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EDITED TRANSCRIPT

O32.SI - Q2 2018 Olam International Ltd Earnings Presentation

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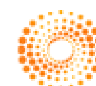

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CONFERENCE CALL PARTICIPANTS

Gurdip Singh

PRESENTATION

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

Good morning, ladies and gentlemen, colleagues. A warm welcome to all of you to the Olam Learning Academy at Marina One Singapore. I'm Hung Hoeng from the Investor Relations. Happy to see you again. This morning, we put out our results for the second quarter and 6 months ended 30th of June 2018. I know you come with to hear our speakers speak for the results, but first things first, please put safety ahead of all the numbers for now and enjoy our home safety video.

(presentation)

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

Thank you for your attention. I'm pleased to be joined by our senior management team, and I'll introduce. Seated at my extreme left at the table is our Cofounder and Group CEO, Sunny Verghese; on his right is A. Shekhar, Executive Director and Group COO; finally, our main presenter of the results today, N. Muthukumar, President and Group CFO.

Before we get on to the agenda, please read the cautionary note on forward-looking statements as printed on the handouts as well, and I shall take it as read and understood. Now please join me to welcome Muthu on stage over here for the results presentation. Thank you.

Neelamani Muthukumar - *Olam International Limited - President & Group CFO*

Thank you, Hung Hoeng. Good morning, ladies and gentlemen, welcome once again to the Q2 2018 and the first half 2018 financial results for Olam International.

Let me quickly go through the highlights of the H1 2018 results at a glance. I will give a moment for all of you to absorb the key numbers. For us, the first half 2018 results have been very satisfactory, considering especially when you are comparing with a very strong H1 2017 performance. And I will talk about the same shortly in more detail. What is heartening to see is we have been -- all our efforts and capital productivity initiatives have resulted in a positive free cash flow to equity in the Q2 of $242 million.

If you may recall, in the first quarter, we were $409 million negative free cash flow to equity and we are in a very good trajectory of getting into a free cash flow to equity positive by end of year. And some of the initiatives that we have already done are being proved as we can see in the Q2 itself.

Our balance sheet has -- continues to be strong, and you can see that it is evident from all our optimization initiatives on capital productivity, just paying debt, which resulted in continued very low gearing of 1.46x as compared to 1.97x this time last year.

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We are pleased to announce an interim dividend, and we are maintaining the interim dividend of $0.035 per share for the first half of 2018. And being the last year in our 3-year strategic plan cycle with 6 months to go, we are committed and remain focused on executing our strategic plan to its completion.

Volume grew 52%. As you can see, that's primarily on growth in volumes in the Food Staples & Packaged Foods segment, more importantly in the Grains trading volumes. As you know because of the trade tariff tensions between U.S. and China, soybean trade flows from U.S. have been affected, and we have been able to capitalize on some opportunities and especially with the Grain trading volume, the soybean trading volumes from Brazil to China has been captured by us, and that has resulted in a significant increase in the overall volumes for us in the first half to 13.6 million tonnes, up from 8.9 million tonnes.

EBITDA was at $676 million for the first half as compared to $772 million. Mainly 3 reasons for these variances, and I will talk about it shortly. We had talked about the coffee market being in backwardation, the deep down cycle from Q4 2017, and that has continued in the first half of 2018 as well, which has resulted in challenging conditions and headwinds for our green Coffee business and supply chain trading business and -- but compensated by very strong Cocoa performance.

If you may recall, in the first half of 2017, Cocoa supply chain and trading business had faced headwinds because of the market situation, while Coffee had a very strong performance in the first half. And because of the market deterioration in the second half Coffee had faced headwinds and that has continued. However, with the Cocoa market correcting in the Q4 2017 and riding into the first half of this year, we have seen very strong performance from supply chain trading as well as processing business in Cocoa, resulting in a marginal decline in EBITDA for this confection and beverage segment.

In the Food Staples segment, it has been primarily an underperformance from Edible Oils. As you know, we had sold our 50% stake in our joint venture with Wilmar and an investment in West Africa of SIFCA. And we can no longer take that share of profits as we had sold it in the first quarter of 2018 and that has resulted in the shortfall. Our midstream business, refining -- palm refining business, edible oil refining business in Mozambique is also facing margin pressures due to intense competition where the incumbent players are fiercely fighting for not allowing us to gain market share. But we believe, going forward, we will be able to get back the targeted margins.

