Event Transcript

Company: GrainCorp Limited
Title: FY19 Results
Date: 14 November 2019
Time: 10 AM

Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the GrainCorp Limited FY19 Results conference call. 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'll need to press star 1 on your telephone. Please be advised that today's call - conference - is being recorded. I'd now like to hand the conference to Mr Luke Thrum for a brief introduction. Thank you. Please go ahead.

Luke Thrum: Thanks for that and good morning everybody, thanks for joining us. I'm here today with Mark Palmquist, CEO, and Alistair Bell, Group CFO. We're broadcasting this by webcast and we'll put an archive of this up on our website later today. So, we're going to start with a run through of the presentation, and then we'll open to Q&A. I'll hand over to Mark now. Thanks, Mark.

Mark Palmquist. Thanks Luke, I appreciate it, and certainly our thoughts and support are with all the people being affected by the drought and the fires that are out here. All of us have family and friends that have been impacted and for us, we have employees and customers as well, so we just really call out our concerns and our support for that. Before I get into FY19 already, I just wanted to make a comment on slide 4; just noting that our safety improvement really improved a lot in fiscal '19, both our recordable injury frequency rate dropped down to 7.7, our lost time injury down to 2.2.

That's really been a lot of hard work and effort in just improving engagements with everybody and preplanning any type of [unclear] that are going on inside of our facilities and in our offices, and it's really having a major, major impact for us. We're really proud of what our employees have accomplished.

So, let's get onto fiscal '19 on slide 5, the next slide. The numbers that we have reported are on the top. Obviously, a dramatic change, a very negative change, in terms of what we have been experiencing over the last couple of years. The big impact, of course, is the challenging crop that we have. It really hits us hard from an aspect of receivables that we have in the country to minimal exports and also depressing oilseed crush margins. Those are all very impactful from a crop aspect. We also experienced disruptions in the grain trade flows which exacerbated the results as well.

For malt, we had a good year, a nice, solid demand coming out, good utilisation capacity and good operational efficiencies keep improving. As we've mentioned in the half-year results, we're really seeing how we have a large skew of earnings that go into the second half, and again it's really the reflection of the increased beer consumption in the northern hemisphere in their summer months.

Grains - I mean, I'll talk about that a little bit later because that's really the main issue that we have going on here. For oils, again we have a number of components inside of oils and I'll go through that as well in a later slide. I just wanted to call out again, we've had the portfolio review going on over fiscal '19, all the from our announced sale on the Bulk Liquid Terminals to the integration of grains and oils, and then the proposed merger announcement that we came out with earlier in the year, and just bringing it up mindful of the fact that we also received a non-binding indicative proposal from LTAP in December and that was withdrawn in May of 2019.

So, our next slide just shows the earnings profile and I just wanted to be able to show you the comparison to previous years and just the dramatic impact that we've had from going from a new record crop in fiscal year '17 to a very small crop in fiscal '19. It just shows how impactful that is on our earnings; even with the diversified earnings stream, it's still a primary aspect of GrainCorp and it certainly impacts us. So, you see the EBITDA on the left-hand side and the underlying NPAT on the right-hand side showing the loss of $82 million in underlying NPAT.

Going to the next slide, we'll just give you an earnings bridge so you can see the comparison from fiscal '18 to fiscal '19 and you can see the corresponding EBITDA numbers on the bottom of that slide. So, if I just walk through, malt - again a good year, $6 million improvement, oil's going down $8 million; again, that was primarily on the crush margins that really had that negative impact.

Then grains, we've broken it down into the big issues that we face in '19 and starting on the bottom, it's $114 million there coming from the drought. That again is a reduction in receivables, it's a reduction in exports and certainly, it's an impact for us in terms of moving around grains to be able to fulfil the deficit issues that we had in Queensland and northern New South Wales. Nothing really on corporate, you see the lower CapEx at $11 million, that's just an impact of cutting back on projects and our depreciation and decline for the year.

You see our net interest is up $8 million, that's really two issues going on and [unclear] one is that particularly in the first half, we had much higher commodity prices but we were also running supply chains from Western Australia around and bringing them into Queensland, New South Wales and also to our facility in Victoria. It certainly means that we're carrying bigger inventories as a result of that. Then you see the tax benefits as a result of the losses that we had.

Just breaking it down into the segments, I'll go to slide 9 so you can just see both the revenue and EBITDA next to each other. Primarily, the increase in revenue is really the impact of the higher commodity prices and also the movement that we had going across from WA and SA into the east coast of Australia. For malt, that's primarily driven by a little bit of increase in terms of malt quality prices, but also, it's a full [unclear], so it's an increase in sales for us there.

For oils, that's basically a higher price in canola that really impact that, but also, we had part of Numurkah in there in fiscal '19, so we actually had an increase in volumes and [unclear]. For grains, again, that's the higher price in commodities and also the longer supply chains that we have coming from WA.

