Event Transcript

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Start of Transcript

Operator: Ladies and gentlemen thank you for standing by and welcome to the GrainCorp Limited HY19 results conference call. At this time, all participants are in a listen only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question you will need to press star one on your telephone. I must advise you that this conference is being recorded today, Thursday 9 May 2019.

I would now like to hand the call over to Mr Luke Thrum. Thank you, please go ahead.

Luke Thrum: Thanks [Rachel]. Good morning everybody and welcome to our first half results for FY19. The call today is being webcast - and is on our website at the moment - and we'll have an archive on the website later today. So, today we'll be hearing from Mark Palmquist CEO and Alistair Bell Group CFO. There'll be a Q&A afterwards. So, I'll now hand over to Mark:

Mark Palmquist: Great, thanks Luke. Good morning everyone. Thanks for joining. You'll see the agenda. We certainly want to go through our half year results. I'll talk about them a little bit deeper in our segment performance. Alistair Bell - our CFO - will take over at that point and go through the balance sheet and CapEx and then I'll come back on FY19 outlook. I also have some comments in terms - about some of the portfolio review initiatives that we are working on.

But first I just want to point out that safety - we've really made some great strides. We're very proud of how we have really got the trend back in the way that we wanted to. With the Recordable Injury Frequency Rate considerably lower than where we've been at in past years and also getting our lost time frequency rate heading back in the right direction again. A great effort by a lot of people and initiatives we had on safety. What I'd also point out is that our high potential near-miss incidents were down 40% as well and that's really based on the critical risk management programs that we've put in place.

So, moving on to the next slide, let's talk about the results. I'm sure you saw them posted earlier. Very disappointing, but very much primarily around what's happened in east coast Australia in terms of the drought. The worst that we've seen in over a decade. The greatest impact is on the grains group. Also slightly depressing our crush margins. But we also had the impact in the latter half of the half year for us in that we had some trade disruptions that were going on, that certainly exacerbated the negative numbers that you see.

I am going to - again - talk about these in the segment performances so I'm not going to spend much time reading through them. But again, I just highlight the fact that in March 2019 we announced an agreement to sell our liquid terminals business in Australia and that is still subject to some relevant approvals. We had also mentioned there that there was an exit clause that needed to be triggered by 10 May. So, we're almost there and we'll deal with that once we get to 10 May.

On the next slide you can see the earnings profile and you can see it by the different business segments. This really highlights just the tremendous change that went on in the grains group - that we were in positive in years past but with the drought situation that we had - ended up being a very negative situation for us. That's what's really flowing through on the underlying NPAT at a negative $48 million.

The next slide just shows it to you on a bridge. So, you can just really understand the magnitude of what's happened to us on the grains component. You can see - just starting with malt - fairly steady. Just a few minor issues in there for the first half that don't translate in to the second half and I'll walk you through that a little bit later. You can see the impact on slightly weaker oilseed crush margins. But then you can see the big impact on the EBITDA of a negative $82 million on the grains. Again, I'll run through that in the performance issues by segment as we take it forward. So that's just the bridge between '18 and '19 on the half year reporting.

So, let's go to the segment performance. I just have a slide here that just shows you the numbers so you can compare revenue issues and along with the EBITDA. The next page - let me just go through malt. You'll see a growth in the revenue - primarily - that really involves more of the price of malt barley and malt going up. EBITDA is slightly lower than the half year '18. That's just a combination of a few factors. One is of course the east coast Australian barley supply being down. We had to import a little bit more from western Australia and southern Australia coming in. We did have a few weather issues in Canada. One was - actually created some quality variability. So, we had to move malt barley around a little bit more than we normally do to satisfy our Canadian assets. But the other is just a timing issue in that we had a pretty robust tail to winter up there that delayed shipments and that's really that catch up in to the second half of the year.

Still seeing very good, strong demand. You've got 4% growth in the craft beer industry. Seeing very good growth in the distilling components and we're seeing that growth basically across all of the areas that we participate in in the global market. So, we will continue to have an extremely high utilisation across all of our assets.

Just make mention again we had announced a capacity expansion in Scotland to deal with this increased demand in distilling in that area. That's all proceeded well. Just remind everybody that that will be completed in the calendar year of 2021. We are presently working on our Arbroath facility and we'll have the new malting plant go in Inverness.