And PFB has been doing well. And you may also recall that we sold our 50% stake in PT DUS, our sugar refining business in Indonesia late last year. And we have been able to only accrue relatively 50% of profits. And that is also one of the results for the relative -- the variance in the Food Staples segment.

The Confection & Beverage segment or the Commodity Financial Services segment was at breakeven EBITDA for the first half, resulting in an overall $676 million of EBITDA compared to $772 million.

PATMI. Operational PATMI stood at $254 million as compared to $298 million this time last year, largely due to the variances as I'd explained for the EBITDA earlier. You can see that the net finance cost, we have been saving in spite of increased interest rates, and that is primarily due to our continued optimization initiatives on working capital, which we started in earnest in the second half of last year and continuing in the first half of this year. And that has -- paying risk dividends for us in terms of lower comparative finance costs. But we expect the finance cost to go up in the rising interest rate presumed going forward.

As far as the invested capital is concerned, we had a 5.5% overall reduction in invested capital as compared to first half of 2017; and $920 million reduction in the overall investment capital; roughly $16 billion of invested capital; $8 billion in fixed assets; and roughly $8 billion in working capital. Fixed capital, up marginally due to our continued investments in committed CapEx especially in our palm plantation and some of the midstream assets.

Working capital particularly was down 11.3% due to the various optimization initiative that we are undertaking from the second half of last year despite a significant increase in volume of 52% and a corresponding increase in revenue of 11.4%.

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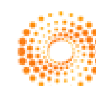

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All of these working capital initiatives as well as lower CapEx with infusion of equity during the Q4 2017 and early part of 2018 all have resulted in lower gearing at 1.46x even down from 1.49x during the end of first quarter 2018. Adjusting for readily marketable inventories and secured receivables, our adjusted net gearing stood at a very healthy 0.37x as compared to 0.81x this time last year.

I talked about the free cash flow to equity in Q2 earlier when I was talking about in the highlights. You can see that we have now generated $242 million of positive free cash flow to equity during the quarter, primarily resulting from savings on working capital due to optimization initiatives and also supported by some lower prices in Coffee. We also had lower CapEx relative to last year. And overall, that has resulted in a $242 million of positive free cash flow to equity and a $343 million of positive free cash flow to firm.

On a 6 monthly basis, we were -- we stood at $167 million of negative free cash flow equity but more importantly, even on a cumulative basis, our free cash flow to firm stood at a positive $37 million and down from $409 million of negative free cash flow to equity during the end of first quarter 2018.

Overall, our available liquidity continues to be very healthy with $8.6 billion of unutilized bank lines. Adjusting for readily marketable inventory, secured receivables, cash and short-term fixed deposits that we have on hand, we have a very healthy liquidity of $18.4 billion; a 50% headroom or gross debt of $12.36 billion. During the quarter, we had continued to focus on accessing all sources of debt capital. In July 2018, we raised $100 million of U.S. private placement amid rising interest rates with tighter spreads, which is again a testimony of how we are focused on tapping all types of debt capital markets.

Moving on to segmental review. On Edible Nuts, Spices and Vegetables ingredient segment, Edible Nuts overall had a very good year barring Argentina peanuts. Strong performance -- continued strong performance from almonds, cashews, hazelnuts but offset by extreme weather condition that was faced in Argentina. First there was a drought across South America that impacted Argentina as well and followed by floods during harvesting season of peanuts in Argentina, resulting in a very low yield as compared to our expected yields at the beginning of the year, and that had impacted the Edible Nuts segment. Otherwise, all other businesses in the segment had performed creatively.

In Spices and Vegetable Ingredient segment, we have the U.S. dehydrate business the rest of the world spices business, the pepper grinding business in Vietnam, the onion dehydrated business in Egypt. Our China and India businesses all have performed creatively barring tomato processing business, which we had called out earlier that it is facing headwind due to serious supply demand conditions and market conditions. And late last year, we had unveiled a restructuring plan and that is going as per the forecasts. So overall, the SVI business is performing creatively, excluding the tomato processing business.

As far as the invested capital is concerned, the fixed capital was marginally down due to our divestments that we had done in the second half of last year in the almond business as well as the sale of land in the first quarter of this year in the SVI business, so stood at $1.81 billion as compared to $1.97 billion. Working capital was up due to higher inventory volumes, which is seasonal during -- for almonds, cashew and dehydrates.