So, on slide 10, I'll first talk about malt and again, malt still is a nice, solid story for us in terms of the demand and high utilisation. We're still seeing very good demand for our malt and brewing ingredients, so both brewing and distilling is a very important marketplace for us. That large skew - again, I mentioned before that it's really the northern hemisphere with the summer months. We did have a little bit of adversity we had to deal with in malt; we certainly were impacted by the drought in Australia. We had to move more malt barley from WA then what we would typically do, so there's some increase in interest costs there.

We had a few quality issues in the province of Alberta which meant we had to move more product from Saskatchewan and Manitoba, so we have some increase in some transportation cost. We also - it does snow in Canada, but we certainly had some heavy snow events that really put a kink for a period of time in our supply chains, both on a receiving base and on a delivery base; particularly rail was delayed for a period of time. But despite all those issues, we still experienced net growth for the year.

Craft beer volumes grew by 4%, so it is slowing down, which you would expect as that market has gotten bigger. To maintain double digit growth rates isn't something that we were anticipating or expecting. We are seeing an evolution going on in the market segments in the craft business. We're seeing the area that is growing double digit is the microbrew or the brewpub area and we're experiencing that not just in the US and Canada but we're also seeing it in Australia as well.

Just as a reminder, we are having an expansion that we announced last October, a £51 million investment in our Bairds Scottish malting facilities that will add close to 80,000 capacity for us. That's all underway. The vast majority of that capacity will be underpinned by long-term supply agreements and Arbroath with finish in fiscal 2020 - that's 20,000 expansion - and Inverness, which is a new [unclear], a new malt plant at an existing site, will finish by the end of the calendar year 2021.

Going on to grains, you have the numbers in front of you. Just see the volumes down in the left hand corner, it just shows you the dramatic change that we had going on; receivables less than half, grain exports being very minimal, and a big uptick in the grain trans-shipments coming through our ports on the east coast from WA and SA, 2.3 million, and you can see our non-grain handled was pretty stable.

I'll just show you in that first bullet point just how dramatic the drought was in the production of winter and summer in our five core grains on the east coast of Australia, dropping by 9 million tonnes from fiscal '18. I just remind everybody that we typically have a domestic demand in east coast Australia for 10 million to 11 million tonnes, so it's easy to see why exports were minimal and why we were importing into east coast Australia. We've seen an uptick in domestic demand for the clear reasons that with less fodder, less grass available, there's been an uptick in feed ingredients consumption on the east coast as well. I also will touch on the Crop Production Contract later in the presentation on slide 21.

For oils, again we mentioned it's primarily in the crush margin aspect. We've got four segments in our oils group just worth mentioning, the first one is our Bulk Liquid Terminals performing very well, very steady, good utilisation. Our capacity, great demand and the range of our products continues to expand. As you all know, we announced a sale back in March to ANZ Terminals for an enterprise value of about $350 million. That's still currently under review by the ACCC. They have indicated to us that they will giving us some decision tomorrow, so we wait to find out what that is and from there, we'll make certain decisions that the Board will be able to look at and really decide how we proceed.

I wanted to point out the oilseeds, just how dramatic the crop reduction was going from 1.6 down to 400,000 tonnes in east coast Australia. That's a 25% crop size from what it was in fiscal '18, so again, when you look at what our capacity is and the capacity of the oilseed crushing business in east coast Australia, it's obviously very deficit, last year requiring canola seed coming from South Australia and Western Australia to meet those needs.

Foods business was stable and also getting some operational improvements in our food plant in West Footscray, so we're actually pretty pleased with the results coming out of there. Of course, our feeds had an improved performance and that really is the case of just the situation of deficit of feed stocks and increased type of feed supplements that were being used.

So, with that I'm going to hand it over to Alistair Bell and he'll take you through the balance sheet and CapEx.

Alistair Bell: Thank you, Mark, and also I extend my best wishes to those that are facing the challenging drought conditions as well as all the fires. So, I'm now on slide 14. During this section, I'll cover off the cashflows as well as the condition of the balance sheet. This will include additional commentary around the trends we are seeing, as well as how we're managing the seasonal conditions that Mark's just talked about, as well as the seasonal fluctuations.

So, slide 14 compares our net debt and core debt and shows the seasonal fluctuations half-on-half and year-on-year. It also starts to show how the smaller crops [blows] our free cashflow, and I'll come back to that in a couple of slides' time. We also - whilst we experienced the usual seasonal fluctuations in the commodity inventory levels moving from the old crop to the new crop, and I reference that - if you go to slide 23, you'll be able to see some of those trends - we also saw a shift into other working capital and the demands around that [piece] and this had led to an increase in our core debt.

At year-end, our commodity inventory level was 513 million and that's funded through our net debt. I flagged this because you'll recall from previous calls that this is a fungible item that we have to maintain our balance sheet flexibilities. One of the key parts across our liquidity piece for the business and we've previously reported we refinanced $500 million of our term debt into a four-year evergreen facility, and with the recent annual renewals, we also positioned the business to prepare for the demerger.