Now going on to oils. Again, our oils group has a number of components to it - liquid terminals, our crush, our foods and our feeds areas. Liquid terminals continue to operate a very high utilisation rate. Very strong customer demand across all of our range of product segments.

The oilseed side would be the negative area with a decline in the crush margins. What I'd highlight to you is if you look at the difference in the crop of canola on east coast Australia from '17/'18, '18/'19, you can see we went from 1.3 million tonnes - which was even down from the year before - down to 400,000 tonnes. Our capability is - at market today - is running at about a 350,000 tonne per annum capacity. So, you can realise how tight supply has got on canola.

Our foods actually continues to improve its performance. We're getting better at running our plant. We keep reducing our costs and we keep gaining efficiencies. The plant I'm referring to is in West Footscray. So, we're very confident in terms of continuing improvement in our foods.

Our feeds actually benefited from the drought situation. There was more supplemental feed usage going on and we certainly experienced positive results from that increase in demand.

Just to highlight again on the sale of the Australian bulk liquid terminals. We feel that that is on pathway. We are getting prepared to move forward with ANZ. I will just tell you, the process of getting approvals has already started on that side, subject to us not exercising our exit clause tomorrow.

Moving on to grains - and again this was the big impact. Providing you some numbers so that you can understand a little bit better of why it's been so negatively impactful for us. I'll just start up on the right side on the bullet points. You can see the impact on the production in east coast Australia. This fiscal year being 7.7 million tonnes - winter and summer combined - in comparison to the 16.7 million tonnes in fiscal year '18. That means our crop was about 45% of what it was last year.

We made an announcement back on 18 April just in reference to continuing deterioration due to some international trade disruptions. That's been part of this downdraught in showing an EBITDA at the point that it's at. What that really did is it disrupted a lot of the grain flows. It changed what was being used in the feed ingredients at east coast - from wheat to barley - and so we really were in a position where we had to change our supply chains at the same time. So that's where that disruption comes from.

The international trade tension issues will continue to be an ongoing event that we have to watch. But the market at this point anyway - with what we know in front of us - has pretty well adjusted and that's reflected mainly in the first half year.

Our continuing progress on the international growth keeps going forward. We've been expanding our origination coming out of the Black Sea. Our Canadian investment that we have of Zen-Noh Grain - GrainsConnect Canada - has completed its third country elevator facility - out of the four that we had announced we were planning on doing. That opened up just last month. We of course also announced securing our port access at Fraser Grain Terminal in the Port of Vancouver.

We've also made the announcement on opening up a marketing office in India and getting in to that high growth market as we go.

We're still focused very well - and running very well - on our cost reduction, our customer engagement and asset utilisation. So those improvements continue to go forward. I would just highlight the utilisation of take-or-pay rail contracts - again of course is a very big burden for us with the low grain volumes. I'm happy to say that that contract expires at the end of this fiscal year. It is a - has been a big drag on us in the low crop years, over the past six years.

So, with that we'll move on to the balance sheet and CapEx. Alistair I'll pass it over to you.

Alistair Bell: Thank you Mark. Good morning everyone. Just turning to slide 14 now of the pack. The next two slides are going to just cover the condition of the balance sheet. In essence, it's going to talk about the gearing and liquidity as well as how we're managing the seasonal fluctuations that's associated with our core debt and net debt.

On slide 14, this slide highlights that the seasonal trends between the half year on, half years as well as the year on year balances as well. It's an important piece - how we have to deal with the seasonal fluctuations. This last year's been characterised by - well the last six months - has been characterised by really tight grain supplies. So, owning of inventories. We've had to carry high inventory levels. That's come with a time where commodity prices have been higher as well.

So that's led to the seasonal fluctuations on higher values in our commodity - dedicated commodity facilities - that fund the inventory levels.

Slide 26 sets out more detail around those commodity levels and how we're funding that through the dedicated facilities. Just to remind everyone, these commodities typically are associated with the grains and oils business units. The underlying commodities are fungible and can be liquidated at short notice that goes with it.

The other key point about this slide - I'd like to highlight - is during the six months we finalised $500 million of refinancing of our term facilities. We've refinanced the $500 million in to a four-year evergreen and that's obviously extended the average 10 year of our term debt. That accommodates us and puts our balance sheet in good position for the future.