In Confectionery & Beverage Ingredients, as you know, there are 2 businesses in this, Cocoa and Coffee business. It's -- last year this time when I was standing against you and presenting the first half results, we talked about a very strong Coffee result and a very relatively challenged conditions for Cocoa due to market situation. The current -- this year, the situation is reversed. The markets have corrected for Cocoa and that is reflected in a very strong performance for Cocoa both in supply chain trading as well as in processing business while Coffee continues to face headwinds due to this backwardation in the (inaudible) various market. And being a physical player, we all face this issue when we are buying physical coffee and hedging in the near term and every role to the next term results in a loss in contribution. But we expect the worse in the market is over, and we hope that the market will correct itself from this backwardation situation and that will then allow the Coffee business to come back and perform creatively in the supply chain and trading business.

However, the soluble Coffee business, which is both in Vietnam and Spain, have done extremely well. They had a very good year last year and they are doing better this year. The expanded line in Vietnam, which came into commercial production in the beginning of this year has already sold the capacity as well as the second line expanded capacity in Spain as well. So the soluble Coffee business is performing better than last year, and we expect the green Coffee business to better -- to perform better in the second half of this year.

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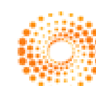

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You can see that all our initiatives, which we started in the second half of last year in terms of working capital productivity initiatives in Cocoa and followed by Coffee, have resulted in a substantial reduction, a 26% reduction in invested capital down from $6.4 billion to $4.7 billion. And that is something which we will continue to focus on going forward.

Moving on to Food Staples & Packaged Foods. It was a very strong performance again in Food Staples & Packaged Foods segment in the last year first half. We had called out earlier about the Edible Oil business, which was challenged primarily due to 2 reasons. One was relatively lower contribution -- or no contribution from our SIFCA business for this half year post selling of our 50% stake in the joint venture with Wilmar Nauvu as well as the margin pressure that we had faced in our midstream Edible Oil refining business in Mozambique. The other reason for a relatively lower contribution is due to 50% contribution, reduction -- 50% contribution from our sugar refining business in Indonesia, which had also -- subsequent to our sale of 50% in last year in December.

Further, we had called out some margin pressures in our Grains milling business in the first quarter of 2018 following the stabilization of the Nigerian currency, local currency, naira. The other dominant players had come back in early this year to regain market share because they were largely out of market the previous year due to lack of availability of foreign currency, and that had led to some margin pressures. But that has stabilized now. However, we had also faced some severe, poor conditions in Lagos in the port city of Nigeria, which had resulted in slower throughput of our [flash] sales. But again, that is a timing issue and we expect by year end, we should be able to meet our forecast and targets.

The Packaged Food business, the Ghana business and the biscuit business continues to do very well. And in Nigeria, the biscuits and candies business, the OK Foods has done better than last year, and our recommenced dairy beverages business, which is Ranona, which we started commercial production late last year is on its right trajectory. So overall, the PFB business has performed better than last year.

As far as the invested capital is concerned, it's more or less flat. Lower -- the working capital has been very low in spite of dramatic increase in trading volumes in Grains especially. But this fixed capital have been marginally higher because of our construction of our animal feed mills in Nigeria as well as our palm plantations in Gabon. The animal feed business we started in commercial production in the second half of last year, continues to do well. The day-old chicken business, which started commercial production in the beginning of this year, has also started well and is expected to finish strongly.

Moving on to industrial raw materials, ag logistics and infrastructure segment. Cotton, which is the big business in this segment, continues to perform creatively and it remains steady in terms of its performance as compared to last year. Wood Products business has performed better than last year primarily due to our ROC business, the hardwood timber business supported by higher timber prices in Europe, especially for FSC-certified lumber.

Gabon, as we said, which is -- which had started out port operations in the second half of last year and started strongly, continues to perform creatively. And we expect the Gabon, as we said, business, the ports business to continue to perform strongly in the second half as well.

As I had called out earlier, post our sale of investments in the joint venture in Nauvu, which had a lower contrition in palm, has similar impact as far as our share of profits in the rubber part of business in SIFCA, and that has resulted in a relatively lower contribution on this first half of this year as compared to first half of last year.

However, overall, the IC continues to be lower from $2.1 billion to $1.9 billion primarily due to a slew of working capital optimization initiatives that we had initiated in the second half of last year, which we are continuing to do, especially in Cotton in the first half of this year.

