Event Transcript

Company: GrainCorp
Title: HY20 Financial Results
Date: 15 May 2020
Time:

Start of Transcript

Operator: Ladies and gentlemen, today's conference call is due to begin shortly. Until such time your line will remain on a music hold. Please continue to stand by, we thank you for your patience. Ladies and gentlemen, thank you for standing by and welcome to the GrainCorp Half Year 2020 financial results. At this time, all participants are in a listen-only mode. After the speaker's presentation there will be a question and answer session. To ask a question during the session you will need to press star one on your telephone. Please be advised that today's conference is being recorded and I'd now like to hand the conference over to your first speaker today to Mr Luke Thrum. Thank you, please go ahead.

Luke Thrum: Thanks Kevin, and welcome everybody and thanks for joining us for our half year results for FY20. We've just lodged the material this morning with ASX so you've probably had a chance to have a quick look at them. I'm joined here today with our new MD and CEO, Robert Spurway, I think it's seven weeks into the job now.

Robert Spurway: Morning, everyone.

Luke Thrum: Alistair Bell, Group CFO, who you all know very well.

Alistair Bell: Good morning.

Luke Thrum: So we are going to go through the results, the key slides, and then we will go to Q&A and I'll hand over to you now Robert, thank you.

Robert Spurway: Thank you, Luke, and good morning ,everyone. My name is Robert Spurway, Managing Director and CEO at GrainCorp. We do have on the webcast a number of slides. For those that do have visibility of that, I will reference the slide numbers as we work through this very short pack but we'll also try to talk to the slides so that those on the phone can follow. Alistair Bell and myself will work through the slide pack, a fairly short presentation, and there's time for questions afterwards as Luke said.

So if we work through the pack and move straight to slide 3 headed up executing against our strategy which is the headline results of GrainCorp half year for 2020. It has been a very busy period and an interesting time for GrainCorp in terms of portfolio repositioning. The successful demerger of the United Malt business completed, the business completed the sale of the Australian Liquid Terminals business and we are reporting a net profit, statutory net profit after tax of $388 million, with importantly a very well funded balance sheet at the half year.

In terms of our strategy and indeed building momentum we are seeing strong resilience of the business through COVID-19 and we will talk to that in more specific detail shortly. We are undertaking what we call a harvest readiness program preparing the business for what we expect will be a much larger winter crop going into the FY21 year. The underlying result has benefitted by the delivery on the operational initiatives, many of which were highlighted in the demerger scheme booklet and we'll also refer to through this presentation.

In terms of operational performance, the underlying EBITDA was $183 million, and that translates to an underlying net profit after tax of $55 million, and importantly we reported zero core net debt at 31 March 2020. So as I said, strong underlying performance, a number of significant items but in a strong position and a well funded balance sheet. We will

DISCLAIMER: This transcript has been prepared by a third party for Orient Capital Pty Ltd. It may not be accurate or complete and should be verified directly with the issuer. Orient Capital Pty Ltd is not responsible for any consequences of the use you make of the information contained in this transcript, including any loss or damage you or a third party might suffer as a result of that use.

finish the presentation with some further comments on the outlook but just by way of prefacing that we do see widespread winter planting going on across East Coast Australia and that positions us well for the FY21 year.

We do need to highlight that obviously the business is recovering from three years of severe drought across East Coast Australia and that will be a feature of the second half with a small summer crop and it's likely that our results in FY20 will be skewed towards the first half in line with tonnes handled. There are a number of operational initiatives that are being delivered though and the strong balance sheet that we're reporting provides us with a strong platform for future growth.

If I hand across to Alistair now on slide 4, the slide titled creating a platform for growth – Alistair.

Alistair Bell: Good morning, everyone. It's pleasing to be here again and as Robert alluded to it's a period of where we have done substantial repositioning. So the ongoing underlying operations has been really focusing on two keys parts. One is about continuing to deliver on the operational initiatives. You will recall we outlined these in detail in the scheme booklet and down on slide 16 we have provided further insights into how we are tracking against each of those categories.