Now, moving to core debt, we're turning to slide 15. Core debt measures our net debt excluding certain grains and oils commodity inventory, but it does include our malt and barley. It's an important piece, that one. So, core debt is used to manage our long-term liquidity as well as our seasonal working capital needs. In recent years, both Mark and I have often talked about how our free cashflow's been used to reduce the long-term core debt. One of our key priorities has been maintaining flexibility and a disciplined approach to our balance sheet. So, that's where we've been applying it, particularly post the large capital programs we had running through to the end of fiscal year '18.

Now, that's coincided with the extreme east coast drought and that puts pressure on our cashflow, but also as Mark alluded to, we've had other unusual and abnormal factors that have impacted and that goes back to the bridge slide where Mark outlined it as well significant items which were detailed. As I touched on very quickly, we've seen a shift in the demand for working capital, so I think it's a good point to change to slide 16.

Slide 16's a new slide and we felt it's important to explain the core debt and the moving parts. Free cashflow or cashflow from operations is down because of the drought and the performance and there's a couple of other factors that have shaped the level of the core debt. The first one is the working capital levels, and normally this fluctuates with timing of harvest, grain prices, moving from old to new crop. This year, the working capital levels increased by $150 million year-on-year, the majority of which is timing but it is significant for our core debt levels.

So, this slide includes details around three areas in particular where we saw those influences. Firstly, to support the grain import program to the east coast of Australia. We have vessels that sail at the end of month and there were two vessels that impacted the collectability of receivables, so it moved out of inventory and into receivables, as well as in the working capital needs for malt, some of which is the barley prices that's reflected, but it's also the sales volumes that we've picked up, some of which go to the big brewers, and I think everyone knows big brewers have extended credit terms, and those increased sales volumes led to an increase in their receivables.

In addition, the company incurred in cash terms about $30 million of significant items handling the portfolio review, responding to LTAP and preparing for the demerger. So, this is the cash cost of the significant items that we've outlined on slide 26. The other item is capital expenditure. When we started the year, we knew it was always going to be challenging with our funds from operations, so we had to set aside and moderate the level of our CapEx.

If we turn to slide 17, you can see how our CapEx level of $97 million was substantially lower than in recent years and we expect a conservative approach will be maintained in the year ahead. It's really important; we were facing a below normal crop reduction on the east coast and so we approached this planning period before and after the demerger plans to ensure we keep making the right decisions of allocating capital.

We've foreshadowed what the possible growth CapEx will be in the year ahead. It relates principally to committed projects, the largest of which is the expansion and upgrade to the Scottish malt plants that Mark alluded to earlier. With the lower CapEx comes a decrease in depreciation and amortisation and that's reflected in the charts and the trend lines we're seeing there as well.

I'll pass back to Mark now who'll cover off the outlook for fiscal year '20.

Mark Palmquist: Thanks, Alistair. So, I'm slide 19; I'll start with malt. We are seeing a little better global barley production, but quite honestly, most of that is mainly feed so we're not seeing really much change going on in the global malt barley supply. We're certainly looking at any quality issues; I would just tell you that US quality looks very good. Australian malt barley crop we think is in pretty good shape, but again, a lot of what we'll be drying out will be coming out of Victoria and we've seen a slow start to the harvest down there just because of the last couple of weeks of cold, wet weather.

US craft beer market - again it grew 4% in 2018. We do look for future growth going on into FY20 as well. The Scotch whisky industry is experiencing continued good consumer demand and high value. The single malts in particular, which is an area that we concentrate on, is really showing the majority of the growth that's happening in the Scotch whisky business. We're also seeing continued good demand for the Mexican style beer and we look for that to stay very strong.

So, when we look out into fiscal '20, we are very confident of continued high capacity utilisation of our malt plants. As most of you know, a good portion of our production sits under long-term agreements and we continue to see there's good, solid demand going on with our base which is important for us, it's a high volume. But the specialty malt area continues to really grow with the customisation going on in the craft business and the innovation of new types of beers really requires a specialty type of malt. Of course, all our other craft and distilling products and ingredients remain in high demand.

We're benefitting in FY20 with our warehousing and distribution network. We have 12 DCs now operating in the US and Canada that is really hitting that area on a national basis and [in certain] areas we are seeing good, continued growth in the southeast US and also in Mexico we're seeing the craft business grow pretty well. Of course, with our acquisition of [unclear] malt, it's helping us in Australia as well.

Going on to grains and oils outlook. As we've been talking about, we are experiencing another below-average crop for FY20. If we just take the estimate, which is a blending of ABARES’ September numbers and ACF’s November numbers, that estimate works out to about $11.5 million compared to our $6.5 million in FY19. But that production is going to remain highly skewed towards Victoria and southern New South Wales, so we'll still experience a deficit situation up in Queensland and northern New South Wales, which means that we look to continue to import from WA, South Australia and also Victoria as we go through, and it also means that exports will be very low for FY20 as well.

