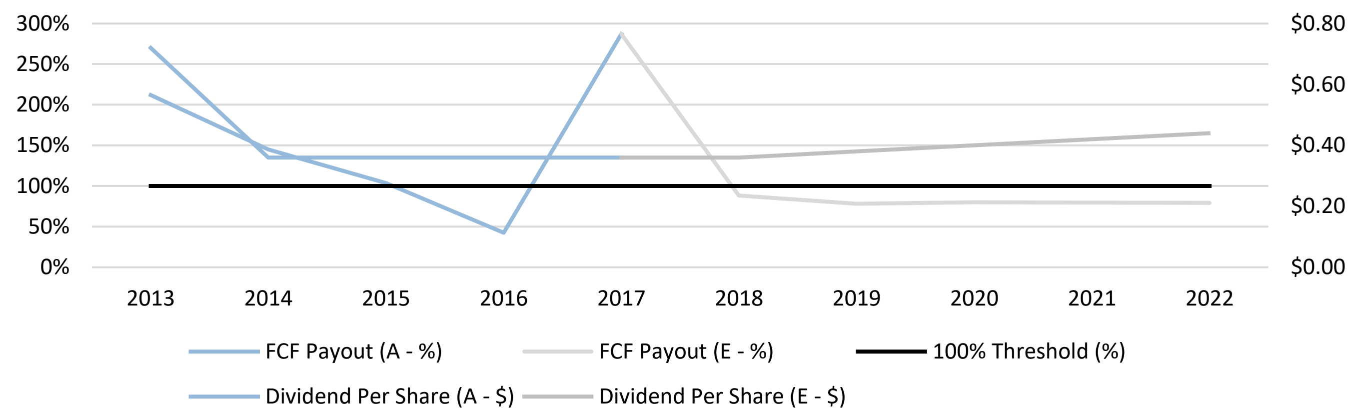
The acquisitions of LBMT and Decacer provide Rogers entry into the fast-growing maple syrup market with combined EBITDA contribution projected to be $23.5 mm ($18.4 mm from LBMT and $5.1 mm from Decacer) for FY2018. Despite these being the first two major acquisitions in Rogers' recent history, we have faith in management's ability to integrate the maple syrup entities into the existing business model. With Holliday's extensive operational experience in the sugar industry and successful tenure as President and CEO, we believe Rogers can effectively leverage its strong retail and foodservice presence to capitalize on the growth in the maple syrup industry.

With Q1-2018 results out, the earnings contribution of the maple syrup companies is already visible on a YoY basis. While adjusted net income only rose by 12% due to increased finance costs, adjusted EBITDA rose by 21%. As the results of FY2018 are released, we expect the market to realize the value brought by the maple syrup acquisitions.

Thesis 3: Dividend Stabilization

Finally, the earnings contribution from the maple syrup acquisitions should stabilize Rogers' dividend payout to free cash flow below the 100% threshold. Based on our model projections, the free cash flow contribution should be high enough such that, if the dividend per share hypothetically increases by $0.02 every year, the payout ratio would stabilize around 80%, as shown in Exhibit 9.

Exhibit 9: Pro-Forma Dividend Policy with Hypothetical Expansion



Source: 2017 Annual Report

Catalysts

Show of Acquisition Synergies

As the LBMT and Decacer acquisitions recently took place in Q4-2017 and Q1-2018, respectively, the market will be paying relatively close attention to FY2018 earnings releases to see the true profitability of the maple syrup segment, as well as the magnitude of potential synergies being realized. Even if the maple syrup segment is as profitable as management expects it to be, a show of earnings visibility may give investors confidence that management can successfully integrate the maple syrup companies into their existing business model.