So overall, we believe the financial performance for H1 2018 has been very satisfactory, especially if you have to put in perspective a very strong performance in the first half of 2017. Our balance sheet continues to be very strong with improved gearing. Our gearing now stands at 1.46x as against 1.97x this time last year and already showing results of a positive impact on our optimization initiatives especially on capital productivity, resulting in positive free cash flow to equity in Q2 2018.

Being the last year of our 3-year strategic planning cycle for the 2016 to 2018 period and with 6 months to go, we continue to focus on ensuring that we are able to look at -- or seeing growth in the prioritized platforms, turning around the 3 underperforming assets, namely: the upstream

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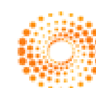

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Uruguay dairy business in Uruguay; the automated processing business in the U.S.; as well as the rice farming business in Nigeria. And we are focused on ensuring that our [distilling] assets and plantations especially will start contributing as per plan. Thank you.

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

Thank you, Muthu. We'll move on to questions. Well, we have our colleagues with a microphone, please take the microphone from them, and let us know your name and the firm you represent. Thank you. Questions on the results, please. Alfred?

QUESTIONS AND ANSWERS

Unidentified Analyst

[Alfred] from Bloomberg. Could you please elaborate the low contribution of Edible Oil in the results report? And I want to -- secondly, I want to ask questions about your long-term outlook of the China U.S. trade war, how could this impact your business.

Neelamani Muthukumar - *Olam International Limited - President & Group CFO*

On the Edible Oils, I think...

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

Can we turn on the microphone?

Shekhar Anantharaman - *Olam International Limited - Group COO & Executive Director*

Yes. On the Edible Oils, I would like to highlight the business has 3 components, the upstream component, which was projected to be a loss because we had some of the plantations maturing. Can you hear me? Some of the plantations maturing. And we are obviously -- operating cost are now getting charged off. So that is one part of the thing. The second part is the midstream assets in Mozambique, which has underperformed. And that really contributes to a lower performance than last year. As far as the plantation, it is as per plan. It's as per forecasts. Whereas the Mozambique business is probably doing a little bit below plan and certainly below last year. So that is on the Edible Oils performance relative to our first half. On the trade war, do you want...

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO & Executive Director*

Sure. So on the trade war, I think much has been written about it. And I think most of you are aware of the current status. As far as the China and U.S. piece is concerned, there has been one round of tariffs that both -- U.S. started with $36 million, 25% tariff on goods worth about $36 million. China has retaliated in kind. Both have imposed tariffs on different categories of goods. As well as the U.S. is concerned it is more on the intermediate products and not on finished products, so steel, aluminum and the related categories. China has started with tariffs on agriculture, and that's how companies like us and others who are in the agribusiness sector both have some impact, positive and negative, as a result of this. So we know, for example, as well as the grains complex is concerned, China is the biggest importer of soybeans globally and accounts for 106 million out of the 160 million tonnes of soybean that is traded globally. As a result of the duties that China has imposed on U.S. soybeans, we saw the consequences in terms of soybean markets correcting quite steeply from roughly $11-odd per bushel to now between $8 and $8.50, it has traded in the range. So Chinese and everybody else in the world who are using soybeans, now have cheaper soybeans. Secondly, the U.S. Midwest farmers growing soybeans are upset. So the government has assuaged that by offering $12 billion of farm subsidies to take care of the losses as a result of this fall in prices that U.S. farmers are having in soybean and corn and in other parts of that complex. So overall, if the U.S.' intent was to make China pay for what they alleged to be unfair trade practices, actually, with this -- the Chinese have benefited because they've got now lower soybean prices

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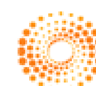

