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Start of Transcript

Operator: Thank you for standing by and welcome to the GrainCorp HY21 Results Conference Call. All participants are in a listen-only mode. There'll be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Luke Thrum Investor Relations for GrainCorp. Please go ahead.

Luke Thrum: Thanks for that and good morning, everybody. Thanks for joining us for GrainCorp's half year results for 2021. I'm joined here by Robert Spurway, our Managing Director and Chief Executive Officer, and Ian Morrison, our Chief Financial Officer. We'll go through the presentation, then straight into Q&A afterwards. Then later this morning after the webcast finishes, we'll be posting the archive as a webcast onto our website. So now I'll hand over to Robert.

Robert Spurway: Thank you, Luke, and good morning, everyone. A special early good morning to those of you joining from the Asia time zone. Before we get into the deck I just wanted to acknowledge our team across our ports and operations business through the picture on the front of the pack. That's our Port Kembla facility and like many of our ports across East Coast Australia, ships are coming and going as we complete a large export program, a big part of the feature of this year's results.

Just moving to the agenda, as Luke said, I'll provide an overview and some - recap on our Investor Day and importantly on our outlook. Ian Morrison, our Chief Financial Officer, will go into a bit more detail on the segment reporting and we're both very happy to answer any questions you may have.

Moving to slide 4 headed HY21 highlights, as I think most of you are aware, we've seen a larger East Coast crop this year. But importantly, we're seeing strong execution across our business and that is resulting in a significant increase in our earnings. Looking to the first box, our first half year '21 performance has produced strong underlying EBITDA up to $140 million from $105 million in the same corresponding period last year.

That's an especially strong result when you consider that it includes a $70 million payment under the crop production contract and in the same period last year, we received $58 million. So that delta certainly confirms that it's a very strong first half year result for GrainCorp. We have seen earnings growth in both our agribusiness and our processing segments. The Board has declared an interim dividend of $0.08 per share fully franked.

If I move to our outlook, we are delighted today to be able to provide an upgrade to our earnings guidance. Underlying EBITDA of $255 million to $285 million and an underlying net profit after tax of between $80 million and $105 million. We are seeing strong margins across the business due to strong global demand for Australian grain and oil seeds. And we continue to deliver on the commitments we've made around our underlying operating initiatives in the business.

If we look further forward than that, we are seeing positive momentum across the business. From a growing perspective there's good subsoil moisture across most of the East Coast area and East Coast Australia. That's providing strong prospects for a good crop in FY22. Many growers have either completed sowing and planting or are well underway on that activity.

Despite the very strong result, we are now forecasting to carry out slightly higher grain this year in terms of inventory of between 3.5 million and 4.5 million tonnes. That's a strong result because it will benefit FY22 as we are able to continue our export program beyond this financial year into next year as we start to receive the new crop in. As I've touched on, we're very pleased with the progress we're making, delivering, operating initiatives across the business.

Moving to slide 5 and the dashboard of our results, underlying EBITDA $140 million up from $105 million and reiterating again that includes a crop production payment in this half. Underlying net profit after tax is $51 million, up from $27 million. Grain received in the first half of the year 14.5 million tonnes, a significant increase from the 3.8 million tonnes received in the corresponding half in 2020.

Dividend fully franked of $0.08 per share, up from the $0.07 dividend we paid as the final dividend in FY20. Core debt $90 million, in line with seasonal expectations and funding of the crop and the significant and ongoing export program underway. Pleasingly we've improved our recordable injury frequency rate as we keep our people safe despite a significant uplift in activity across the Group.

Just to go into a bit more detail on page 6 on our commitment to zero harm, you'll see that ongoing trend and all of our injury frequency rates, recordable injury frequency rate down to 6.1. Whilst we've seen a slight increase year on year on our lost time injury frequency rate, we remain absolutely committed to the belief that all injuries are avoidable. We've got good focus and progress in the lead indicators in our business. Of course like many in the community and the business community we are focused on both the physical health of our - and wellbeing of our people as well as supporting them through the challenges of COVID in the community. It's been a good year in that respect for GrainCorp.

On page 7, sustainability is at the centre of our vision and strategy. This is a recap on a slide we shared at our Investor Day about six weeks ago now, where we confirmed our refocus of GrainCorp's focus on the environment, social and governance, and sustainability initiatives. In particular, we have a stakeholder engagement program underway, and we'll be relaunching our ESG program as part of our annual sustainability report released in November which will align to global frameworks and reporting frameworks.