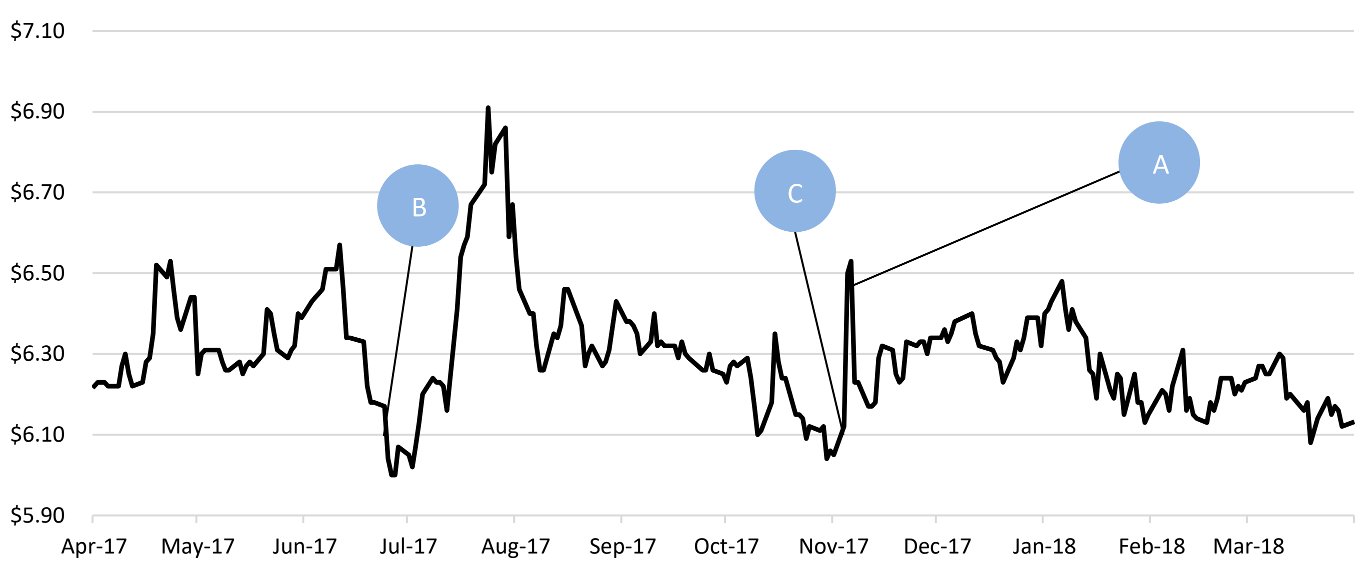
As always, the market will be watching to see if the company beats or misses earnings. In the case of the Q4-2017 earnings release (A), the Company missed estimates by $0.02, causing the share price to drop 6% from $6.50 to $6.18. The market may have been too optimistic about the short-term integration with LBMT, since the transaction closed partway through the quarter with earnings contribution being less than expected.

Future Acquisition Activity

As part of the company's core strategies, Rogers Sugar is expected to continue to grow through acquisition. While the $160 million acquisition of LBMT (B) was slow to create a reaction in Rogers's share price, the $40 million acquisition of Decacer (C), caused the quick spike from $6.12 to $6.53, an increase of 7%. If management successfully creates synergies with the previously acquired maple syrup companies, the market may look favorably upon Rogers' future acquisition activity.

Miguel Valarao | contact@westpeakresearch.com

Exhibit 10: Historical Catalyst Effects



Source: Yahoo Finance

Shareholder Base and Liquidity

Shareholder Base

Rogers Sugar's shareholder base is not significantly concentrated, with the largest shareholder ownership attributed to Belorp Industries with 10.6% of free float. Below is a breakdown of the top 10 shareholders, which own 15.0% collectively.