Just wanted to point out the canola production estimate improving at this point to about 1 million tonnes in east coast Australia versus the 400,000 tonnes we had last year. Again, I'd just be a little bit careful of estimates right now because Victoria where the primary supply is going to come from is just really getting going [unclear] harvest.

So, the FY20 outlook - year-to-date, we've received about 400,000 tonnes. That's primarily coming out of Queensland and north New South Wales at this point in time. As I mentioned earlier, we expect minimal grain exports again from last year going into this year, and we still will see good importation of grains coming in from WA, SA and Vic, not just through our grain ports facility but also inland facilities because Victoria is certainly sitting in a surplus situation.

The Crop Production takes effect this crop year, so in fiscal '20, and I'll go through that on the next slide just to review again what that means. We are continually diversifying origination both in Canada and Ukraine, which has been a benefit for our overseas customers and for us to maintain our relationships with them. We are well on our way on the grains oils integration that we announced back in April, which will be certainly a benefit to GrainCorp in fiscal year '20.

We do expect crush margins to stay under pressure. Obviously, a bigger supply closer to us so we'll probably experience less transportation costs than what we did the previous year, but we'll still be moving canola longer distances than what we do in a more typical type of crop production situation.

I want to just make mention again to the Crop Production Contract that we have in place. You can see the contract terms on the right-hand side and just the information where we're at. The big thing for us that this certainly will be very beneficial to us in FY20 as we look at what the estimates are on crop size. More importantly, it really gives us that ability to smooth out the cashflows inside of a volatile industry. The one big uncontrollable that we have each year is what is the crop production, which as we well know in Australia can vary by quite a bit, just when you look at the difference between fiscal '17 and fiscal '19.

Just to finish up and just mention again the portfolio optimisation that we've been working on and that the Board has been going through a review of our portfolio now well over a year. Again, just a reminder on the Bulk Liquid Terminals and that we are anticipating a decision from the ACCC tomorrow. Once we get through the ACCC, there's still a few other conditions such as FIRB approval that will have to go on, depending upon what we end up with from the ACCC.

I've mentioned the grains and oils; again, well advanced in front of our demerger process and so we'll see good benefits on that as we operate before we reach the demerger. The proposed demerger, again announced in April 2019 - because of the long process with the ACCC, our original announcement was to have a scheme booklet out in calendar year 2019 and we've had to push that out a little bit into the first quarter of 2020, just to address the timeframe because of the ACCC process.

So, with that, I thank you for listening to Alistair and I this morning. We know that we are certainly disappointed with the financial results but we are also very pleased with the tremendous effort that's gone on with our employees and really working through what is really a very, very trying period of time for the organisation. But we've certainly come out of it being a very good, solid organisation and we have certainly adjusted a lot of where fiscal '19 was and how we handle fiscal '20, and we think those will bring benefits to us in the coming fiscal year.

So, with that, Luke, I turn it back over to you.

Luke Thrum: Thanks, Mark. I'll hand back to the operator and we're happy to go to Q&A now, thanks.

Operator: Thank you so much. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question today, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request at any time, please press the pound or hash key. Your first question comes from the line of Jordan Rogers from UBS. Please go ahead.

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

Mark Palmquist: Hi, Jordan.

Alistair Bell: Hi, Jordan.

Jordan Rogers: (UBS, Analyst) Just the first question around the rail contracts in that [prezzo] there, you've got the $15 million impact on the waterfall. Is that $15 million worse than FY18, like an incremental, or is that - because I think you've talked in the past about it being $10 million to $15 million in a normal year and more like the $25 million to $30 million impact on a severe drought year. So, can you just clarify that and then talk about what the benefit is going into FY20?

Alistair Bell: Yeah, certainly, thanks Jordan. So, the $15 million is the net number of where we weren't able to recoup take-or-pay, so it's a direct impact of the runoff of the last year of the existing contract. So, as we start this new year, the new contracts are commissioned for the first quarter and we see that we've got a minimal level of take-or-pay, but far more flexibility, not only for us but also for the rail provider. There's a lot more greater operational efficiency for both of us in the planning [unclear]. So, the $15 million was a one-off impact that we don't see reoccurring in the fiscal year '20.

Mark Palmquist: Just another point, Jordan, I'd add is that the take-or-pay situation in [unclear] '19 is smaller than it was previous years, and that's because we had a [unclear] Queensland commitment.

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Jordan Rogers: (UBS, Analyst) Okay, yes, that makes sense. Another one just around the other [cost-out] you've talked to in the past with new GrainCorp rolling oils and the grains divisions a little more integrated. How far progressed are you and can you talk to anything on a run rate basis around those optimisation targets or what you expect in the next 12 months?