On page 8, again a recap of our strategic priorities and the very deliberate focus on two areas now and into the future. I've touched on our vision and purpose around that focus on sustainability but where it comes to strategic priority, a very deliberate immediate focus on strengthening the core, lifting our returns, leveraging capabilities and driving existing assets. The results presented today and indeed the outlook confirm our progress in that sense.

Our targeted growth opportunities include looking for areas where we have an opportunity to win and a right to win across alternative protein, digital and agtech, animal nutrition and additional grower services. As I said, we talked on those on some detail at our recent Investor Day.

Before I hand over to Ian Morrison, our Chief Financial Officer, I just want to finish on one slide around strengthening the core and how that underpins our through-the-cycle earnings presented on page 9. There are two areas in the business that we've called out where we see further improvement occurring through the next period. We expect to see an uplift of in the order of $15 million by 2022 across our international business. In particular, that business needs to reach its potential in our GrainsConnect Canada joint venture and our origination program in the Ukraine.

We've also announced at our Investor Day a focus on delivering an additional $25 million through initiatives such as expansion of our bulk materials, the shift in value to a higher value mix in our foods business and the ongoing reduction and complexity and our operating initiatives through LEAN programs and other initiatives.

What that means is our current through the cycle view of the business is a $200 million EBITDA growing to $240 million by '23,/'24. Very clearly in years like this where we have a larger crop and momentum, we have the opportunity to deliver significantly above that as we've done in this half and the earnings guidance for the full year.

I'm now going to hand across to Ian Morrison who will talk through some of the detail.

Ian Morrison: Thanks, Robert, and good morning, all. Just turning first to slide 11. I just - before getting into the detail of the half year results, I just wanted to spend a minute talking through this slide. This slide shows proforma EBITDA over the last five years compared to updated earnings guidance for FY21. The proforma adjustments in historical years reflect the business as it is today and that includes the impact of the crop production contract, as if it was in place in those historical years. It also adjusts for businesses that we've divested. This just allows for that better comparison to those historical years.

The reason we've included this slide is because of the impact of the accounting for the crop production contract in the first half which does make it more difficult to directly compare the half-on-half performance. That's particularly the case given FY20 and FY21 have been very - two very different crop years. As you can see from this slide though, we are on track to deliver a substantial increase in earnings this year.

Looking back, FY17 is the closest comparative in terms of crop and tonnes handled. Even after accounting for the $35 million uplift in EBITDA from the post AASB16 implementation, it's clearly still a material uplift. It's really pleasing to be able to demonstrate that the hard work and focus right across our business to deliver on the operating initiatives is coming through in the financial results.

Now turning to slide 12. This shows the half year '21 segment results relative to prior year. I'll talk through more of the detail on the agribusiness and processing segments on the next couple of slides. But as you can see, the main driver of the increased underlying EBITDA from $105 million to $140 million is the uplift in the agribusiness segment.

On this slide, I just wanted to touch briefly on the corporate result. The corporate cost of $9 million in this half reflects the run rate we saw in the second half of FY20. The prior half year benefited from a $6 million fair value increase from our holding in United Malt Group. It also benefited from some positive one-offs in the lead up to demerger.

Now turning to the segment results and firstly agribusiness on slide 13. We've seen a significant improvement in the financial performance of this segment, with an increased EBITDA from $82 million in the prior half year to $125 million in the current half year. I'll touch on a few key highlights to note from this result.

Firstly, the half benefited from the much larger crop and an improved market share this year. This has resulted in the significant increase in grain volumes handled through our East Coast network with receivals of 14.5 million comparing to 3.8 million in the prior half. Exports of over 3 million in this half compared to just over 0.5 million in the prior half.

Secondly, the strength of the result is further demonstrated when you note that the result in this half does include that $70 million impact from the CPC. The prior year did benefit from the $58 million received under the contract. This really highlights how the CPC is smoothing earnings and cash flows, but still allowing for those strong results in good crop years.

The last highlight of the result in the first half for agribusiness is the strong supply chain margins we're seeing. That's stemming from both the good demand for Australian grains but also the benefits from delivery of the operating initiatives we've already touched on. So overall, it's a really pleasing result for agribusiness with great momentum going into the second half.