I'll come back shortly more about the benefits that we are seeing when we overview the actual results whilst the other key activity is with the widespread planting that's underway, the business is preparing early for the harvest readiness. Now the simple things to think about there is good lead time, we are ordering in tarps, making sure our plant and equipment is ready to – mobile equipment is ready to be able to handle the harvest that's coming. There's always a big recruiting program and obviously during these COVID times we have to be mindful of ensuring that we are recruiting in the local communities, as well as making sure they are appropriately trained. So I'll just pass back to Robert and he will provide an update on our COVID-19 [events 8:40].

Robert Spurway: Thanks, Alistair, I did talk about the fact that the business is resilient through COVID-19. It is good to be in food and agriculture and have that defined as an essential service. GrainCorp is playing a critical role in supporting the food supply chain, both here in Australia and globally. We think about it in three areas. First of all, protecting our people, maintaining operations, and protecting jobs. I do want to make a special call out to the many people across GrainCorp that are keeping our business running in these times and practising all the social requirements and other precautions to keep themselves and our business safe.

Now the second area is of course our business continuity. We do as I said have ongoing supply chain and processing plant demand and that remains very resilient. We are pleased to be able to keep up with that demand and support our customers on our products and services through this time. Then the third area is around our stakeholders. We are conscious of the impact right across the Australian economy but GrainCorp has an important role to play, as Alistair said, in the harvest readiness for FY21 but the benefits that that can bring to regional Australia through the resilience of our business and the likely employment opportunities we will be able to provide leading into the harvest period.

So in summary, our business is very resilient through COVID-19 and our team are doing a good job keeping the business going and keeping up with the ongoing demand we are seeing for our products and services. But we are here today though to talk specifically about the half year results so I'll hand back to Alistair to talk through in more detail the headlines I've already covered. We're just moving to slide 6 on the pack for those following the webcast.

Alistair Bell: So onto slide 6, it's pleasing to report on the substantial turnaround in the underlying earnings, notwithstanding the third consecutive year of the drought. Just to remind everyone the results include malt for six months as well the continuing operations of agribusiness and processing. This is the first time that we've reported under the new business segments. The results show that the business is benefiting from the operational initiatives, and this includes the Crop Production Contract for the first time, the new more flexible rail contracts that's not only benefiting ourselves but also the rail providers. We're improving crush margins and the plant performance right across the Group has been in a strong position.

The underlying results show that we've got an EBITDA of $183 million, up from $27 million, and an underlying NPAT of $55 million. The earnings are skewed to the first half in line with tonnes to be handled. As you have heard before, it's a small summer crop and so we are expecting that to be skewed, our earnings skewed to the first half. The other key part of the half has been the refinancing of the Group. GrainCorp has finished the half with a strong balance sheet with zero core debt, and as well maintaining flexibility with the 10% interest in United Malt. The Board considered an interim dividend and is of the view it is better to consider a dividend in line with our dividend policy at the full year when times are more certain but as we finished the half GrainCorp is in a well funded position.

I may just turn to slide 7 to give some more insight into the turnaround. This is the first time we have presented the earnings bridge showing the new business segments. It really focuses on the continuing operations of agribusiness and processing. If we go to each of the stacks, in agribusiness just to remind everyone it was a period of drought so lower volumes than a normal season. But you can start to see the benefit of the crop production contract and new rail contracts. This time last year we were experiencing disruption to grain trade flows and that negative impact has not been repeated in the period.

For the first time we have broken out the processing, that's the crush and the refining and packing business, and you can see a substantial turnaround there coming a lot from the much improved crush margins, as well as the steady performance of foods and the manufacturing plant. That's been good. In corporate we have included the fair value treatment of our interest in United Malt so when adjusting the $16 million for the movement in the last week of United Malt we had corporate costs of $6 million included there. But a large bridge and shows you the benefit of the operational initiatives coming through.

Turning over to slide 8, this gives some detail around the crop production contract. We felt it was important just to remind everyone around how we use the contract to manage the variability associated with the east crop production. Now details were provided in the scheme booklet but this is the first year that it's operated for us. It's based on the ABARES East Coast Australia winter crop production and as reported at the AGM, the ABARES in their February report had confirmed 11.4 million tonnes. That equates to approximately $58 million gross receivable of which $52 million was received in the half and when adjusting for the annual premium and then fair value the overall contribution to earnings was $45 million in the half.