Alistair Bell: Jordan, I'll break it into two parts, one is how far progressed are we on the organisational changes. We're very well progressed, to the extent that we've only reported the results in the segments to close out this year. We've already organised and are running the businesses in the new segments and as we prepare for the demerger and the half-year, we'll start sharing those new segments with the investors. So, that integration piece is well advanced and for the current harvest, we're running the new operating models and the decision making around our customers and growers to support that.

So, the cost efficiencies have been [unclear] in fiscal year '19 and we're looking to have the benefits of that come through '20 and then following the separation of the demerger, the rest of that. We originally put out there $20 million that we expected to come through; we're well on track to deliver that. Just remember that $20 million does include time after separation; we put it nine to 12 months after separation to fully have that baked into our run rate.

Jordan Rogers: (UBS, Analyst) Okay, great. The next one's just around your comment around expecting more trans-shipments from WA. How do we get comfort that there's not going to be a big grain trading issue again in FY20, if you're doing the same thing?

Mark Palmquist: I think that's a great question. So, there's a couple of factors that are different on a go-forward basis. One is the trade disruptions that we experienced were very surprising to us and unanticipated. Those disruptions continue forward, so now you set up your program incorporates those disruptions in play.

The other issue that I would tell you is that we will see more of the deficit of Queensland and northern New South Wales being supplied by Victoria and less out of WA; WA crop is down from last year whereas Victoria is having a good and excellent crop again this year, so we'll see more of it coming out of our traditional dry areas which means we certainly have more control over both price, inventory and position than we do pulling across from WA.

Jordan Rogers: (UBS, Analyst) Okay, sure, and then just I appreciate you don't want to pre-empt the ACCC decision for tomorrow, but have you been having much engagement with them or has it been left with ANZ Terminals? To what you can say, what are the areas - I mean, they gave their statement of issues, but what are the areas that are causing the holdup?

Mark Palmquist: Again, the primary interaction would be with ANZ Terminals. Our interaction has been more about requests for information under 155s, which we have done and we have provided, so it's just literally difficult for me to give you really what I think the ACCC is going to do. They are proceeding - everything that we see, which isn't very much, they're being very methodical, and they're putting in I guess I'd call it the hard yards and that they're really looking at it. I'll say that I just really don't have any indication that I can give you today and we have great interest in seeing what the announcement will be tomorrow.

Jordan Rogers: (UBS, Analyst) Okay, but if it is blocked, would you rule out raising equity, would you run a new process of divestment to other parties or can you talk a little bit around that?

Mark Palmquist: Again, it's just kind of hypothetical, Jordan. I think we'll just take a look at what the ultimate decision is with the ACCC and whatever it is, then we'll work through that. We still believe the merger is absolutely beneficial to shareholders and the company and so for us, it just is looking at where the ACCC is at and what is the impact to us in terms of with the Terminals and then we'll proceed from there.

Jordan Rogers: (UBS, Analyst) Okay, great. Thanks Mark, thanks Alistair.

Mark Palmquist: Thanks, Jordan.

Alistair Bell: Thank you.

Operator: Your next question comes from the line of James Ferrier from Wilson's. Please go ahead.

James Ferrier: (Wilson's, Analyst) Hi Mark and Alistair, thanks for your time. A couple of some more straightforward ones; first of all, perhaps for Alistair that waterfall chart on slide 16, the working capital increase there. Just from what you were saying, is it fair to assume in FY20 that the higher malt debt is a more structural - they probably stay, and then what are you thinking around the unwinding of the domestic higher debt? Does that occur in FY20 or is it maybe in FY21?

Alistair Bell: Yeah, great observations James. The import program is an important piece to keep going whilst there is a deficit. As we approach the next year's harvest, whether it be the summer crop or even the winter crop, that'll shape the timing of that unwind. The domestic demand is an important part of our new east coast model but servicing these sort of programs for imports is a rare event, and particular at these levels. So, we'll watch it and I suggest you in your role keep watching the summer crop as well as the winter crop next year, and that'll shape the unwind of that sort of receivable.

Mark Palmquist: The other comment I'd add, James, is that commodity prices generally in our origination areas are lower at fiscal '20 than they were in fiscal '19, and again that has an impact in terms of what their working capital needs are.

James Ferrier: (Wilson's, Analyst) Yes, okay, that makes sense. Alistair, the DNA number, I think it was 142, it feels a bit lower than what you might have previously talked to. What are your expectations for FY20?

Alistair Bell: We've not been specific but I would imagine it'll continue to decline now that the program's run off. A little bit of the insight - if you look at the actual split of the CapEx - this is the annual report - in the software area, that's typically got a shorter life and you'll see that we capped out a couple of the software projects during the year, focusing more on the customer platforms, the go-forward to help our growers and consumers. But that's typically got a shorter life and part of that's run off and it's probably better than we expected and indicated last year.