Exhibit 11: Top 10 Shareholders

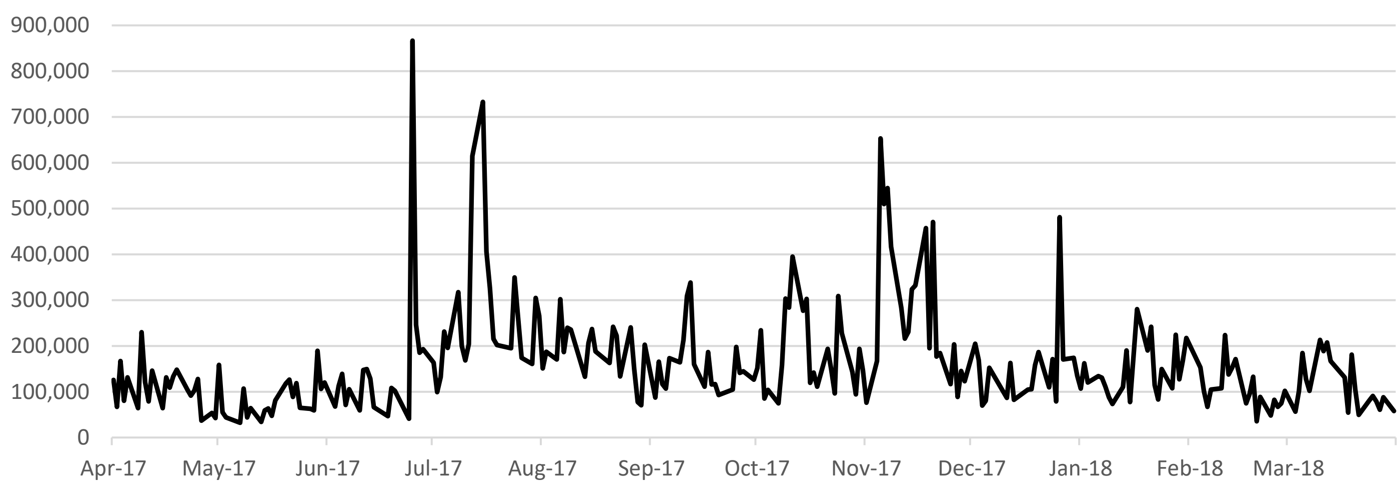
Shareholder	Shares Owned	% of Free Float	Insider?	Filing Date
(Name)	(mm)	(%)	(Yes/No)	(Date)
Belkorp Industries	11.22	10.61%	No	01-Feb-17
Letko, Brosseau, and Associates	10.07	10.07%	No	16-Nov-17
Dimensional Fund Advisors	2.16	2.04%	No	28-Feb-18
British Columbia Investment Mgmt	0.97	0.91%	No	31-Mar-17
Royal Bank of Canada	0.78	0.73%	No	29-Dec-17
Scotia Capital	0.57	0.54%	No	28-Mar-18
Grantham Mayo Van Oterloo & Co	0.45	0.42%	No	30-Nov-17
Blackrock	0.30	0.29%	No	16-Apr-18
IA Clarington Investments	0.18	0.17%	No	29-Dec-17
Belkin Alton Stuart	0.17	0.16%	Yes	05-Jan-17
Top 10 Identified Shareholders	**26.87**	**15.06%**		

Source: Bloomberg

Liquidity

As of April 23, 2018, Rogers Sugar's year-to-date average daily trading volume was 163K with a volume weighted average price of $5.97. This implies that the average dollar amount traded on a year-to-date basis was approximately $1 million, which seems healthy for its current market capitalization of $648 million.

Exhibit 12: Year-To-Date Daily Trading Volume



Source: Yahoo Finance

Valuation

Our final valuation incorporated a 5-year exit multiple discounted cash flow (DCF) and an FY2019 EV/EBITDA median-based comparable company analysis (CCA) weighted at 50% each. Our DCF yielded an implied share price of $7.35 and our CCA yielded an implied share price of $7.00, resulting in a weighted implied share price of $7.18.

Discounted Cash Flow Analysis Assumptions

Sugar Revenue: Revenue was projected separately for its sugar and maple products segments. For the rest of FY2018, we project that sugar revenue will decline by 4% (1% volume degrowth; 3% pricing degrowth) as a result of consumers shifting away from sugar and a projected decline in prices. For FY2019 and beyond, we assume that other sweetener product lines offset the decline in refined sugar and that the preference reversion toward natural sugar products takes effect. With these assumptions, we project sugar revenues to grow in tandem with GDP at 2% (2% volume growth; no pricing growth).

Maple Products Revenue: For the rest of FY2018, we expect maple products volumes to mirror Q1-2018 results with 11.2 mm pounds produced every quarter (44.8 mm annualized) and the unit economics to remain the same at $4.40 of revenue per pound. For FY2019 and beyond, we project that revenue will grow at 8% CAGR, as guided by management. On a more granular level, we see this 8% revenue growth being composed of 5% volume growth and 3% pricing growth. The volume growth is based on the increasing demand for maple syrup worldwide and the pricing growth is based on Rogers' pricing power capabilities, given the dominance of LBMT and Decacer in the Québec maple syrup space.