The next season is based on the June ABARES report that's issued on 10 June. That's their first report that will give insight into the fiscal year 2021 winter crop, that's the crop that we typically harvest on the East Coast during the December quarter. Just to remind everyone there is a cap collar situation where the maximum GrainCorp can receive is $80 million before any premium adjustment and pay away is $70 million. I'll pass back to Robert now and he will give you an update on the outlook.

Robert Spurway: Thanks, Alistair. So just to recap, a number of significant items in the $388 million profit recorded for the half but importantly we are seeing the benefits of the initiatives come through in the underlying performance of the business, and as I've said strong balance sheet at the half year. If we look to the outlook, and we are on page 9 of the presentation for those following on the webcast, we do expect that – and need to highlight the exposure that GrainCorp has to weather. The result of that of course is a smaller than average FY20 summer crop on East Coast of Australia. As a result we do expect the earnings over 2020 will be skewed towards the first half in line with tonnes handled.

We are seeing reductions and we expect those to continue in the imported demand from WA, SA, and Victoria over the period. As many of you will be aware, we were able to reverse our network to support East Coast grain demand through the year. We expect that business will taper as me move to 2021 and the industry and GrainCorp sets up for a much stronger winter crop going into FY21. We've got a couple of pictures here, the Bureau of Meteorology, of course, is very important for growers and indeed for GrainCorp.

We are seeing a favourable East Coast Australia soil moisture pattern and that is leading to widespread planting for the FY21 crop across almost all regions of East Coast Australia. So that is encouraging as we look forward to next year. As we've talked about what that means for GrainCorp is the focus on our harvest readiness program, making sure that our supply chain network is resourced adequately, both in terms of people and equipment to manage and indeed turn what we expect will be a much larger winter crop into value.

As Alistair said, if we look at the underlying business performance the processing business and the strong margins we are seeing for oilseed crushing are expected to continue through the second half and that is encouraging in terms of the performance of our Numurkah plant in particular. So that's a summary of our results and some commentary on the outlook. At this point we would like to move to any questions and I will hand back to Luke and the moderator to manage that process, thank you everyone.

Operator: Ladies and gentlemen, we 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. Please note there might be a slight pause as questions queue. Once again it is star one, thank you very much. Once again ladies and gentlemen just a reminder it is star one. We have multiple in queue. Our first question is from Grant Saligari from Credit Suisse. Please ask your question, Grant.

Grant Saligari: (Credit Suisse, Analyst) Good, Robert and Alistair, well done on the result. I'm sure it reflects a lot of hard work from the team over the last 12 months in getting the busy ready. I guess the two areas I'd be interested in delving into a little if you could help us is to understand first of all the progress that you have made on some of these cost reduction and business improvement initiatives. So if we go back to one of the earlier presentations you were targeting somewhere between $55 million and $85 million EBITDA uplift in agribusiness, and somewhere between about $15 million and $25 million in the processing business.

So it looks to me on the agribusiness result that excluding Canada you are probably coming in towards the upper end of some of those initiatives but it would be good if you could perhaps just give us some sense in quantifiable senses to the extent of progress that's been made in agri and processing please.

Alistair Bell: Grant thank you. I'm not in a position to talk about specifics but I will talk about the trends and I refer you to slide 16 where we've tried to provide additional commentary. Obviously if you think about the categories of how we are tracking against it and managing the variability, the new rail contracts, we've indicated a net $10 million to $15 million. Even in this low volume year we are expecting to experience that sort of benefit. Obviously, with larger volumes we'd like to think there will be far more efficiency for both the rail provider and ourselves around that, and the crop production contract I went through the details around that piece.

Simplifying the operating model we are well down the track on delivering those benefits and you can see some of those coming in the corporate cost area but also we are still in the process of rolling out the decision making that supports both agribusiness and processing, and you are starting to see the benefits of that coming through in the results. So I think it's evident when you look back on the earnings bridge that we had.