Moving now onto the processing segment on slide 14. We've seen continued strong financial performance from our processing business with an increased EBITDA from $23 million in the prior half year, to $24 million in the current half year. It's particularly pleasing to be able to report continued improvement in operational efficiency at our plants. That's delivered an overall increase of 12% in crush volumes half on half.

Crush margins have remained strong in the first half and that's been driven by the increased values for canola oil. We do expect to see continued strong crush margins into the second half. In our foods business we've seen continued strong demand and with the on-boarding of some new customers, we have seen an improved overall sales mix, which is also positive on a go forward basis.

Now moving on to slide 15 and our balance sheet. Core debt has increased from $37 million to $90 million and that's in line with expectations from the seasonal increase in working capital, from the large crop. Note also that the first half does include the settlement of 90% of the payment under the crop production contract of $63 million. We've also seen an increase in net debt from $900 million at the corresponding half last year to $1.4 billion this half year. This is also in line with expectations and supports the grain accumulation task and utilising our network to deliver and execute on the large harvest.

You can also see in the table on the right-hand side, the corresponding increase in commodity inventory holdings. That's what will support strong exports into the second half and beyond. With that, we'll see net debt continue to decrease in the second half, as we execute on that task. But we do anticipate still seeing slightly elevated levels of net debt and core debt at the year end with that higher carry-out. Also as part of an update on debt, we're pleased to be able to report that we've taken the opportunity to extend our term debt facilities by a further two years out to March 2025.

Lastly just to note that we've provided additional detail in the appendix on core debt movements in the first half. That's just to give good transparency to the key drivers.

Now moving onto slide 16 and capital expenditure. As we've previously noted, our agribusiness and processing segments have both seen significant capital investment programs. Those largely completed in FY18 and the last two to three years has seen a more disciplined capital investment program with a focus on delivering the returns from those investments.

CapEx in the first half this year was $24 million and that included $19 million of sustaining CapEx. We expect sustaining CapEx for the full year to be at the higher end of our $35 to $45 million range. That's off the back of the large export [unclear] this year. We've seen a modest amount of growth CapEx in the first half and that was largely around the completion of our Yamala site in Queensland and also a site expansion and upgrade at our Berrybank site.

On the right-hand side here, you can see the continued downward trend in D&A and with the disciplined focus on CapEx we'd expect to see that continue. The last point just to note on this slide is that with our focus on lifting the return on investor capital within our strategy, we are targeting $50 million of cash generation over the next three years from sale of non-operational sites. We'll continue to keep you updated on how we're progressing against that.

Now turning to capital management on slide 17. Overall, our framework remains consistent. Today, the Board were pleased to be able to declare an interim dividend of $0.08 per share fully franked. That's up from the $0.07 per share that was paid at the full year FY20 final. The other point to note from a capital management perspective is that our confidence in the through-the-cycle earnings that Robert referenced earlier, and taking at a lens of through-the-cycle earnings when we think about capital management, that really underpins that ability to have more confidence in maintaining consistent dividends going forward.

The last point to note here is the dividend declared today does utilise our remaining franking credits and we do anticipate a short period of unfranked dividends until our brought-forward tax losses are utilised. Once they have been utilised, we do expect to return to fully franked dividends, especially with most of our earnings in Australia.

I'll now hand back to Robert to cover the outlook and wrap up.

Robert Spurway: Thanks, Ian. Just recapping on the opening comments I made about our financial year '21 and the upgrade to our earnings guidance. We are lifting our earnings guidance of underlying EBITDA to $255 million to $285 million. That's up from the previous announced range of $230 million to $270 million. Our net profit after tax is also up to

$80 million to $105 million. We are seeing strong margins across the business and high global demand for Australian grain and oil seeds which remain competitively priced in nearly all markets.

We have seen a reduction in export volumes for the full year due to some supply chain constraints, some flooding and wet weather in late March but also the very full program this year. That corresponding reduction results in a slightly higher carry out which as I said provides momentum through into FY22. We really are in good shape and we're seeing good momentum across the business and in particular the ongoing delivery of our operating initiatives.

If we look to FY22, as I touched on, many growers are out there planting at the moment and some have already completed. We're seeing good subsoil moisture temperatures across most of the East Coast grain belt. And we're looking forward to the first ABARES update in June - 8 June it's due to be published which will give an indication of the F22 winter crop which as we said is shaping up to have some good potential.