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and the U.S. have got an incremental cost of having to make good the losses that the U.S. farmers are having. So it doesn't make sense from the stated objectives and what are the consequences of that. There's another round of much bigger tariffs on a wider range of goods that is being proposed by the U.S. which is going through a consultation process now somewhere in the next week or so. I think that would end. And we will see if they're going to be imposing further tariffs on a much larger, broader set of -- and much bigger scale of tariffs purportedly on about $200 billion of goods that is being imported from China, with a threat that if China does not respond to the demands that the U.S. has, then they could potentially tax all of the $500 billion worth of goods that is imported from China to the U.S. It obviously has many consequences because it will definitely push inflation up in the U.S. if that eventuates and that were to happen. We have to wait and see what happens after midterm elections. This is all just before the midterms elections are due and there are political reasons why this is also being contemplated at this stage to secure the base, et cetera, for the ruling party at this point in time. So we will see what happens to this policy post the midterm elections and the outcome of the midterm elections. It might change, may not change. We are not really sure. But in addition to the China, U.S. trade tariffs, the tariffs, the renegotiation of the NAFTA and therefore what happens to Canada, U.S. and Mexico, U.S. will all be very critical. Between China, Canada and Mexico, they account for a very large chunk of U.S. farm exports. And U.S. farm exports, U.S. is one of the leading farm goods exporters or farm produce exporters, and they are having a problem with the 3 major countries that import much of U.S. farm exports. So we'll see what happens to how the NAFTA renegotiation is resolved. But as a result of all of this, there is a significant uncertainty in commodity markets, and it is very difficult to predict the scenario that will finally eventuate. So everybody works on multiple different scenarios. As you've seen, the results of many of the agri commodity firms for Q2, they all had very good Q2s because as a result of soybean prices coming off and the grains complex overall also following suit, not wheat, but corn and sorghum and DDGS and everything else, you're seeing bump on results from all of these companies in the second quarter because raw material costs are now far more cheaper, the crushing margins have been amongst the highest they've experienced. So there's been a good tailwind as a result of that for people who are in the crushing business, where there's been the best crush margins that they've charged for a very long time. So very difficult to predict exactly what scenario will play out. We have to be prepared for multiple scenarios. And for us and for OLAM, for example, almonds, U.S. accounts for roughly 7% of all almond trade. So while there's not a significant consumer of almonds because of the tariff war, U.S. has put additional import duties on almonds. We are a very big producer both in the U.S. but also much bigger producer, we have 3x bigger production or 4x more production in Australia than the U.S. So our Australian almond shipments to China is now at its peak or its highest levels as a result of this. And a lot of almonds used to go into China cross-border from Hong Kong and from Thailand and from Vietnam. The Chinese government has now really clamped down to make sure that their countervailing tariffs are effective. And that is, therefore, preventing any of this cross-border trade that used to occur for something like almonds as an example. I'm just giving it as an illustrative example. So I think this is bad for everybody, for China, for the U.S., for all the countries involved. This will be a headwind for moderating economic growth. It will be a tailwind for accelerating inflation. And I don't think anybody's going to win if all these tariffs are going to actually be implemented the way they are saying it will be implemented. So one scenario is there will be a resolution at some point in time, and that will depend on political calculations about midterms and the next election and retailing the core base. So we will wait and see and watch how these things develop.

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

Yes, Nicki?

Unidentified Analyst

Just to follow-up, so from about 50% drop, I think, in -- sorry, 36% drop in PATMI for the quarter, any impact did you see from actual this trade war?

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO & Executive Director*

No.

Unidentified Analyst

So, so far, your performance hasn't been affected by the...

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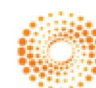

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Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO & Executive Director*

No, not at the moment, yes.

Unidentified Analyst

So what is the impact on your business? What have you done? What are you worried about, and how did you shift your business so far? And what are you going to do?

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO & Executive Director*

So far, there's no need to shift business, but as I mentioned to you, most players, supply-chain managers, traders in the industry, because we are all in multiple geographies, so something happens in the U.S. and U.S. is not able to export. We can export from Brazil. As Muthu mentioned in his presentation, he said that we've been able to ship out larger quantity of soybeans from Brazil to China as a result of this trade war. So mostly for the industry, the industry has benefited because traders are flexible. They have multiple assets in multiple geographies and they can quickly shift their participation and where they will source from and where they will deliver to. So I think traders will see this volatility as opportunity. What I am saying is that overall, it is going to hurt everybody, and it is going to be negative for global growth, and it is going to be negative for inflation. Negative for inflation means more inflation likely as a result of all of this. But all of us are in multiple commodities and multiple geographies. We can quickly shift our focus and take advantage of any of these discussions. And that is why I told you that the rest of the industry, while we are in bean crushing, soybean crushing, many of our competitors are very big in soybean crushing. And they've had some of the best time ever because crushed margins, which were at parity and very, very much under pressure and negative in some cases in the last year, has all turned hugely positive. So they're all hitting the ball out of the park in terms of the results.