The other part then is maximising our assets, processing, for the first time we've seen a substantial uplift around the processing that's the crush and the refining operations, and with improving crush margins and the performance of the plants there we are confident that the business is well on track to delivering where we've indicated previously. So I'll just pass back to Robert and he can provide his insights as well.

Robert Spurway: Thanks, Alistair. I think you've summed up the key areas being the crop production contract, the flexible rail contract, very importantly the underlying performance of our processing business and the oilseed crush margins, and then also the cost savings particularly in the corporate area. We are on track across all of those areas as Alistair said. There's more work to do in all of those areas for the second half but the business is committed to fully delivering on those commitments made in the demerger scheme booklet, and there's a structured program in place to ensure that [unclear] continues.

Grant Saligari: (Credit Suisse, Analyst) That's really helpful. Just one second area if I could. There is as you would be well aware a lot of debate around the difference between earnings per share and free cash flow in this business just given how high the depreciation line runs. I think in the scheme document and previously you have indicated that CapEx would run well below that depreciation line so that gives us a focus on free cash flow. Are you able to sort of maybe Robert just call any initial comments around your thoughts on areas for investment in the business, whether you are comfortable with that level of capital going into the business over the medium term?

Robert Spurway: Yes, thanks, Grant. As you will see in the result, we have reported CapEx in the half of $11 million and we are maintaining our view that a range of $35 million to $45 million as published in the scheme booklet is appropriate. It does move around of course from half to half depending on the timing of projects and there is a number of relatively small projects that are in place ensuring the business completes its commitment to be ready for the harvest through 2021 and to gear up for that.

But in answer to your question, I am very comfortable with the envelope in terms of the commitment we have made of stay-in-business CapEx, and we are on track for the full year to remain within that indictive envelope. One of the things of course we will be looking at from here is where the opportunities are for the business to grow and we look forward to updating everyone on that on our views through the second half and particularly at the end of the full year.

Grant Saligari: (Credit Suisse, Analyst) That's very helpful and well done on the result guys so thank you.

Operator: Our telephone question is from Adam Fleck from Morningstar. Please ask your question, Adam.

Adam Fleck: (Morningstar, Analyst) Hi good morning and thanks very much for taking my question. I wanted to talk a little bit about the industry and particularly the marketing side and of course we have seen a lot of sabre rattling maybe from China around threats to impose tariffs on Australian barley. I was just wondering if you could walk through the puts and takes of that potential impact of course both on the agribusiness but also as you see it in your 10% holding in United Malt.

Robert Spurway: Thank you Adam. Look it's been an investigation in barley that's been ongoing for some time. GrainCorp is working very closely with Grain Trade Australia and other industry groups on what is ultimately an industry matter. We are not going to be drawn or get involved in the reasons behind it. Obviously as any agricultural business, or a business exposed to global trade we'd like to see a level playing field. We want to make it very clear that this is an ongoing investigation, and ourselves and the industry are making sure that all the information is available to the Australian government and MOFCOM, and we would like to see an outcome that differs from some of the signalling that is provided by MOFCOM at the moment.

Ultimately it is an issue directly for Australian growers more so than GrainCorp and that of course is of great interest to us given our support of those growers. But GrainCorp doesn't have any material direct exposure, either in the results we've just talked about or our outlook. So certainly, as I've said our desire to see a more favourable outcome on any tariffs being imposed and we are working with the industry groups to ensure that that is the outcome that we aim for. I'm not equipped to talk specifically about the United Malt business Adam, that's really a question for them in terms of their performance and outlook. We of course retain our shareholding in United Malt but beyond that we don't have specific insights into that business.

Adam Fleck: (Morningstar, Analyst) Okay, fair enough but that's helpful context so thank you. Then maybe Alistair one housekeeping question as I'm looking at the EBITDA bridge and trying to compare it particularly around the operating lease accounting. There was a note in the release that there was about $16.5 million of expense that I think would now be below the EBITDA line and depreciation and interest that previously was in rental expense. I guess my question is, is that correct and do we need to remove that when we are looking at like for like comparable for continuing operations?