Turning to slide 15 - the core debt. The core debt is important to shareholders. Just to remind everyone we see it as our long-term planning. It's our liquidity piece around that, making sure that we've got the right long-term leverage in to the balance sheet. We use it to manage any CapEx programs and to deal with the seasonal fluctuations. I mentioned the seasonal fluctuations that aren't covered by the inventory facilities - that I just touched on in the last slide - and it's an important piece.

So, core debt measures - in essence - our net debt excluding certain grains and oils commodity inventories. So, if we actually look at the amount of core debt at the end of the half - the $880 million - it's higher than the previous half this time last year. That's been principally arising because of four items. Mark's touched on the operating performance. Our operating cashflow is down. We know that. We know barley prices have been - have increased - and that's reflected not only in our barley inventory facilities - which is up $30 million on period on period. But also, the malting barley that we have in Canada that's not part of that, we've also had an increase in balance there.

We've funded $47 million of capital expenditure as well as the timing issues of receivables of $140 million - which is just timing. It of course corrected in April but when we're doing the 31 March reporting it's a variable to the change there.

In recent years our focus has been using the free cashflow to reduce the long-term core debt particularly as the large capital programs have been finishing. But this has coincided with the east coast Australia droughts where that hasn't been generating a lot of operating free cashflow. So, the focus still remains on being disciplined around our balance sheet and ensuring that we have good headroom to any banking covenants. We still maintain very good headroom between any of these ratios that you see here and our banking requirements.

Turning now to the capital expenditure. As investors will recall, for some time we've been scaling back the amount of new capital projects. We've got some new ones being commenced in Scotland to support the customer demands around distilling malt. Other than that, we continue to have an orderly program around east coast Australia network in servicing the right sites and capital programs that [we've kept] going for a number of years.

So, you can see in the period we spent $47 million, of which only $18 million relates to stay-in-business and for the full year we see stay-in-business down around the $40-50 million. It's a conservative approach of ensuring that we're using our free cashflow where it's required but it is also a reminder that we've been rationalising the east coast network and as we do that the stay-in-business is sized appropriately to ensure the network of the future. We maintain that disciplined approach around any new capital projects.

With the CapEx programs coming down, the D&A is now starting to come off as well.

At that point - Mark - I'll hand back to you to cover off the outlook.

Mark Palmquist: Great. Thanks Alistair. So, going to page 18. Just outlook on malt. We're still paying attention to the global barley crop production. We still see some areas that continue to decrease its acreage. We do have a few spots in Europe that we're watching just to see how that comes out. For where we're located, we actually are in pretty good shape. In North America, the Canadian crop is getting in a little bit late - but not concerning to us - and the US actually looks very good.

I'll just remind everybody that we contract the majority of our malt barley, so we've got pretty stable supplies and regularly available acreage for us.

Growth still continues for us in our real important markets. Craft beer market was up 4%. Even more important than that, the microbrewery sector inside the craft continues to grow at very strong rates. It fits in very well with our distribution system that we refer to as Country Malt. I've mentioned distilling demand continues to grow. We're very well focused on that and trying to make sure that we get capacity fitting what that demand growth looks like. Of course, Mexican style beer still remains very strong, particularly in the US and that works well for us.

Still dealing with elevated energy costs. In Australia I would say as important for us is kind of an uncertainty of what energy costs are. We certainly are looking for ways to improve our efficiency and use of energy and some of that really - we'll have to look at maybe some capital requirements to be able to get that done.

For '19 going forward, we're going to run a very high capacity utilisation rate, with most of our capacity already in contract with our customers. Very strong demand for the specialty products, as there gets to be even more creativity with the type of beers being brewed, boutique distilleries. There's a high demand for a lot of the specialty products that we produce and/or distribute. Things such as the specialty malts, [roasted] type of malts, hops, yeast and a number of other products that goes in to that mix.

We're confident we'll experience - like we did last year - just a strong increase in demand that lines up very well with the northern hemisphere summer. So, we'll definitely see a pick-up in shipments in to the second half of the year.

For grains, we've actually run through a lot of these market fundamentals so I'm not going to come back through them again. Just highlight that we still are sitting in a deficit situation in the ECA, so we'll still see more import of products coming in - barley and also wheat. Highly dependent upon how much will come in in the second half is dependent upon what the weather profile is for the coming fall and winter. So, we'll obviously watch on that. Of course, we'll just keep looking if there's going to be any further disruptions in the global grain trading conditions.

As of today, we feel what's in front of us is pretty well built in to the market but we'll have to wait and see what happens going forward.