Just in closing, we are seeing positive momentum into the second half of FY21 covered on slide 20. Strong growth in first half earnings. The result does include that $70 million payment under the crop production contract. It's working as we'd expect and working well. We have a strong and ongoing focus on ESG and a stakeholder engagement process underway.

We are progressing our strategy to lift return on invested capital. That's demonstrated in the results we're announcing today and the earnings guidance. There's positive momentum generally with favourable market conditions that will continue into the second half of this year. As a result of that, just again, recapping our earnings guidance lift to $255 million to $285 million at EBITDA and a net profit of $80 million to $105 million.

We are delivering on our commitments and we're delighted with the results we're announcing today. Thank you. I'll now hand back to the moderator and look forward to answering any questions you might have.

Operator: Thank you. 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 star two. If you are on a speakerphone please pick up your handset to ask your question. Your first question comes from Alex Karpos from Goldman Sachs. Please go ahead.

Bosco: (Goldman Sachs, Analyst) Hi, Robert and Ian. This is actually Bosco on Alex Karpos's line from Goldman. Can you hear me all right on your end?

Robert Spurway: Yes, we can. Good morning.

Bosco: (Goldman Sachs, Analyst) Morning. Thanks for taking questions. Just two questions from our end. So one on the trading backdrop. The trading backdrop has been very volatile lately with all the tensions flaring up between Australia and China. How are you thinking about the trading backdrop and did any of the volatility support or dampen this result? Just after some more colour.

Robert Spurway: In answer to your question, no, it hasn't. There has been volatility on market but in particular we're seeing a sustained rally in values particularly in oil seeds but in soft commodities generally. That is, in our view, underpinned by strong demand globally. You mentioned China. There is still strong demand globally in China but then across all markets and that's creating opportunities for us.

We're very comfortable with the risk management processes we have in place and I think the team and the business has done a very good job navigating through that volatility protecting the downside and making the most of the opportunity on the upside rally and increase in prices off strong demand.

Bosco: (Goldman Sachs, Analyst) Great and just on market share. So in terms of your market share for the period, on my calculations I have it increasing from 35% to 49% in first half '21. Was that increase in market share entirely driven by the size of the larger harvest relative to the alternative storage capacity options, or were there some more structural share gains that we should be aware of, with this result?

Robert Spurway: It's always difficult to give an absolute singular answer on that. We're very pleased with the engagement we've had with growers. We had very positive Net Promoter Scores as part of the ongoing engagement we have with growers to test how we're performing. We had some very good feedback from growers on our operational performance through the harvest particularly around turnaround times for trucks at harvest which is an important metric for growers in terms of their efficiency.

They also commented on the competitive nature of the offers and the prices we had at our sites. There was very good uptake on our digital platforms in particular crop connect which allowed to transact efficiently and safely in a contactless way given the COVID and pandemic controls. So I think in answer to your question, there has been good progress and momentum and performance of our operations and grower services team as they interact with growers.

There are other features as well. We are clearly geared up in a big crop for very efficient export programs. We have strong networks of rail and road connections to our port facilities. So that places us well to make the most of a big crop and benefit growers through our export program. We also saw a - I'll say more than significant, it was a tremendous increase in both yields and volumes and ultimate deliveries in New South Wales and northern New South Wales in particular, where historically we have had a higher share.

So I think, look across a number of areas, there is some improvements there. Growers are seeing the benefits of the fixed and permanent and very secure storage that we have and also the efficiency that we can bring to a major export program. In our tables and the appendices in particular, you can see very clearly the numbers we've provided on grain received versus our overall estimate of the total crop and the ABARES number. So we are pleased with the lift in share and certainly benefited by a bigger harvest but helped by - significantly by the work our teams are doing.

Bosco: (Goldman Sachs, Analyst) Perfect, that's helpful. That's all from me.

Operator: Thank you. Your next question comes from Grant Saligari from Credit Suisse. Please go head.

Grant Saligari: (Credit Suisse, Analyst) Oh, good morning and great result and good to see the guidance upgrade. Robert so your export volumes are going to come in at the low end of previous expectations, yet you've got the guidance upgrade there and you've already talked to, I think fairly robust grain prices which will probably help. Could you expand on the other factors that have actually driven the guidance upgrade? That'd be helpful please.