Alistair Bell: So like for like there is no impact on the operating profit line. There is some re-categorisation between EBITDA and the D&A and interest and in agri that is $16 million. You will notice in the half year report we elected not to re-state prior year figures and that flows through into the bridge as well.

Adam Fleck: (Morningstar, Analyst) Right, so prior year figures then like for like would have been higher under the new accounting standard is that fair?

Alistair Bell: I can only comment about – and we have disclosed the impact on the '20 number not on the prior year number so we have not re-stated the prior year number and that's disclosed in the notes.

Adam Fleck: (Morningstar, Analyst) Yes, got it, okay, that's helpful, thank you very much.

Operator: Our next telephone conversation is from Jonathan Snape from Bell Potter. Please ask your question Jonathan.

Jonathan Snape: (Bell Potter, Analyst) Yes, thanks. Can I just pick up on Adam's question around the D&A, are you able to give me a sense in terms of the EBITDA uplift you got at the divisional level of about $16.5 million because is that also including what's in the malt business? Because if I look at the D&A and it kind of looks like it does. I'm just trying to get a handle on how much the benefit was for EBITDA in agribusiness and how much of a benefit for EBITDA was in processing.

Alistair Bell: So the ongoing operations earnings in the half year report, Jono, is just GrainCorp, it does not include United Malt, and the uplift in depreciation year-on-year is typically related to the new accounting standard, that's what has picked it up. It doesn't mean that we are – well, capital is just the impact of the accounting standard.

Jonathan Snape: (Bell Potter, Analyst) No, no, that's all right. I'm just trying to for my model and get it all kind of right in that stuff. So if I just up the D&A in each of those divisions that should flow through and the interest I'm assuming has probably been taken at the corporate because I think – I'm going to say $3.5 million or something like that.

Alistair Bell: That's correct.

Jonathan Snape: (Bell Potter, Analyst) Okay, and can I just clarify around the fair value adjustment of UMG, the $16 million, that's been included in the underlying operating number.

Alistair Bell: Yes, that's in line with the auditor's requirement.

Jonathan Snape: (Bell Potter, Analyst) Okay, so that will be a feature going forward that you will do the market-to-market of UMG in the operating results because that's going to put a bit of volatility in there.

Alistair Bell: Yes, we'll call it out from each reporting period to reporting period. Obviously if it's a large unusual item then we'll have to call that out separately.

Jonathan Snape: (Bell Potter, Analyst) Okay and look just one final one from me. Look I never thought I'd say good result but there you go.

Alistair Bell: Thank you, Jono.

Jonathan Snape: (Bell Potter, Analyst) On the marketing side of the equation and I notice that there was a question earlier around the delivery on initiatives but it does look like in that segment though 1.2 there's quite a material movement in the realised and unrealised gain in the trading operations. So like it's up near $74 million positive this year it's like $64 million negative next year and I realise you're a trading business but is that really the major driver here of the turnaround because you've actually had a really outcome in terms of your positions in this year's results as opposed to what you've generated say last year.

Alistair Bell: Jono, there is always pluses and minuses between the physical and the derivative from half to half, season-to-season, so the key message though has been that there was a far smaller crop across the whole of Australia unlike this time last year where WA had a substantially large crop with a huge export task, and we saw disruption in trade flows come through. The market has adjusted and had adjusted for that throughout the last 15, 18, months and with the smaller crop comes smaller positions as we manage through our task.

Part of our task this year, similar to last year, was ensuring that we transhipped grain to support the East Coast domestic demand, that continued not only from WA, South Australia, but also from Victoria this time. We were able to utilise trains to run from south to north but also tranship through Fisherman Island back to Southern Queensland. So we've managed our risk positions differently. The detail of unrealised realised does move around from half to half as I mentioned so that's the key point there.

Robert Spurway: I think, Jonathan, from my perspective the business widely reported the impact of that last year and was disappointed in that result but we wouldn't expect to see that reoccur. Just one other clarification, you mentioned the figure of $16 million in relation to the value uplift of our holding in United Malt. So within that $16 million the United Malt, their value adjustment is only $5.6 million so it's a much smaller piece in the overall $16 million. That's detailed of course in the financial statement and on page 22 of the half year financial report.