Just reminding year-to-date, our grain receivables is at 2.3 million tonnes compared to 5.6 from the year before. The year-to-date grain exports at just 200,000 tonnes off the east coast. We look for really a very minimal increase in that through the rest of the year. Also mention that the take-or-pay rail contracts are done as of fiscal '19 and that we are continuing to capture our benefits through our simplification programs that we've been running since the beginning of November 2018.

For oils - just highlighting again the difference in the crop sizes and what we've had to deal with on that. But on a go forward basis, we'll still see pressure on the crush margins. As most of you know, we still have to compete against an export priority basis. So, substitution in oils and substitution in some of the meal products. We won't see much relief on the crush margins until we get in to a new crop improvement.

But we do look for the ongoing benefits that we've experienced in the first half on our foods group and we look for those to continue to improve in to the second half.

So, going to slide 20 - the big second half variables that we're watching. Just any changes in receivables, elevations and grain import volumes, certainly will have an impact. I've mentioned the crush margins on edible oil sides, so we'll have to see where that goes. Any other global grain trading conditions - either plus or minus - because we could have effects on both sides.

Then the new season grain trading opportunities in the fourth quarter. If it appears like the crop's in good condition, we'll start to see a lot of our buyers change from a hand to mouth type of buying process and we'll have some [more forward] contracting that could take place. As always, the foreign exchange movements definitely has an impact on how we report our earnings at the end of the year.

Just a few comments - or updates - on where we're at on our portfolio optimisation and the demerger process. Slide 22 just highlights some of the announcements we had and just puts the dates on there for you.

I want to go on to slide 23 and just talk about where we're at on the separation process inside the portfolio. Again, we did announce that we want to do the demerger. The workstreams are in place. We are definitely proceeding to that. We had mentioned that we are looking at a derivative. We're in negotiations on that derivative and we certainly hope to complete that before we would be filing a Scheme of Arrangement for the demerger. If - for whatever reasons - we don't believe we should proceed with the derivative, then we will deal with the separation through capital structure.

Again, we are targeting to have it implemented by the end of the calendar year 2019.

On 24 it just highlights the implementation of the demerger. Where we're at today is we are building up the Scheme of Arrangement booklet. We've engaged with the ATO for - in regarding the demerger tax relief. We'll have to wait and see how they respond but we are confident that we won't have issues with that. As we mentioned - at the demerger - that I will go across as the managing director and CEO of MaltCo. Hence the reason that I resigned from the GrainCorp board to remove any conflict of interest of remaining on the board. Klaus Pamminger - that ran our grains area - I have appointed him as the Chief Operating Officer and at the merger he would succeed me as the Managing Director and CEO of New GrainCorp.

We will be certainly putting out more information on the proposed merger - the set up on that - and that will be provided to all shareholders in due course.

So, with that, Luke - we're ready to entertain questions.

Luke Thrum: Thanks Mark. I'll just hand back to the operator and we'll go to Q&A please.

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key.

Your first question comes from the line of Anthony El-Khoury of Deutsche Bank. Please ask your question.

Anthony El-Khoury: (Deutsche Bank, Analyst) Good morning guys. I just wanted to start off with a question on malts. You called out some winter impacts which delayed some shipments. Are you able to call out what that revenue impact was in the first half?

Mark Palmquist: Yeah, Anthony we haven't quantified that for the simple reason that we just think it's a makeup. What happened is that we had a number of customers that got behind just because of logistical issues. The commitments are still in place. Certainly, considering that we're operating at basically full utilisation of capacity, it's just a timing issue between the two. I wouldn't tell you that it's a big material number, but you don't see a big difference between fiscal year or half year '18 and half year '19.

Anthony El-Khoury: (Deutsche Bank, Analyst) Okay so you - it's safe to say you still expect the normal second half skew for earnings?

Mark Palmquist: Yeah, absolutely. We don't see anything in front of us in the market - in our operating - that views last half '19 really any different than we saw the impact in last half of '18. It's a sizeable increase. It's really based upon the seasonal demand of customers.

Anthony El-Khoury: (Deutsche Bank, Analyst) Right. Then secondly, on your malt sales agreement. If I go back to 2013 - when you had the scheme booklet out - you said that about a third of malt sales was under tolling agreements. Are you able to give us an update - just in light of some of the weakness in margin that come through today from the barley supply issues. Are you able to give us an estimate as to what the percentage of sales - which is under tolling agreements - looks like today?