Gross Margin: Driven by segment unit economics, Rogers' gross margin is projected to remain between 17-18%, an increase from FY2017's gross margin of 15%. This increase is the overall output of a stagnating gross margin in the sugar business and an increasing gross margin from pricing increases in the maple syrup segment.

SG&A + OPEX: SG&A and OPEX as a percentage of revenue are projected to remain constant as 3.6% and 1.6%, respectively, in FY2018 with the conservative assumption that operational integration gains from the two acquisitions have been realized for the year. Management has guided that additional integration gains are to be realized in FY2019, so we project SG&A and OPEX dropping to 3.4% and 1.4%, respectively, post-FY2018.

Capex: For the rest of FY2018, we used the average of management's guidance for annual capex ($15-25 mm) to arrive at a quarterly capex of $5.6-5.7 mm. For FY2019 and beyond, we project capex as 10% of beginning property, plant and equipment.

Depreciation and Amortization: We used a straight-line depreciation schedule with an effective use life of property, plant, and equipment of 13.8 years. For forecasting D&A in the future, we assume that this useful life measure does not change.

Effective Tax Rate: We used the company's statutory tax rate of 26% as our effective tax rate.

WACC: The weighted average cost of capital (WACC) was calculated to be 6.0%. This took into consideration a risk-free rate of 2.3% based on the YTM of 5-year Canadian treasury bills, a 5-year adjusted beta of 0.54, an expected market return of 12.0%, an effective tax rate of 30%, and an after-tax cost of debt of 2.7%.

Terminal Multiple: Past our 5-year projection horizon, we used an EV/EBITDA exit multiple of 10.0x, which is higher than its FY2019 forward multiple of 9.2x. This represents a reversion closer to Rogers' historical multiple (pre-FY2015), given the increased growth potential from the maple syrup acquisitions and alternative sweetener lines. This multiple is also closer to Rogers' selected peer group mean of 10.9x EV/EBITDA.

Comparable Company Analysis Set

Cott Corporation (TSE: BCB): Cott is a leading producer of carbonated beverages. Cott also makes juices, bottled water, ready-to-drink teas, energy drinks and sports drinks. Cott holds the highest private-label market share in North America.

Saputo (TSE: SAP): Saputo is Canada's largest dairy manufacturer. Saputo produces cheese for retail, food service, and industrial customers in the US and Canada. Saputo also distributes imported cheeses to the Canadian retail market.

George Weston (TSE: WN): George Weston is Canada's largest wholesale food distributor. George Weston owns approximately 20 banner chains including Loblaws, Extra Foods, and T&T.

Maple Leaf Foods (TSE: SMFI): Maple Leaf Foods is one of Canada's largest meat processors. Under its flagship brands, Maple Leaf and Schneiders, the company sells prepared meats, pasta, seafood, animal feeds, and other food products.

B&G Foods (NYSE: BGS): B&G Foods manufactures and sells shelf-stable foods through its distritution channels of supermarket warehouses, distributors, and mass merchants across North America. B&G sells foods such as baked beans, salsa, meat spreads, vinegars, and maple syrup.

Recommendation

We believe that the market's perception of Rogers as the major player trapped in a limited Canadian sugar industry overshadows management's efforts to diversify its core business with its new health-conscious product lines and the acquisitions of LBMT and Decacer. As the earnings contributions of the acquisitions begin to show, the market will soon appreciate Rogers' newfound growth potential. Our target share price of $7.00 and current dividend yield of 5.9% represent a 12-month total return of 20.9% from the current share price of $6.08. We initiate a **Buy** rating on Rogers Sugar.

Risks

Fluctuations in Raw Sugar Prices

Rogers is exposed to fluctuations in the price of #11 world raw sugar. While transactions related to cane sugar operations are hedged, fluctuations in #11 world raw sugar price can material affect the profitability of sugar produced from beets. The selling price of domestic refined sugar has a direct relation to #11 world raw sugar prices, meaning a decrease in #11 world raw sugar prices could harm the profitability of Rogers' beet operations. However, an increase in #11 world raw sugar prices would reduce the competitiveness of Rogers' liquid business, relative to HFCS sellers.