Jonathan Snape: (Bell Potter, Analyst) All right, thank you and looking into next year if you looked at grain prices domestically and the futures curves where they're indicating relative to international, if you've been able to deliver a trading result like this when it's been against you how optimistic do you think you're going to be next year when you've got upwards of the $70, $80 a tonne tailwind in our pricing relative to where it was this year?

Alistair Bell: So, Jono, just to go back and recap on the last conversation. So it's a modest contribution from our marketing activities in the half of this year because the small crops across the whole of Australia. The China barley embargo is a matter that has been known in the marketplace, it's not – so it's been factored into all of the positions and as Robert alluded to we are working with our growers. As we think about next year, and we made mention that planning is well under way and extensive, and indications are for a large possible crop albeit there's plenty of weather to go between now and it's in the bins.

If that's the case you've got a large export task and part of the large export task creates opportunities that we have to manage within a risk appetite. It's not about – and we carry very small flat price risk, it's all about basis risk and ensuring our assets are worked and it comes through. It will be good to have an export task which we haven't had in the last few years.

Jonathan Snape: (Bell Potter, Analyst) Okay, all right, thanks.

Operator: Our next telephone question is from Paul Jensz from PAC Partners. Please ask your question Paul.

Paul Jensz: (PAC Partners, Analyst) Thank you. Just some minor questions around the numbers first and then some strategic stuff. Just on the numbers, just trying to drill down, there's about a $44 million uptick if you back out the CPC, rail, corporate, oilseeds, and UMH and that sort of thing. Jono's questions around the marketing suggest there was only a minor tick up and there's only another 1.5 million tonnes of volume in the first half. So I'm just trying to see where that $44 million comes from in the waterfall chart.

Robert Spurway: So could you just walk me through – I was struggling following your maths there, Paul, it's Robert here, I think I understand your question. So if you look at the uplift broadly speaking about half of it is in the initiatives associated with the crop production contract. The other part that you referred to is in the non-recurrent of trading performance issues in the prior period. So we've seen much more favourable trading positions that are reported in this result against very negative results reported in the same period last year.

Paul Jensz: (PAC Partners, Analyst) I suppose I'm just trying to match that up with the discussion that Jono and Alistair just had where there was only a modest uptick in the marketing earnings this year…

[Over speaking]

Robert Spurway: So I said – yes, sorry, Paul, maybe I wasn't clear to – or I said it was modest contribution in the half. So obviously we had reported a negative impact across the grain – the trade disruptions last year and so I'm not talking about trading losses I'm talking about that disruption. That was highlighted and this year we've been able to not – we've not repeated the same [issue] but the overall trading position has been a modest contribution.

Alistair Bell: I'd maybe put it this way. Starting from a zero position it's a modest uplift, at half on half it's more significant as you just pointed out Paul.

Paul Jensz: (PAC Partners, Analyst) That's captured in that 44 or so rough number.

Alistair Bell: Indeed.

Paul Jensz: (PAC Partners, Analyst) Okay, and just the second half result you're talking about a skew, are you going to do a modest positive number in the second half, is that your aim?

Robert Spurway: Look we don't want to be drawn on specific numbers. We are still significantly exposed to volumes associated with the weaker summer crops. Alistair do you want to provide any further commentary on that?

Alistair Bell: Paul we'd like to see how it progresses before giving any earnings guidance. If we need to we'll track consensus other than we just wanted to remind everyone that typically GrainCorp's earnings are skewed to the first half and as we think about the second half it's a small crop, small tonnes to be handled. Although behind the scenes we are preparing and getting ready for the harvest with widespread planning that's been underway.

Paul Jensz: (PAC Partners, Analyst) I understand. Then more on the strategic material maybe for Robert it's a bit harsh after being here a short while Rob but where can you see I suppose the gaps and the opportunities with GrainCorp going forward? Obviously, there's the internal improvement underway with the cost out that Grant was mentioning before, where are the step outs and the strategic moves that you might bring to GrainCorp?