James Ferrier: (Wilson's, Analyst) Then the last topic I want to talk about is the domestic grains business. Mark, the economics for GrainCorp of participating in that west coast to east coast trade versus the economics of going south to north - what does it mean on the economics per tonne or whatever metric you might care to talk to?

Mark Palmquist: I'm not sure I'd want to disclose a metric or tonne. What I would tell you is that the supply chain is substantially shorter. So, I'll give you an example: for us to run from Western Australia all the way around through our port facilities and then distribute it into Queensland is a supply chain that takes 90 to 120 days. If I think about running out of Victoria, that will be coming out of our existing assets and facilities and most of that primarily will run by unit train south to north, which now you're talking about a [unclear] supply chain and receivables running something closer to 30 to 40 days. So, you're running about a third of the period of time on the supply chain.

It also means that we've got more flexibility in where we would ship those trains out of, because we've got all of our existing facilities here and they're not having to go through an export import facility. So, we would certainly envisage that overall cost would be lower on transportation and certainly use of working capital would be less.

James Ferrier: (Wilson's, Analyst) Okay, so the cost's lower; it stands to reason your earnings are probably going to be lower as well.

Mark Palmquist: I'm not sure what you mean. Our cost's lower and our earnings are lower?

James Ferrier: (Wilson's, Analyst) I mean just applying your typical mark-up on your costs in a reasonably competitive market, that's all.

Mark Palmquist: I'm not sure I would draw that conclusion. I figure it just ends up being a more efficient type of supply chain for us and so I think there's more efficiencies that we can gain by having the ability to move out of Victoria to Queensland than what we can do coming out of WA.

James Ferrier: (Wilson's, Analyst) Oh, okay, that makes sense. The second part of that question was, historically, GrainCorp's been able to report 5 million to 6 million tonnes of domestic out loadings and that's been pretty stable for a long time back when you were disclosing those metrics, almost regardless of the size of the east coast crop. Mark, you made some comments around how that domestic market's changed a bit of late with the drought and increased feed demand, but I'm wondering how you see GrainCorp being positioned to participate in that domestic out loading market now versus perhaps what it's done over the past decades?

Mark Palmquist: Yes, that's a big part of the grains and oils strategy is continually improving their participation in that. The interesting development that's really gone on over the past three years is that there is a sizeable portion on the domestic market actually moves straight off of on-farm storage. So, that's where the real emphasis has been in grains and oils is increasing their participation coming straight off of on-farm storage.

James Ferrier: (Wilson's, Analyst) So, actually, the grain not entering the GrainCorp receivable side, but GrainCorp's still getting involved in that supply chain?

Mark Palmquist: That's exactly right.

James Ferrier: (Wilson's, Analyst) Okay, understood. Thanks for your time.

Mark Palmquist: Thanks, James.

Operator: Your next question comes from the line of David Pobucky from Macquarie. Please go ahead.

David Pobucky: (Macquarie, Analyst) Hi, guys, thanks for taking our questions. Just a couple from me. The first one: we've seen some commentary in terms of unfavourable trends in beer demand in North America; I think one company noted a double-digit decline in beer demand in the US. Just wanted to know what you guys are seeing there, and then whether that has had any impact on the malt business or whether you expect any impact going forward.

Mark Palmquist: There has been some very interesting trends, David, so it's a good question. What I would call a standard base beer, so a lager or a pilsner [unclear] national labels has really struggled and has been losing market share. Craft has been replacing it, so if you look at North America, overall beer consumption has been relatively flat. It's been the growth in craft that is offsetting the decline in the more traditional type of beer, so that's actually been advantageous for us considering what we produce, the speciality malts and what we have in our craft distribution business.

We look for that trend to continue, not at the big double-digit growth rates, but we see that trend continuing and the reason why we see it continuing is not just that craft consumption is going up, but craft is becoming more and more a destination consumption type of marketplace with the microbrew and the brewpubs and so we continue to see that fitting us very well. So, at this point, we've actually benefitted, not been impacted negatively by what you're seeing decrease in some of the major beer brands.

David Pobucky: (Macquarie, Analyst) Great, thanks for that. Secondly, I think earlier in the year, it may have been May, you mentioned that there was some serious interest on the malt side in terms of the trade sale. Has that disappeared and I'm assuming it's full steam ahead with the demerger plans?

Mark Palmquist: Yes, we're full steam ahead on the demerger and we're not actively at all soliciting any sales on assets outside of the Liquid Terminals, which we have in process. Certainly, the Board has a fiduciary responsibility to take a look at any credible type of proposal or offer, but we're well on our way in terms of executing the demerger.

David Pobucky: (Macquarie, Analyst) Great, thanks. That's all from me. Thanks very much.

Mark Palmquist: Thank you.

Operator: Your next question comes from the line of Belinda Moore from Morgans. Please go ahead.