Robert Spurway: Yes, I'll make a few comment and then I'll hand over to Ian to elaborate, Grant. As you picked up, we have reduced the export assumption for the year. Not all that materially. It's from - it was previously at 7.5 million to 8.5 million tonnes. We're now forecasting 7 million to 8 million tonnes and the additional 0.5 million tonnes goes into our grain carry-out. So it's really a shift based on as I said just the full capacity and utilisation we're seeing across our export network and infrastructure. But also some very modest delays in loading through wet weather particularly in late March and just looking at the outlook and our assumptions around that. The good news is a bit of wet weather even at the ports is probably very helpful for the crop that's now going in the ground, Grant.

If we look at other areas, as you see in the segment results, we've seen strong and continued momentum and processing, driven by an uplift in the volumes in crushing. So up 12%. We have seen as we announced at the AGM and indeed at the comments we made at the end of last year, the bigger crop has put some pressure on meal prices but overall canola margins have remained very strong.

So across that processing area in the business we've seen good progress. I think Ian also commented on the good utilisation we're seeing in our foods business and the on-boarding of another significant customer and full utilisation of that factory. So they're some of the features and other areas.

We are delivering fairly fully on that commitment we made on the operating initiatives of between $90 million and $125 million. So good to see that falling through to the bottom line and we've been clear we see further upside particularly in our international business through into next year and that additional $25 million in the through the cycle through to '23,/'24. Ian have you got any other comments to make to expand on that?

Ian Morrison: Thanks Robert. I think you've largely covered it. Definitely structural margins are assisting. The delivery of operating initiatives is also a strength and I'd say the crush margins are another feature particularly as we look to the second half of this year.

Robert Spurway: I think, Grant, just rounding out that, at the Investor Day you would have heard us talk about the integrated operating model we've got in the business as part of the operating initiatives. I think the mindset and the end-to-end thinking that that's brought to the business around how we look at margins and ultimately the returns our infrastructure assets are able to make, really positive to see that included in this result and the guidance and the full potential of that being delivered day in day out.

Grant Saligari: (Credit Suisse, Analyst) So if we sort of interpret the operating initiatives in the context of a larger crop, it's probably feasible that you've over delivered on the operating initiatives efficiency benefits. So the quantum that the dollar contribution given the larger crop size to what you would maybe on a more normal crop. I guess what I was trying to get at as well is that the extent to which this might have been a favourable trading result from a grains marketing perspective. But it sounds to me the way you're talking this is more about the operating efficiency delivery and some contribution from the processing business.

Robert Spurway: Yes, look I think you've summed it up well Grant. It really is more about that. Another way to look at this is when you consider the $70 million payment under the crop production contract and in a proforma context if I can put it that way, add that back to the operating result and in particular the earnings guidance for the year. It takes us through to an adjusted EBITDA on a like-for-like basis with the past of $325 million to $355 million. So really strong results across the whole business and all the reporting segments.

Grant Saligari: (Credit Suisse, Analyst) Okay and just one other from me if I could. Just on the foods segment, I thought actually the volumes held up really well just given the negative impacts have been going through the food service sector in general. Could you just - if there were any significant headwinds I guess for that foods component of the business. That'd be interesting to understand that.

Robert Spurway: Look, in a nutshell not there hasn't been. Certainly in this result, we haven't seen any real implication from COVID controls or food service constraints. Our largest exposure without - in terms of market categories is really around the retail and that's continued to perform strongly. In particular, we've brought on another cornerstone customer that's on-boarded smoothly. I think we're seeing good growth out of all of our customers in those categories.

Grant Saligari: (Credit Suisse, Analyst) Sorry just one final one on that, could we see any negative impacts coming out of dairy customers particularly China exposed dairy customers?

Robert Spurway: We don't have any material exposure to customers that are exporting to China from a dairy point of view. Whilst I presume you're talking specifically about infant oil - infant formula oil supply…

Grant Saligari: (Credit Suisse, Analyst) Yes.

Robert Spurway: …we don't have exposure to customers that have been in the news and experiencing the biggest downside. It's not a huge part of our business. It's an important part of our business and it's a valuable part of our business but I'd say both margins and volumes are stable in that category.

Grant Saligari: (Credit Suisse, Analyst) That's really helpful. Thanks for that.

Robert Spurway: I think, Grant, to cap it off, I think I've said previously that full factories are efficient factories and therefore profitable factories. And we're starting to see the benefits of that come through. You get a real sense of that when you visit the operating facilities and particularly the foods factory and the efficiency of the teams there are driving through having the demand. It's a great place to be.