Robert Spurway: I'll speak generally on that, Paul, because as you say it is too early to be drawn on the specifics. I think what I'd say just as a starting point is, one of the things that we have emphasised in the restructuring and ultimately the demerger, was the importance of a strong balance sheet and a well funded balance sheet, and what ultimately is a business exposed to agriculture volatility. So whatever strategic moves or growth initiatives we look at one of the anchoring foundation principles will be maintaining a strong balance sheet in that respect. So does that mean we are going to go out looking for big debt funded acquisition opportunities probably not?

Does it mean we then look closer to home around partnerships and extensions of our existing business, that's the flavour of the sort of strategic initiatives that we'll be exploring as we set out the direction? As I said, we will be in a position to talk about that more clearly later in the year. I think there are some obvious things that we are doing right at the moment on looking to understand the strength and weaknesses in the business. It's very good to see the stronger underlying performance coming through in the business because that gives us the confidence I guess and the credibility to look at how we extend our exposure to those areas as may be appropriate when we [unclear].

Secondly, the obvious areas are both in terms of vertical up and down the supply chain expansion, adjacent expansion, or potentially geographic extension, but all in that context of providing a conservative approach to protecting our balance sheet. As I said, and as you touched on right at the star,t Paul, I think it would be unwise to be drawn more specifically at this point but it is a piece of work that we are undertaking and we look forward to updating the markets on probably around the time of the full year results.

Paul Jensz: (PAC Partners, Analyst) Thanks Rob, thanks Alistair, I look forward to riding the next stage, talk soon.

Robert Spurway: Thank you.

Operator: Our next telephone question is from Belinda Moore from Morgans. Please ask your question Belinda.

Belinda Moore: (Morgans, Analyst) Good morning gentlemen, sorry my question was largely taken, just trying to understand the extent of how the business is loss making in the second half, and then do we also need to add some extra costs did you say with this next harvest coming through?

Also, what was the positive EBITDA uplift for the rail contract in the half I know you gave it for the full year, thank you?

Robert Spurway: We would prefer not to be specific on the rail contract but it's – we have indicated 10 to 15 for the full year and the [out load] time typically runs through – on average it's about half half so you could factor into your model that way.

Belinda Moore: (Morgans, Analyst) Thank you.

Robert Spurway: In terms of preparing for the next year's harvest we do a lot of planning now ordering of tarps, making sure the equipment is ready, so there is a modest cost that comes in, typically it's more in quarter four that we really spend, that's when we get a better feel through how the winter season has gone and obviously the spring rains that come in late August and September so we try and manage our costs through that period.

Belinda Moore: (Morgans, Analyst) Thank you.

Operator: The next telephone question is from James Ferrier, from Wilsons Please ask your question ,James.

James Ferrier: (Wilsons, Analyst) Hi Rob and Al, thanks for your time today. The first question is in the processing business, can you just give us – you mentioned strong crush margins which is really pleasing to see after a very difficult PCP but maybe can you give us some idea of where you see those crush margins relative to the prior few year? Obviously 2019 was difficult but if you go back a few years how do those crush margins compare over the previous three or four years?

Robert Spurway: The major factor, James, and that included in the crush margins is the – are the throughput and the performance of our Numurkah plant. As you'll be aware, there was some significant upgrade paid on that plant. I guess in the early period of that entire period there were some commissioning challenges but we're now very confident in both the run rate and the performance throughput of that plant, which is supporting the overall contribution from those crush margins. Alistair, I don't know if you've got more specific comments to make around that relative to prior period?

Alistair Bell: Yes, the other dynamic obviously was with the East Coast canola crop where it's more a balance between supply and demand that allowed us to purchase the seed in a more orderly way, that's the benefit. I'd prefer not to talk specifically around crush margins but it is pleasing that we are seeing it return to levels that you would typically see in the East Coast Australia crush businesses.