Belinda Moore: (Morgans, Analyst) Hi Mark and Alistair. Just a few questions, please. Can you clarify what the EBITDA contribution from the Bulk Liquid Terminals is in today's result? Secondly, Mark, just with what you were saying just around the anti-barley dumping, you're confident your marketing book can profitable in FY20? Thirdly, despite what you're saying on oils, are you still expecting a decent uplift in '20 just from the growth project restructuring initiative offsetting some of the crop pressures? Maybe if you can talk about how you're going about finding a new CEO for the new GrainCorp, and then lastly, what your expectations are for corporate overheads. It was great to see them really fall in the second half.

Mark Palmquist: Well, thanks Belinda, and you'll have to remind me if we've missed something [unclear]. First question…

Alistair Bell: First was Liquid Terminals. Belinda, given the proximity to the ACCC, we've not publicly disclosed that number and our preference is not to start disclosing it until we see the outcome of the process with the ACCC, if that's okay. The next - there was corporate cost…

Mark Palmquist: Trading I think was the next one in terms of the WA and the disruptions. Again, that was a major blow to the earnings in terms of what happened on that side, so my answer is a little bit similar I think to one that James had asked, and that is 1) as we see our supply chain out of WA being smaller in FY20 than it was in FY19, we're still trying to ascertain what we think a [full] import needs to be in east coast Australia. But again, considering that Victoria production looks very good, we would look to have that be a bigger part of our supply for the deficit areas.

The other component is that the marketplace is already reflecting a continuation of the trade disruptions and the farmers are seeing it because their prices are lower because that demand base that would have been there in the past is expected not to be there on a go-forward basis. So, we're just starting at lower price levels and I'd just say lower participation out of WA following the deficit than what we saw last year. I think the third question was corporate costs?

Alistair Bell: Corporate costs - you started to see the benefit of preparing for the demerger. You'll recall back when we announced the outcome of the portfolio review 4 April, part of that was starting to reposition the role of corporate and preparing for two independent operating companies. We carried the cost through the balance of '19, but as we start fiscal year '20, we're starting with the lower cost phase and that'll continue through obviously the separation and then as I referenced earlier, we'll complete the positioning of both of the companies for the right cost base in corporate to each of the [unclear].

Mark Palmquist: Yes, so the way I'd look at it is kind of a waterfall of events, and so grains and oils started their integration back in April and it's pretty much completed. The major restructuring in the functional areas of the organisation, a part of it is - I'd just call it taking down capacity, but also getting prepared for the demerger. Most of that major restructuring was accomplished in September and so there wouldn't have been much of - hardly any of that, quite honestly, in FY19 that would show through. We'll start to see that as we go forward in FY20.

Then there is a - I'll just call it a section of capacity and cost that has to be held until we get demerged and so those would be post-demerger. We still have a lot of work going on that's required for the demerger itself. We certainly still have a corporate structure of GrainCorp Limited and so much of that just really can't be realised until we actually separate as two separate companies. Then I think I'm missing one, I think there was five.

Belinda Moore: (Morgans, Analyst) How are you going finding a new CEO for the new GrainCorp place?

Mark Palmquist: Oh, that's probably why I forgot that one. That is something that I know the Board is working on. I really have nothing I can give you. I'm probably the last person that will be told [where we're at] in that process, but I haven't gotten any indications of concern in being able to attract and select a CEO in time for the demerger.

Belinda Moore: (Morgans, Analyst) Okay, thank you. Can I maybe just ask one more? On the new GrainCorp, have you thought more about your gearing ratios that you're targeting there? You've obviously given us guidance on malt, but have you thought more about the new GrainCorp?

Alistair Bell: Belinda, it's a great question and we will wait until we're through the ACCC outcome and that gives us the right capital structure of the way we'll approach the demerger. So, it'll be part of the scheme booklet and obviously once we know we're through the ACCC, we will be able to shape that structure.

Belinda Moore: (Morgans, Analyst) Okay, thank you.

Mark Palmquist: Thanks, Belinda.

Operator: Your next question comes from the line of Grant Saligari from Credit Suisse. Please go ahead.

Grant Saligari: (Credit Suisse, Analyst) Yes, thanks. Just a couple from me. Alistair, cutting to the chase a bit, as you sit here at the moment with the information you've got available, would you expect to be generating a positive free cashflow in fiscal '20?

Alistair Bell: Well, we'll wait until we know the size of the crop. Once it's in, that'll help us around that, that's the biggest [gaining/gating] item and shapes our guidance when we provide earnings, and obviously the cash generation out of malt supplements it. So, I'm not giving a guidance around your question, Grant, but it remains a [design] principle of remaining free cashflow at least breakeven, but it is a [low crop] year and we just need to see the size of the crop before we pass comment on that.

Mark Palmquist: I would echo that because we have the Crop Production Contract in place this year…

Alistair Bell: That's right.