Mark Palmquist: I guess the way I would reference it is we do have a sizeable portion of our volumes that sit under long-term agreements. I'm not sure I'd really call them tolling agreements. But they're under long-term agreements and if you remember back - Pocatello was anchored under a couple of major customers. We see that the LTA type of process actually increasing over the past three years and quite honestly the result of that is that demand's been growing for malt and the malt barley crop has not been growing. So, I think we're seeing customers have greater concern about the security of supply. So, we are seeing a good portion of our business in all of the areas operating under LTAs.

Anthony El-Khoury: (Deutsche Bank, Analyst) Great. Okay, thank you.

Operator: Your next question comes from the line of Jordan Rogers at UBS. Mr Rogers you may begin and please speak a bit louder. Thank you.

Jordan Rogers: (UBS, Analyst) G'day Mark, Alistair.

Mark Palmquist: Hi Jordan.

Jordan Rogers: (UBS, Analyst) First question is just around the grain side. Could you just walk through on the net and realised losses on the commodity inventories - I think it's about $85.8 million - how much of that is realised post-balance date and whether there's any chance of sort of getting some of that back on some of those grain trades in the second half?

Alistair Bell: Jordan, I take it you're referring to the other income note disclosure?

Jordan Rogers: (UBS, Analyst) Yes.

Alistair Bell: Rather than the $85 million - the way we look at it - given all the accounting pluses and minuses that go to the note - it's the $58 million is the more relevant number. Because it's a blend of how the accounting flows. Just to remind folk when we put out the market update just before Easter and referenced the $40 million - that arose in the last six weeks of the half - that's in essence this note here where we saw material movements in the underlying markets and being able to mark-to-market the grains book that we had. So, if we think about the next six months - so all of the market conditions that prevail at year end are reflected in the mark-to-market and in that note there of other income.

So, as we go through the second half and the execution of the physical grain in to contracts, there are pluses and minuses go with that. You're moving some of it out of basis and in to sales contracts and you pick up some gains and as you close out other contracts. So, to answer your question how much of the unrealised has been realised already, the unrealised represents the mark-to-market at year end and is - now as we execute that grain in to sales contracts ahead of the new crop - then we'll see the pluses and minuses that will go there.

So, that note represents the marketplace at the end of the half.

Jordan Rogers: (UBS, Analyst) Okay and then just on the - I guess you mentioned the $40 million - how does that relate to this result being around $80 million worse than [BCB] on the grain side?

Alistair Bell: BCB - I'm not sure what that is. But I'll reference the $58 million rather than the $85 million because that's just one component of it all. The $40 million flows through that note of other income. So, the $58 million - if we hadn't experienced the market conditions with the - of the grain flows in that six weeks - the $58 million would have been $18 million. That's the way to think about it. We saw that change and updated the market. We put the mark-to-market and we'll - it will move from unrealised to realised. Part of offsetting whatever goes through this note goes through the sales revenue. You could be making more gains on the physical contract as opposed to through the other income.

Jordan Rogers: (UBS, Analyst) Yeah, okay. Then could you just talk a little bit more around the $40 million - so the number you referenced at 18 April. The impact on the grain trading side.

Mark Palmquist: Yeah certainly.

Jordan Rogers: (UBS, Analyst): Just to walk through exactly how that happened. Because from people we've spoken to in the industry, it's always hard to see exactly where basis changes have been, but it doesn't look like it's been as severe. It did catch us by surprise, the size of that number. Can you just walk through again what's happened operationally there?

Mark Palmquist: Yeah, maybe a little more detail Jordan on just the particulars in the trade disruptions. Quite honestly this starts back - a process that's been - I would say - going on for the past year. But it has not been impactful on Australia up until very recently. So, we have had - on a global basis - disturbances in sorghum and in soybeans - and recently for us on barley. What's happening is that we've got some delay in shipments, we've had the anti-dumping investigation coming out of China - that we're all dealing with. Not just us but the industry. That's all filed and now we're waiting for a response from China of how they're going to rule on the anti-dumping. But the net result is uncertainty of delivery and delays in shipments is what's disrupted the marketplace and the grain flows.

So, to give you what happened again in the kind of last six weeks, two months of our first half year, was a dramatic change in the type of grain that was flowing to east coast Australia to handle the feed deficit issue. As a case in point, barley trading in to China - in particular - resulted in prices where barley was at a premium to wheat. Wheat became the choice going in to the feed channels and it was being imported across the east coast of Australia in the first three, four months of the fiscal year.