James Ferrier: (Wilsons, Analyst) Yes, that's very encouraging given there's probably some upside to the size of the crop relative to prior years so that's a very encouraging outcome. Staying in processing so there was a $2 million – if we look at the PCP a $2 million loss for that first half 2019 result and if I understood the demerger document correctly I think there was a $17.5 million positive EBITDA for the full year. So just that delta and the implication of a much, much stronger second half 2019, as you're cycling over that in second half 2020 what were the drivers of that big improvement second half 2019?

Robert Spurway: Numurkah was operating for full half. Last year we were able to – we'd procured our seed in the second half last year as well as that assisted the food manufacturing piece which was at West Footscray so it was a combination across all of the processing.

James Ferrier: (Wilsons, Analyst) Okay, so it's fair to the quantum of improvement first half 2020 versus PCP probably wouldn't be replicated in the second half given you'd already seen some of those benefits coming through in second half 2019.

Robert Spurway: Yes, in PCP way. As we think about our second half we typically have some shutdown of plants as you run off old crop and getting close to new crop, so there is a slight – not that material- but there is a slight skew to first half over second half.

James Ferrier: (Wilsons, Analyst) Okay, great. Now a second question and please pardon my ignorance here but a lot of the assets GrainCorp operates are owned, could you just remind me which assets you're leasing that is contributing to this AASB accounting impact?

Robert Spurway: Well, there's a combination of owned and leased. So some of the port sites are typically leased as are our long term supply agreement when we sold the bulk liquid terminals was deemed under accounting standards to be a sale and lease back, so that's added to the contribution. Some of our sites up country are also leased but not owned as freehold.

James Ferrier: (Wilsons, Analyst) Okay, that's helpful. Look the final question I had on the trading book. You made mention of the fact that the overriding premise in your description of the contribution this year was in the context of still very small East Coast crop volumes. If I'm reading the presentation correctly, slide 14 tells us that the trading book had grain sales of 4.6 million tonnes versus 3.9 PCP is that the right way to interpret that line?

Robert Spurway: So just to restate your observation, when we talk about the marketing of grain it's not just the East Coast, it's also the crop of Western Australia and South Australia was smaller than prior years, and we also had origination in Canada and the Black Sea as well that goes through. So overall the 4.6 million represents all of those areas and it does - the timing of sales can depend on the shipping programs and when they go.

James Ferrier: (Wilsons, Analyst) Yes, understood but certainly still it's a reasonable uplift year-on-year and probably partly reflective of the increasingly international origination base that business unit is pursuing.

Robert Spurway: It's also on the East Coast, it's a balance with East Coast where we are utilising our assets to service the end consumer, the domestic demand. There hasn't been a large export task but we have been working with our customers to make sure that we had the appropriate grain supplies when necessary.

James Ferrier: (Wilsons, Analyst) Yes, understood. Last a sort of associated question then, if I look at the debt profile, the short term commodity debt at $971 million and if that compares to the PCP if you back out the barley inventory from Malt, it's about $864 million PCP, so again that commodity debt financing up year-on-year, your sale volumes up year-on-year, I guess those two lines moving in a consistent direction is partly obvious, is that the right way to interpret it?

Robert Spurway: I don't have all the numbers in front of me, James, because the half year report compares to September but typically grain prices drive – it may not be necessarily volume, it can be the grain price that drives the fluctuation as well. So I don't – I can pick up the conversation with you afterwards because I don't have the numbers in front of me as you are describing.

James Ferrier: (Wilsons, Analyst) Yes, okay, no that's fine, thanks very much for your time.

Robert Spurway: Okay, thank you, James.

Operator: There are no further questions at this time and I would like to hand the call back to Mr Robert Spurway for closing remarks, please go ahead.

Robert Spurway: Again, thank you for your time this morning everyone. We are aware of course with social distancing restrictions that our ability to meet with various stakeholders is somewhat limited but in that context we have posted on our website a very brief video from Alistair and myself that largely recaps on what we've talked about today. But we look forward to being able to answer any other questions during the course of business over the coming few days. Thanks again for your time, thanks for joining Alistair and good day everyone.

Operator: Ladies and gentlemen, that does conclude the call. You may all disconnect, goodbye.

Robert Spurway: Thank you.

Alistair Bell: Thanks.

End of Transcript