Mark Palmquist: …and so it just adds a little bit more sensitivity in understanding what our crop size is, because that interplays with it as well. So, with that just getting going on harvest, we still have to try to see what's happening here and what acres end up getting cut for hay, what is the yields that are coming out of that area? It was wetter, but it was also more variable and so for us right now, we're just not confident in terms of what the Victoria crop's going to be. We need to get another 30 days in harvest at a minimum to really understand it.

Alistair Bell: It's a good point because this is the first year where the Crop Production Contract's in place; it's obviously an important feature of smoothing our cashflows as we plan the year ahead but feel that we just need to see the real impact. The key dates to watch are ABARES put a report out in December, which is still an estimate, and then in February they put out a report recording their first view of the actuals. So, it'll shape a lot of our cashflows around that.

Mark Palmquist: Just to remind everybody in terms of the workings of the Crop Production Contract is initial payment comes off the February ABARES number and then there's a true-up in the June numbers. So, that February number will be the first time we can get [unclear] in terms of what is the impact of the Crop Production Contract.

Grant Saligari: (Credit Suisse, Analyst) Okay, that sounds like a fairly equivocating maybe on the free cashflow. So, just following onto the core debt position, it's gratifying you're able to say that you're within covenant on the core debt. How long can you continue to carry that sort of level of core debt and is there scope for that to increase if you did get a situation where free cashflow did deteriorate?

Alistair Bell: I'll go back on your free cashflow is we would like just to see the real impact of the Crop Production, but I think if you run your maths and take out the unusual or abnormal factors that impacted it, it puts us in a healthy position. We're just not making a formal forecast around that [unclear].

Grant Saligari: (Credit Suisse, Analyst) Sure, okay.

Alistair Bell: I just wanted to [unclear] your observation around…

Grant Saligari: (Credit Suisse, Analyst) Well, that's gratifying. All right, that's great, thank you. On the core debt?

Alistair Bell: Sorry, on the core debt, obviously funds from operation and your CapEx are your two big movers and we plan around that and the impact of working capital, it does fluctuate with grain prices and as we've touched on earlier, we're carrying high levels of working capital across the business. It's assisted our business model, but obviously there is scope around working capital to be able to remain really disciplined, not only on CapEx but also on the working capital. That's a program in itself that will work.

Grant Saligari: (Credit Suisse, Analyst) Finally, and I do appreciate it's early in the season and you don't want to give guidance, but to be completely pragmatic and to try to keep an informed market, we're going to have to come up with a number tonight. How will you help us understand and bridge the loss that you incurred in the grains division in FY19 to a potential outcome in fiscal '20? What sort of things should you suggest we should consider? What should we think about in terms of the potential contribution of the extra 5 million tonnes of crop production that's currently in the ACF forecast?

Alistair Bell: Okay, so let's look at building blocks. If you go back to the earnings bridge which Mark talked about, grains is - your question's around grains, I think is the…

Grant Saligari: (Credit Suisse, Analyst) Yes.

Alistair Bell: …focus on that component. You can see three blocks which are non-recurring. There is therefore the bottom of the red box is the impact of the drought and there's two aspects that will work around that element. 1) is obviously if it's a larger crop on east coast, Victoria, et cetera compared to last year, that's our receivables but also the efficiency of supplying the [unclear] to the domestic demand. So, I think that's an important block. Furthermore, we've then got the Crop Production Contract in place and you can form a view on comparing what that would look like in '19 if it was to have been in place, and it is only in place for '20. So, that's an aspect that is not reflected in those results but is going to be a factor in fiscal year '20.

The other part that I - when I look at the bridge is the oils piece. Obviously, the crush margins last year and the performance of oilseeds were significantly impacted by the low, low levels of seed availability on the east coast. That's more finely balanced this year as Mark indicated around the crop forecasters and that leads to crush margin but also, we've got a full year of the upgrade in the Numurkah plant that'll run this year. So, there's an opportunity to have a meaningful contribution for the oils as well. So, those are the building blocks.

With malt, steady performance. We've been making that, particularly in North America, the warehouse and distribution, a well-balanced platform servicing the craft sector, but obviously also having a base load that goes to your commercial brewers, links you back to the receivables number a bit, but that's - in terms of your cashflow, if you think about that. But we'll look to ensure the malt business continues to capture its performance around that.

Grant Saligari: (Credit Suisse, Analyst) All right, that's…

Alistair Bell: Those are the components and I link that back to the outlook pages that Mark walked through which - and if you just reflect on my additional commentary in light of what was put there in the outlook section of our presentation, I think that just helps interpret it.

Grant Saligari: (Credit Suisse, Analyst) All right, that's helpful. Thanks, guys.

Alistair Bell: Thanks, Grant.

Operator: Ladies and gentlemen, that is all the time we have for questions. I would now like to hand the conference back to Luke Thrum. Please continue.

Luke Thrum: Thanks for that, and thanks everybody for joining us today. We've got a pretty busy day ahead, so we do need to get going, but I'm happy to take any questions later through the day, so please get in touch. Thanks, and have a good day everyone.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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