With the delays and uncertainty about being able to execute contracts - barley contracts - to China, there was a - I'll call it - plugging of the supply chain and a reversion of barley prices that actually dropped underneath wheat and now became part of the commodity mix in the feed rations in east coast Australia. For us, that wasn't a big impact. The impact to us was removing wheat out of the feed mix rations in east coast Australia. So, we had to change our grain flows from wheat coming in to the domestic market, going in to the export market and most of the importation we were bringing in to our facilities actually changed to barley.

When you started the year coming off of the beginning of the new crop the ration was primarily wheat. By the time we got basically within six weeks of the end of the first half year, it was primarily barley. So that was a big change that created a lot of disruption - not just in value but in logistics and in transportation. That's what we're referencing it to.

So, when the question was earlier asked - so where are we sitting on all of this? Today, I can tell you that the mark-to-market reflects where the market is today. It's adjusted itself for barley being in the feed ration. It reflects the change in the markets and the value between barley and wheat. So, if there's no new further development, then it's priced in to the unrealised category that you see. But I certainly can't forecast if there's going to be a change in any of those developments.

Jordan Rogers: (UBS, Analyst) Great. No thanks. That's good colour. Could you also just give us a rough idea - without being specific - around how this grains division performance would look under your proposed derivative structure. You've given the charts without the numbers on it. Sort of broadly how would it look?

Mark Palmquist: Yes. All of that you know is - first of all it's in negotiation and second, it's all very confidential. So, we're under confidentiality agreements so I can't display the numbers to you. That's why we showed the chart to just give you a sense of what would this derivative do for us in terms of managing the cashflows and smoothing them off. I guess what I could say is we wouldn't be sitting here producing results that we have put forward today if we had the derivative in place. So [unclear].

Jordan Rogers: (UBS, Analyst) To confirm though that it wouldn't take in to account some of these trading issues that would be on the supply chain earnings?

Mark Palmquist: That's an interesting question to ask because the drought and the supply chain disruptions are intertwined. The reason for the grain flows going in to the domestic side was a deficit of production that we had in the east coast of Australia, so I'm not sure I could give you a good answer on that.

Jordan Rogers: (UBS, Analyst) Okay. Okay. I'll let someone else have a go. But just two comments on the last conference call around you receiving interest in - for part or all of the businesses - has any of those conversations continued following LTAP walking away?

Mark Palmquist: Absolutely. We still have active engagement going on with very serious interested parties. Those continue to run, Jordan. As I said, we're primarily focused on the demerger pathway but that has nothing - it has no interference in the very active engagements that we have going on.

Jordan Rogers: (UBS, Analyst) Great. Thank you.

Operator: Your next question comes from the line of Adam Fleck of Morningstar. Please ask your question.

Adam Fleck: (Morningstar, Analyst) Hi, good morning. Thanks very much.

Mark Palmquist: Morning.

Adam Fleck: (Morningstar, Analyst) Morning. Just wanted to follow up on the grain side. So, Mark you've mentioned of course the ongoing simplification programs, the cost out, the asset rationalisation. Are you able to quantify that impact in the half? I'm just trying to understand - in a more normal environment - what this might look like?

Mark Palmquist: Yeah, so in the first half we're proceeding very strongly on what we're doing. It didn't have a big impact on the bottom line because the - what we're getting in savings - obviously there's a number of redundancy costs and a lot of that is going to carry forward in to the last half of '19. So, there will be more impact - savings impact - in the last half of '19 and there will be a lot more that will follow through in to fiscal 2020.

Adam Fleck: (Morningstar, Analyst) Great. That's helpful thank you. Then just a big picture question from me. So, moving past the drought and the challenges that that's presented this year. Is there any reason in your mind to expect that eastern Australia will continue to be structurally lower as a contributor to overall wheat and grain production? Or is what you, you know, what we've seen here just seasonal factors that you would expect to reverse over the long run?

Mark Palmquist: That's a great question. I'll kind of give you my personal attitude, not so much a company attitude. First and foremost, the economics isn't really what makes the difference. I don't see really any change in overall acreage, it's just a function of what you put on that acre. That's where you can see some different changes. If there's genetics that improve crop resistance - and wheat as an example - there would be a reason to tip more towards that. Or if that was in barley, you'd see more tipped to that.