Grant Saligari: (Credit Suisse, Analyst) Yes, all right, I appreciate that. Great result. Thank you.

Robert Spurway: Thanks Grant.

Operator: Thank you. Your next question comes from David Pobucky from Macquarie Group. Please go ahead.

David Pobucky: (Macquarie Group, Analyst) Good morning, Robert, Ian and Luke. Congrats on the solid result. You've mentioned a reduction in export volume due to supplier constraints et cetera and then as a result more grain carry-out versus initial expectations. How should we think about that? Is it a net negative in FY21 but a net positive in FY22? Are you able to catch up on those export volumes at some stage and then you get that higher grain carry out benefit as well?

Robert Spurway: I guess the answer to that is yes. So we will eventually catch up on it. What we've looked at is the time left and the remaining months of the year and just the assumptions we've got around how fully utilised our network is. It's not a particularly significant adjustment there as I said the assumption has gone down by 0.5 million tonnes to between 7 million and 8 million tonnes. So it still overlaps with our previous range.

We did see disruption of a few days associated with that very wet and flooding weather in late March. Really just the constraints and the inability to catch up fully on that. Overall, I would say that we're delighted with the way our network is running, the performance of our partners particularly on rail and road and the supply of the assets we need to complete that program. It certainly is a big turn up from where we've been over the last three years and it's going pretty well. Particularly when you bear in mind that we were fully reliant on the new season crop coming in before we were able to start the export programs.

So, in terms of some of the original assumptions that we had, it probably took a little bit longer to get going in terms of getting that new season crop in the [bin] and then out on ships. So well underway, good momentum and as you've touched on that will benefit '22 with the higher carry out therefore the opportunity to export that next year. But also the storage fees that we leveraged through such strong inventories and indeed the prospect of a pretty good crop that's going in the ground now.

David Pobucky: (Macquarie Group, Analyst) Thanks, Robert. One for Ian. Core debt seasonally elevated in the first half versus second half and also elevated given the bumper crop but how should we think about it on a through the cycle basis? Do you have an estimate around what it could be through the cycle?

Ian Morrison: Look, it's probably hard to answer what we'd expect it to be on a through the cycle basis. But we have provided the through the cycle earnings and we've given guidance on how we expect to think about CapEx on a through the cycle basis. So I think those aspects can give you the building blocks on how to think about it.

For the most part, what we're seeing at the moment is really just a timing aspect from a build up of working capital you see just from going from a drought to a large crop. As we ultimately turn that to cash and that unwinds to a more typical seasonal level, that's when you will see it reduce further.

David Pobucky: (Macquarie Group, Analyst) Thank you. That's it from me.

Operator: Thank you. Your next question comes from James Ferrier from Wilsons. Please go ahead.

James Ferrier: (Wilsons, Analyst) Morning, Robert and Ian. Thanks for your time. First question is on the dividend. So, you've talked about capital management certainly back at the Strategy Day as well and I'm [interested] the dividend in the first half was $0.08 so a payout ratio of maybe 35% versus the policy of 50% to 70%. So are you thinking about the dividend now more in absolute terms or how does it compare to that policy payout?

Robert Spurway: James, it's Robert here. I think the dividend decision is consistent with the policy over time. It's easy to forget that we paid $0.07 dividend at the end of last financial year despite our neutral or slightly negative underlying loss in the business. At the time, we talked about the fact that that was in light of the benefits of the crop production contract, the strength of the balance sheet and our confidence in forward earnings and through the cycle earnings.

So really what we're demonstrating I think is a commitment to delivering within that dividend policy over time, but also demonstrating that we have addressed the downside volatility in the business and there's an ongoing commitment to consistency in dividend outcomes associated with that policy.

James Ferrier: (Wilsons, Analyst) Yes, okay, that's helpful colour. Second question is on the processing business and you alluded probably a couple of times to the fact that the oil seed complex was quite favourable in terms of movements and for crush margins. The earnings uplift in the first half year on year in the processing business wasn't enormous in that context. So I'm just wondering how much the benefit you would see from high crush margins going into second half '21 and then into '22. Do you see a very material type of tailwind to processing earnings as a result of that dynamic?