Foreign Exchange Movements

Fluctuations in the value of Canadian dollar will impact the profitability of sugar derived from the Company's Taber beet factory, as sales from this factory are priced against the #11 world raw sugar maket, which trades in U.S. dollars. Most sugar sales, however, have little exposure to foreign exchange movements.

Weather Adversity

Like many other crops, sugar beets can be affected by weather conditions during the growing season. A reduction in the quantity or quality of beets harvested due to poor weather conditions may result in decreased production with negative financial consequences. Maple syrup production can also adversely affect by climate change, as maple syrup sap only flows when temperatures rise above freezing level in the day and drop below it during the night. Given the temperature sensitivity of the harvesting process, global warming may impact the production season.

Integration Uncertainty

The acquisitions of LBMT and Decacer are the only acquisitions the company has completed in recent history. Since management has never before been dealt with such a task within the organization, there is no precedent for acquisition synergies to be effectively realized.

Appendix 1: Model Summary

(All figures in CAD)	Sep-13	Sep-14	Sep-15	Sep-16	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Sep-18	Sep-19	Sep-20	Sep-21	Sep-22
	FY2013	FY2014	FY2015	FY2016	FY2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018	FY2018	FY2019	FY2020	FY2021	FY2022
Income Statement														
Revenue	558.4	532.3	541.5	564.4	682.5	204.9	206.4	209.0	209.0	829.3	858.0	888.2	920.2	953.9
EBITDA	68.4	61.1	67.0	78.9	80.6	30.0	21.4	22.0	23.4	102.7	104.2	107.6	111.2	116.0
Net Income	33.0	28.8	31.8	41.9	40.7	15.8	9.0	9.4	10.4	49.0	48.8	50.8	52.9	55.8
Earnings Per Share	$ 0.30	$ 0.28	$ 0.34	$ 0.38	$ 0.39	$ 0.15	$ 0.09	$ 0.09	$ 0.10	$ 0.46	$ 0.46	$ 0.48	$ 0.50	$ 0.53
Cash Flow Statement														
Capital Expenditures	(9.1)	(11.6)	(11.4)	(14.8)	(17.0)	(3.0)	(5.6)	(5.7)	(5.7)	(20.0)	(22.7)	(23.5)	(24.4)	(25.3)
Acquisitions	-	-	-	-	(169.3)	(42.1)	-	-	-	(42.1)	-	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Payment	(67.8)	(33.9)	(33.9)	(33.8)	(33.8)	(9.5)	(9.5)	(9.5)	(9.5)	(38.1)	(38.1)	(38.1)	(38.1)	(38.1)
Dividend Per Share	$ 0.72	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.09	$ 0.09	$ 0.09	$ 0.09	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.36
Dividend Payout to Earnings	205.0%	117.7%	106.6%	80.7%	83.1%	60.1%	105.7%	101.0%	91.7%	77.6%	78.0%	75.0%	72.0%	68.2%
Dividend Payout to Core FCF	211.8%	144.8%	103.7%	42.5%	287.1%	52.8%	123.5%	117.4%	105.3%	88.8%	86.8%	83.6%	80.4%	76.2%
Dividend Yield	11.8%	7.2%	8.2%	6.7%	5.7%					5.9%	5.9%	5.9%	5.9%	5.9%
Balance Sheet														