So, east coast Australia will continue to be a very important grain production area for the long foreseeable future. I'd also just bring up - and highlight - that we had a climate change impact study that was done to actually take a look at that and say, what does that mean to us between now and 2050? What we found was that we actually could see a slight increase in production in east coast Australia. But we'd also see more volatility from year to year. So, just another reason why we're trying to find a way to either do a derivative or set capital structure up so that we can deal with that longer-term volatility. But it still gives us confidence being invested in grains business in the east coast of Australia.

Adam Fleck: (Morningstar, Analyst) Terrific. Thanks very much.

Operator: Your next question comes from the line of James Ferrier of Wilsons. Please ask your question.

James Ferrier: (Wilsons, Analyst) Good morning gents. Thanks for your time. The first question is on the trading book. Looking at that commodity inventory number on slide 26. I guess once you remove that malting barley figure it's still a very large number and probably bigger than it ever has been before. I'm just wondering if you could give us some comments around being in that position at the end of the first half, relative to a pricing structure where new crop prices have been dropping lately and are well below old crop prices. How you're managing that dynamic in the next six months?

Mark Palmquist: Yeah, thanks James. Maybe I'll give kind of more of a commercial colour and Alistair can follow up with a little bit more financially. So, the main component of this going up is the fact that we're dealing with a domestic market but also includes [in essence] an export shipment to it. So, there's just a longer time in the supply chain to get it in place. That combined with very high prices - certainly in the first three, four months of our fiscal year. So, it's a combination of higher commodity prices and longer supply chains.

Instead if we were just exporting, the supply chain is a lot shorter, it goes out, you get full payment on it. With us having to pull grain across and put it through our system, we've first got the sailing time that we're carrying the debt on the inventories. Then it's going through the facility and they're literally going out truck by truck. So, there's just a longer tail in terms of it being delivered to a customer and then getting paid. So, that's the big impact that we see going on here. That's why our inventory doesn't necessarily correlate with the size of the crop and necessarily with how it's being shipped. Because we could have a very big crop - which means we're primarily export oriented - can actually get us in to a much more - what I'll call it - turnover on inventory. So that we're not carrying as much inventory that's financed by debt.

Alistair, do you have any comments?

Alistair Bell: Yeah. No. It's a great question. As Mark was alluding to - not only the supply chain - so having to hold grain longer - which has been part of the accumulation program. You also originate grain when growers are selling. So, not much grain was available on east coast, so you had to buy when it was available. You had the outturn could - as Mark mentioned - could take longer than originally planned. Or not even longer. You expect it to take it through to the new crop availability. Also, WA was a large crop and you needed to secure coverage over there.

One of the biggest differences year on year - even year-end to - or even half year - has been commodity prices though. They've been up - so not up - it's the volumes are higher, yes. But it's also a big impact just being the price itself. We expect that to unwind throughout this second half. A lot of Australian grain - if you follow the grain markets - typically look to be exported by the time the northern hemisphere new crop come in. So, the June quarter is a busy shipping period. That runs through to July, mid-August as the [outload] programs kick in from the northern hemisphere.

So that's just some additional comment about the size of the inventory levels.

James Ferrier: (Wilsons, Analyst) Thanks Alistair. On the malt business - perhaps following on from one of the earlier questions too. Obviously noted - Mark - your comments there around a few minor issues in the first half. But if I understood you correctly, not necessarily material. Compare that to your comments at the end of FY18 where the

Pocatello expansion had only really benefitted full capacity in the second half of FY18. You ended FY18 with quite a sizable malting barley inventory position in a rising price environment. All of that would tell us that first half earnings should have been stronger.

Mark Palmquist: Yeah, I think it's - I'll go back to this timing issue again. It definitely is having a - well a negative impact on the first half that will get recaptured in the second half. So, I'm not at all worried and don't want to send any message out there that there is anything going on different than what we would expect to happen in '19. It will have a veritable profile to it in terms of how you can see first half '18 versus last half '18. So, it really is a timing issue. It's just a slow down on some shipments. The other issues that we had with the increase in malt barley prices in Australia and a little bit of quality variability in Canada, they're just points to note. But they didn't have a big impact on bottom line.