Robert Spurway: Certainly you could describe some tailwinds going into the second half. I don't think at this point we're going to be drawn on such specifics going into '22. Bear in mind we reported quite strong results in the processing business last year and strong momentum and crush margins and values last year.

What we're seeing this year is continued improvement in the volumes through the plant as Ian talked about are up 12%. As you've highlighted the absolute dollar margin associated with that is up about half that or just under half that. That's really as a result of some pressure on meal pricing as a result of the larger crop quite frankly and the greater availability of feed across the country. I think we signalled that pretty clearly at the last reporting period.

But in answer to your question, we are pleased with and comfortable with the momentum and the tailwinds that we're likely to experience through the second half of this year in that part of the business.

James Ferrier: (Wilsons, Analyst) Okay great. Last question from me, on the agribusiness segment, the total contracted grain sales were up a bit over a million tonnes close to 30%. In the other income section of the accounts section 1.3, it talks there about the gains/losses on derivative commodity trading. The gains were significantly higher than the PCP sort of $120 odd million versus close to $30 million in the PCP. So is that a fair proxy for the benefit that GrainCorp has received from the more favourable pricing environment globally that you could attribute to the trading business?

Robert Spurway: Ian will answer that, James.

Ian Morrison: Yes, thanks, James. It's Ian here. Look, I don't think that's the right way to necessarily look at it. Partly because the aspects in other income is only part of the overall end to end margin, as some of it becomes realised it ends up going through sales and cost of sales. Really that represents the unrealised aspect of sales programs. The other way to look at it as well and you can get a bit of context is you can see when you look at the bridge on core debt that we've included in the appendix, you can see that there is an element of earnings that's unrealised. And that is with the build up of the forward sales program you see with a larger crop. Then the full earnings flows through as you execute. So there is that element of the unrealised earnings initially.

Just to address the question overall and from a trading perspective and we've spoken previously about how we do really look at the business much more on an end-to-end basis. So it is a lot harder to think about the portions of the overall margin. What we are seeing is good structural margin from end customer through to grower effectively. That's where we're seeing the uplift, in part, along with obviously the impact from the higher volumes.

James Ferrier: (Wilsons, Analyst) Yes, that's helpful, thanks, Ian. So in that other income note that there's the section that relates to net unrealised gains or losses and you've referenced the relevance of that or the context of that. There's also the lines that refer to net realised gains. That was up significantly year on year as well. So, are those net realised gains the ones that have already been booked to P&L if you like?

Ian Morrison: Yes, they are but they would only represent realised gains on some portions of the books or the hedges or FX contract rather than all aspects. Some of it would ultimately flow through sales as well. That's why it's hard to look at in isolation.

James Ferrier: (Wilsons, Analyst) Understood. Thanks for the colour.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Jonathan Snape from Bell Potter Securities. Please go ahead.

Jonathan Snape: (Bell Potter Securities, Analyst) Yes hi thanks guys. Can you hear me okay?

Robert Spurway: Yes Jonathan, good morning.

Jonathan Snape: (Bell Potter Securities, Analyst) Good day. Look just one question maybe a bit - to follow on from I guess where James was going. If I look at the segment note particularly note 2.3 that talks on your net exposures at balance date, I think it says on there that if there's a 20% move in commodity prices, there's about a $13 million gain in NPAT. Now if I look at wheat prices post balance date, they've pretty much moved about 20% since then. How much of that have you baked into your thinking around the second half?

Ian Morrison: I can take that one. So in terms of looking at the second half, it's not based on gains from market perspective. It is largely based on executing volumes we're seeing and the structural margins we see from an end-to-end perspective, not based on expected or movements in prices we've seen since balance date.

Jonathan Snape: (Bell Potter Securities, Analyst) So it is fair to say then, because I think that talks about the net exposure of the business. So your net long wheat it's moved 20%. So there should be a gain coming through in addition to what you've already factored in if it's the whole where it is today. Is that fair?

Robert Spurway: Look I can see Ian pulling faces at you [Jon] and I'm thinking how do we answer that? It is difficult at a point in time to make that prediction. What we would say is that if you look at the full year and the full - remainder of the half to go to - through to our next balance date, the earnings guidance we've provided has got a range in there.