Current Assets	128.5	143.2	125.2	154.3	275.5	267.9	274.8	274.4	283.2	283.2	292.9	303.7	316.5	332.0
Non-Current Assets	425.1	425.2	426.7	430.9	558.5	588.5	589.8	591.1	592.5	592.5	597.4	602.6	608.2	614.0
Assets	553.6	568.3	551.9	585.2	834.0	856.4	864.6	865.5	875.6	875.6	890.3	906.3	924.7	946.0
Current Liabilities	68.8	88.8	51.7	105.0	157.2	236.4	245.1	246.1	245.4	245.4	249.3	252.6	256.1	259.7
Non-Current Liabilities	229.9	229.5	260.2	214.7	342.7	275.3	275.3	275.3	275.3	275.3	275.3	275.3	275.3	275.3
Liabilities	298.7	318.3	311.9	319.6	499.8	511.7	520.4	521.4	520.7	520.7	524.6	527.9	531.4	535.0
Shareholders' Equity	254.9	250.1	240.1	265.6	334.2	344.7	344.2	344.1	345.0	345.0	355.7	368.4	383.2	401.0
Cash	3.2	0.1	1.4	1.2	17.0	9.1	10.7	6.9	7.4	7.4	7.4	8.3	10.7	15.1
Debt	180.9	191.7	184.6	118.7	281.5	279.9	279.9	279.9	279.9	279.9	279.9	279.9	279.9	279.9
Net Debt	177.7	191.6	183.3	117.5	264.5	270.8	269.3	273.1	272.5	272.5	272.5	271.6	269.3	264.8
Debt/EBITDA	2.6 x	3.1 x	2.7 x	1.5 x	3.3 x	3.2 x	3.0 x	2.9 x	2.8 x	2.7 x	2.6 x	2.5 x	2.4 x	2.3 x
Operating Metrics														
Return on Equity (ROE)	13.0%	11.5%	13.2%	15.8%	12.2%	12.3%	12.1%	12.3%	12.9%	14.2%	13.7%	13.8%	13.8%	13.9%
Return on Assets (ROA)	6.0%	5.1%	5.8%	7.2%	4.9%	5.0%	4.8%	4.9%	5.1%	5.6%	5.5%	5.6%	5.7%	5.9%
Return on Invested Capital (ROIC)	14.3%	11.5%	11.0%	22.0%	6.8%	13.6%	15.9%	16.9%	13.1%	13.1%	12.8%	12.8%	12.7%	12.9%
Valuation Metrics														
Stock Price (Average)	$ 6.09	$ 5.03	$ 4.37	$ 5.37	$ 6.35	$ 6.13	$ 6.13	$ 6.13	$ 6.13	$ 6.13	$ 6.13	$ 6.13	$ 6.13	$ 6.13
Diluted Shares Outstanding (Average)	110.1	101.8	94.0	110.0	103.2	105.7	105.7	105.7	105.7	105.7	105.7	105.7	105.7	105.7
Market Capitalization (Average)	670.7	511.3	410.5	590.6	655.0	648.2	648.2	648.2	648.2	648.2	648.2	648.2	648.2	648.2
Enterprise Value (Average)	892.7	746.5	638.9	761.0	958.6	956.7	955.2	959.0	958.4	958.4	958.4	957.5	955.2	950.7
P/E	20.3 x	17.8 x	12.9 x	14.1 x	16.1 x					13.2 x	13.3 x	12.8 x	12.3 x	11.6 x
EV/EBITDA	13.0 x	12.2 x	9.5 x	9.6 x	11.9 x					9.3 x	9.2 x	8.9 x	8.6 x	8.2 x
FCF Yield to Market Capitalization	6.5%	6.8%	11.2%	7.3%	8.1%					3.2%	8.2%	8.4%	8.6%	9.0%
FCF Yield to Enterprise Value	4.9%	4.6%	7.2%	5.6%	5.6%					2.2%	5.6%	5.7%	5.8%	6.1%
Free Cash Flow														
EBIT	58.5	49.8	44.5	98.6	41.0	31.7	17.1	17.7	19.0	85.4	86.5	89.4	92.3	96.5
Tax Expense	(15.2)	(13.0)	(11.6)	(25.6)	(10.7)	(8.2)	(4.4)	(4.6)	(4.9)	(22.2)	(22.5)	(23.2)	(24.0)	(25.1)
D&A	12.6	12.2	12.9	12.3	13.6	4.1	4.3	4.4	4.4	17.2	17.7	18.3	18.8	19.5
Capital Expenditures	(9.1)	(11.6)	(11.4)	(14.8)	(17.0)	(3.0)	(5.6)	(5.7)	(5.7)	(20.0)	(22.7)	(23.5)	(24.4)	(25.3)
Changes in NWC	(3.5)	(3.0)	11.4	(27.7)	26.3	(31.7)	3.4	(2.4)	(9.0)	(39.7)	(5.8)	(6.6)	(6.9)	(7.4)
Unlevered Free Cash Flow	43.3	34.5	45.8	42.8	53.2	(7.1)	14.7	9.4	3.7	20.7	53.3	54.3	55.9	58.1