James Ferrier: (Wilsons, Analyst) Yeah understood. So, in the last few years the first half, second half earning split for this business has sort of been a 46, 47 versus 53, 54 in the second half. So, your comments around the timing issues, it's likely going to be a greater skew to the second half than what we've seen in the past few years?

Mark Palmquist: Yeah. I would say every we see in the marketing and the demand type of face is that we will run a high correlation with how '18 stacked up between the first half and last half.

James Ferrier: (Wilsons, Analyst) Understood. Yep. Then finally from me - perhaps Alistair - could you just give us a couple of insights - to the extent you can - on your expectations for the full year on D&A, growth CapEx and the tax rate?

Alistair Bell: So, the D&A. I think the first half is a good indication of how to think about the second half. Those programs - the last of the big projects was commissioned - which is the Numurkah expansion in the December quarter. So that's a good indication for the full year, take first half, second half. Growth CapEx - there is a modest amount of growth CapEx to go in to the second half. The biggest influence will be the timing around the scale up of the Scottish malt plant which is more 2020 than it is 2019. We've indicated the stay-in-business amount there. So, it's a modest second half on growth CapEx.

I think your other one was tax rate. The tax rate it's - where we've got operating losses - we'd expect that to be consistent first half with second half.

James Ferrier: (Wilsons, Analyst) Okay. Yes. I think your first half tax rate looked like an implied at about 33% or 34% so you'd expect a similar rate in the second half, assuming you turned to positive earnings?

Alistair Bell: We're indicating the similar rate between the first half and second half.

James Ferrier: (Wilsons, Analyst) Yep. Okay great. Thanks for your time.

Operator: Your next question comes from the line of Mark Wade of CLSA. Please ask your question.

Mark Wade: (CLSA, Analyst) Hi guys. A couple from me. Firstly, on the segment on disclosures. It looks like you've expanded that level of disclosure under revenue. So, you've [unclear] breakdown on sale of commodities, [finished] goods - service revenue rather. How should I interpret that breakdown? Specifically, as it pertains to the grains unit? Does that speak to those former business units that sat within grains?

Mark Palmquist: The new reporting segment revenue is a new accounting standard requirement of showing the split up. The service revenue - I think what you're referring to for grains - does not reflect the old S&L. So, I wouldn't read in to that. That's just provision of services that we're doing throughout all of the grains unit. Whether it be the old S&L or marketing. As you can see, it's not a substantial number at all.

Mark Wade: (CLSA, Analyst) Mm-hm, okay. Also, on the - just turning to the forthcoming winter crop. Any indication there what you're seeing around planting intentions for the calendar year '19 winter crop?

Mark Palmquist: Yeah. Pretty premature Mark. I can just tell you where we're at today and that is, we certainly have had some more positive weather events in the last 30 days and also [see the] Queensland profile. Certainly, it's better than where it was 60 days ago. There appears to be pretty good progress on plantings. New South Wales as an example, Queensland. We do have some delays sitting in Victoria right now just because there's some dry - still some dry areas down there. But there's still plenty of time to be able to get the crop in.

The issue for us though is that there's not a lot of subsoil moisture, so it's great to see some of the moisture events we've had. It's giving confidence for plantings to proceed. But we're just going to have to see what happens on further weather events. I believe the first ABARES forecast is out on 12 June. So that's probably a time where we'll be taking a look at it. See how that confers with some of our own private ideas. So, I guess another way to put it is we're 30 plus days away from having a pretty good look at what we think's going to happen.

Mark Wade: (CLSA, Analyst) Hm. Hm. Yeah, it would certainly be unprecedented if you had a third drought year in a row. So, fingers crossed - for the whole industry - that things turn around there.

The last one - on the dividend policy - I notice you've cut that to zero. Is the policy still, you know, 40% to 60% pay out of, you know, mid-cycle earnings.

Mark Palmquist: Yeah nothing has changed in the policy at all. We just went through this with the board yesterday. They just decided that considering where we're at - at first half year results - that the interim dividend would be zero. Obviously, we'll take a look at things when we get to the year end.

Mark Wade: (CLSA, Analyst) Okay, thanks guys.

Operator: There are no further questions at this time. I would now like to hand the conference back to Mr Luke Thrum. Please continue.

Luke Thrum: Thanks Rachel. Thanks everybody for joining us today. I'm sure we'll be talking to many of you in the coming days. So, thanks again.

Operator: Ladies and gentlemen that does conclude our conference for today. Thank you for participating. You may now all disconnect.

End of Transcript