It's admittedly quite a wide range and that acknowledges the fact that we've seen a fair bit of volatility in the market. At any given day you could say that's going in our favour. It could go against us. I think we've got very good hedging and risk policies to manage comfortably within that range. Certainly with some of the dynamics we're seeing in the market there's the opportunity for upside within that range as a result of the sorts of things you're talking about. But very difficult to be drawn on the specifics because it is one area of the business. And as we've said a number of times, the way we operate our export business is very much around an integrated model that looks at both the trading margin and the infrastructure margin associated with moving that grain.

We are seeing - just to recap on what was said in the presentation, I think you can probably detect a level of confidence in the fact that we are providing guidance, we're providing an upgraded guidance. We're talking positive momentum, strong margins and strong demand.

Jonathan Snape: (Bell Potter Securities, Analyst) Okay and look can I just follow up, segment note 1.3 always causes a lot of questions. But if - I think James concentrated on the unrealised and there's the realised and there's the commodity crop contract as well. But it looks like the total gain last year including the crop production contract was somewhere around $73.5 million I think in total. Then this year is $52.5 million. So, it kind of looks like net net it was $20 million lower that would have - or less would have passed through in totality. Is that maybe the way we should be thinking about it rather than looking at the individual constituents?

Ian Morrison: Yes, I'll cover that. It's really difficult to look at that note in isolation. You can certainly look at the crop production contract impacts in that note. But in terms of looking at the overall margins and trading performance, just taking the aspects that flow through other income either realised or unrealised, by themselves don't necessarily represent what you're seeing. They just represent movements against some components within an overall risk management. They ultimately don't pick up the full impact that ultimately goes through sales rather than other income.

Robert Spurway: I think timing is everything here too. Remember we're in the middle of a significant export program. So the timing either side of balance date can move some of those numbers as well. And we'll continue to provide full transparency around that particularly as we head towards the full year.

One of the reasons that we've been, I think appropriately conservative in reducing that export expectation for the year is the challenge of timing in terms of a few shipments falling either side of the end of financial year. So - and we want to make sure that we've made fair assumptions on what we think is achievable given we won't - we certainly won't have finished the export program by the end of September. It will be continuing well into next year. Overall, that's a very positive story, but it does make the management and the timing of that quite important as well.

Jonathan Snape: (Bell Potter Securities, Analyst) Okay and look just one last one. On the processing business, again obviously it wasn't the biggest lift year on year, and I realise that the crush margins didn't move much if I look at what they were doing globally over that period. But you mentioned a couple of times this on-boarding of a new customer in the foods business. Is there any cost associated or upfront charges that were associated with bringing them in either - I don't know- re-tooling kit or something into expense.

Robert Spurway: We're not disclosing the absolute investment but there was capital expended in last year's numbers so within that envelope of stay-in-business and growth capital we reported at the end of the full year. That's part of the overall long-term contract we have with that and other customers. So nothing material in these accounts to call out.

Jonathan Snape: (Bell Potter Securities, Analyst) Okay. Great. Thank you.

Operator: Thank you. Your next question comes from Apoorv Sehgal from UBS. Please go ahead.

Apoorv Sehgal: (UBS, Analyst) Morning, Rob, Ian and Luke. Maybe just one quick question from me. Just on the guidance upgrade, did the better grain pricing and supplier chain margins surprise the upside in these last three months versus your expectations when you first gave guidance in February or was there just an element of conservatism in the initial guidance three months ago?

Robert Spurway: It's almost like the trap question. We can't provide conservatism in our guidance. We have to provide our best estimate, so where we think it might end up. And that's absolutely what we've done throughout, from that initial guidance we provided at the AGM. I think what is building our confidence and therefore the upgrade is the momentum and the delivery we're seeing in the business.

Certainly to recap what I've said already, we are seeing good margins and strong demand. But I think importantly we're seeing really strong performance in what we call execution in the business. The team are delivering as we expect and hope they could around the cost base and the initiatives and that combined with the good demand we're seeing and the strength across all segments including foods and processing has given us the momentum and confidence to provide the upgrade we've shared with you today.

Operator: Thank you. That does conclude our question time at this time. I will now hand back to Luke for closing remarks.

Luke Thrum: Thanks, Amanda, and thanks, everyone, for joining us on the call today. As I mentioned we'll be posting the webcast on our website later today and if you've got any questions through the day, please send them through and we'll try and respond as soon as we can. So thanks again and have a great day.

Operator: Thank you. That does conclude the conference for today. Thank you for participating. You may now disconnect.

End of Transcript