Appendix 2: Discounted Cash Flow Analysis

(All figures in CAD)	Sep-13	Sep-14	Sep-15	Sep-16	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Sep-18	Sep-19	Sep-20	Sep-21	Sep-22
	FY2013	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**Q1-2018**	**Q4-2018**	**Q4-2018**	**Q4-2018**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**
WACC Calculations														

Cost of Equity	
Risk-free rate	2.3%
Expected market return	12.0%
Market risk premium	**9.7%**
Beta	0.54
Cost of equity	**7.5%**

Cost of Debt	
Pre-tax cost of debt	3.9%
Effective tax rate	26.0%
Cost of debt	**2.8%**

WACC	
Total market value of equity	648.2
Total book value of debt	279.9
Total capitalization	**928.1**
Cost of equity	7.5%
Cost of debt	2.8%
WACC	**6.1%**

Free Cash Flow	FY2013	FY2014	FY2015	FY2016	FY2017	Q1-2018	Q4-2018 (Mar-18)	Q4-2018 (Jun-18)	Q4-2018 (Sep-18)	FY2018	FY2019	FY2020	FY2021	FY2022
EBIT	58.5	49.8	44.5	98.6	41.0	31.7	17.1	17.7	19.0	85.4	86.5	89.4	92.3	96.5
Less: Tax expense	(15.2)	(13.0)	(11.6)	(25.6)	(10.7)	(8.2)	(4.4)	(4.6)	(4.9)	(22.2)	(22.5)	(23.2)	(24.0)	(25.1)
Add: Depreciation and amortization	12.6	12.2	12.9	12.3	13.6	4.1	4.3	4.4	4.4	17.2	17.7	18.3	18.8	19.5
Less: Capital expenditures	(9.1)	(11.6)	(11.4)	(14.8)	(17.0)	(3.0)	(5.6)	(5.7)	(5.7)	(20.0)	(22.7)	(23.5)	(24.4)	(25.3)
Less: Change in net working capital	(3.5)	(3.0)	11.4	(27.7)	26.3	(31.7)	3.4	(2.4)	(9.0)	(39.7)	(5.8)	(6.6)	(6.9)	(7.4)
Unlevered free cash flow	**43.3**	**34.5**	**45.8**	**42.8**	**53.2**	**(7.1)**	**14.7**	**9.4**	**3.7**	**20.7**	**53.3**	**54.3**	**55.9**	**58.1**
Discount factor							0.25	0.50	0.75	0.75	1.75	2.75	3.75	4.75
Present value of unlevered free cash flow							**14.5**	**9.1**	**3.6**	**27.2**	**48.1**	**46.2**	**44.8**	**43.9**

Discounted Cash Flow Valuations

Perpetuity Growth Method	
Perpetuity growth rate	**2.0%**
PV sum of unlevered FCF	210.1
PV of terminal value	1,076.2
Enterprise value	**1,286.3**
Add: Cash	9.1
Less: Debt	279.9
Less: Other EV adjustments	37.7
Equity value	**977.7**
Shares outstanding	105.7
Implied share price	**$ 9.25**

Current price	$ 6.13
Implied price	**$ 9.25**
Capital return	**50.8%**

Exit Multiple Method	
Terminal EV/EBITDA multiple	**10.0 x**
PV sum of unlevered FCF	210.1
PV of terminal value	876.0
Enterprise value	**1,086.1**
Add: Cash	9.1
Less: Debt	279.9
Less: Other EV adjustments	37.7
Equity value	**777.6**
Shares outstanding	105.7
Implied share price	**$ 7.35**

Current price	$ 6.13
Implied price	**$ 7.35**
Capital return	**20.0%**

Perpetuity Growth Rate	WACC 7.1%	6.6%	6.1%	5.6%	5.1%
1.5%	$ 6.13	$ 7.04	$ 8.14	$ 9.50	$ 11.26
1.8%	$ 6.47	$ 7.45	$ 8.66	$ 10.18	$ 12.17
2.0%	$ 6.83	$ 7.91	$ 9.25	$ 10.96	$ 13.23
2.3%	$ 7.24	$ 8.42	$ 9.91	$ 11.85	$ 14.47
2.5%	$ 7.69	$ 9.00	$ 10.67	$ 12.88	$ 15.96

Terminal EV/EBITDA Multiple	WACC 7.1%	6.6%	6.1%	5.6%	5.1%
9.0 x	$ 6.15	$ 6.33	$ 6.53	$ 6.72	$ 6.92
9.5 x	$ 6.54	$ 6.74	$ 6.94	$ 7.14	$ 7.36
10.0 x	$ 6.94	$ 7.14	$ 7.35	$ 7.57	$ 7.79
10.5 x	$ 7.34	$ 7.55	$ 7.77	$ 7.99	$ 8.22
11.0 x	$ 7.73	$ 7.95	$ 8.18	$ 8.42	$ 8.66

Appendix 3: Comparable Company Analysis

(All figures in CAD)

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple: 2018E EV/EBITDA	EV/EBITDA Multiple: 2019E EV/EBITDA	P/E Multiple: 2018E P/E	P/E Multiple: 2019E P/E
Cott Corporation	(TSE: BCB)	2,568.0	5,423.8	17.0 x	16.1 x	59.1 x	41.7 x
Saputo	(TSE: SAP)	16,138.2	17,810.0	13.6 x	12.0 x	21.7 x	19.1 x
George Weston	(TSE: WN)	13,150.7	31,825.7	7.5 x	7.2 x	14.2 x	13.3 x
Maple Leaf Foods	(TSE: SMFI)	4,136.1	4,059.7	9.8 x	9.1 x	19.2 x	17.0 x
B&G Foods	(NYSE: BGS)	2,143.7	4,758.0	10.3 x	10.1 x	11.8 x	11.3 x
Rogers Sugar	**(TSE: RSI)**	**648.2**	**956.7**	**9.3 x**	**9.2 x**	**13.2 x**	**13.3 x**
Mean				**11.6 x**	**10.9 x**	**25.2 x**	**20.5 x**
Median				**10.3 x**	**10.1 x**	**19.2 x**	**17.0 x**
High				**17.0 x**	**16.1 x**	**59.1 x**	**41.7 x**
Low				**7.5 x**	**7.2 x**	**11.8 x**	**11.3 x**

	EV/EBITDA Impliled Price		P/E Implied Price	
Mean	$ 8.38	$ 7.81	$ 11.68	$ 9.45
Median	**$ 7.11**	**$ 7.02**	**$ 8.90**	**$ 7.86**
High	$ 13.62	$ 12.92	$ 27.41	$ 19.23
Low	$ 4.32	$ 4.17	$ 5.48	$ 5.22

Miguel Valarao | contact@westpeakresearch.com

Legal Disclaimer

The content, opinions, estimates, and projections contained in this report are those of WestPeak Research Association (known as "WestPeak" or "WestPeak Research") and its directors, analysts, and affiliates and are subject to change without notice. The content, opinions, estimates, and projections on this report may not have been updated directly by WestPeak and its directors, analysts, and affiliates and may also have been altered or without your or our knowledge. WestPeak and its directors, analysts, and affiliates, without exception, do not accept any liability for factual, typographical, and grammatical errors, omissions, or content in this report. WestPeak and its directors, analysts, and affiliates do not accept any liability for damages arising from the use of or reliance on any of the content, opinions, estimates, and projections on this report. WestPeak and its directors, analysts, and affiliates endeavor to ensure that the content, opinions, estimates, and projections have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. Information may be available to WestPeak and its directors, analysts, and affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This report is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. WestPeak and its directors, analysts, and affiliates may have a personal long or short position in any of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that WestPeak and its directors, analysts, and affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein. The reader, by the viewing of and use of the content, opinions, estimates, and projections contained in this report is assumed by WestPeak and its directors, analysts, and affiliates to have fully read, understood, and unconditionally agreed to all the terms and conditions set forth in this legal disclaimer.

Miguel Valarao
Analyst

WestPeak Research Association
contact@westpeakresearch.com