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

Thank you. Can we have another question? Yes, Press Trust.

Gurdip Singh

Gurdip Singh from PTI. With all these uncertainties, you -- and there has been some ease of doing business in India, and you're still maintaining a small foothold what is going to happen, do we see you taking a big step forward now there's a lot of projects, cold storage, cold chain and all that? Can you please share with us your India view?

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO & Executive Director*

We continue to grow our business in India. We cannot participate in plantations and farming because of the Indian laws and regulations against foreign investment in plantations and farming. I mean, because of Land Ceiling Act and Regulations, it is difficult to participate in that part of the value chain. But our businesses in India are multifold. We have sugar milling interests and we continue to maintain and grow those volumes as far as sugar is concerned. We are in the cotton business, both imports and distribution of cotton to the mills in India but also with the way India offers and export opportunity, we ship cotton out of India to places like China, for example. So the Cotton business is a strong business for us. We are a significant player in the Coffee business. So we have procurement and processing and export facilities in different parts of India. We're a leading player in the Edible Nuts business. So we are a significant exporter of cashews. We have multiple processing facilities in India for cashew. But we are also a big importer and distributor of other edible nuts, that includes almonds and a range of other nuts, where India is one of the largest and fastest growing consumers for nuts, as an example. We are in the spices and -- spices business both in terms of raw spices export but also ground spices exports. And we have manufacturing facilities and procurement facilities in the principal growing regions and a key processing manufacturing centers for spices. So the Indian business for us will continue to receive attention and focus and grow. But whatever we do in India will be in line

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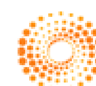

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with our strategy. So we already got a strategy laid out. And whatever we do in India in terms of increasing our investments has to be on strategy for us and has to be on plan for us. So we won't -- we attempted to try and do things that are not part of the strategic plan or of our plan. So India will continue to be important, we'll continue to invest and grow in that country.

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

There's no question from the floor. I'll take some from the webcast. Three questions that were asked. I will just go one-by-one. The first is, of the $8.6 billion in unutilized bank lines, how much has been committed? That's the first question. The second question relates to the breakup of the segmental data, whether we could rank the top 5 contributor to EBITDA and how much percentage of EBITDA does each of these contribute.

Neelamani Muthukumar - *Olam International Limited - President & Group CFO*

So let me take the first question among -- in terms of our unutilized bank lines of $8.6 billion, primarily we tend to use all our -- most of our committed lines. So we look at anywhere between 10% and 15% of our committed lines to be available on call, in case we need to have any short-term calls on margin or any other adjustment for price hikes. But the majority of that otherwise unutilized bank lines will be uncommitted facilities.

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

The second question relates to the segmental breakup of EBITDA. Can you rank by product how much does each of this product contributes to the segment EBITDA?

Shekhar Anantharaman - *Olam International Limited - Group COO & Executive Director*

So we report on segment so I'm not going to, kind of, highlight the numbers for each of the product platforms. But broadly, the nuts business, the spices business, the Cocoa business, among the first 2 segments have been doing well and Coffee is where we have seen a reduction. All the other 3 businesses would be at or above our plans. In the Grains and Packaged Foods business, again, we think that the Grains business, the Dairy business, the PFB business, et cetera, will be all at or above plan. And the reduction in sugar and palm is what had already been highlighted and reduction in sugar primarily because we sold 50% of our stakes. And again in the Industrial Raw Materials segment, Cotton is doing well and expected to be above plan, GSEZ and [board] are also expected to be all above plan. So really, at this point of time, the 3 businesses that we see some concerns are really on Coffee, which has had a -- where we think that the worst is behind us. And we expect a better half, better second half and the Edible Oils business and partially, the -- in the Nuts business, it's really the Argentina which has seen tailwinds. And that's really where the difference will be last year and this year is concerned. And overall, we think that the second half is likely to be much better, certainly compared to first half and certainly compared to last year this time -- last year second half. So overall, we feel quite satisfied, like Muthu was mentioning, with the performance. Difference between H1 last year and this year primarily we had a very strong H1 last year. And we believe that we will be at or above plan by the -- for the second half of this year.

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

The next question is on gearing. While net gearing has fallen, gross gearing has been on the rise. Interest coverage ratio has also fallen as a result of higher gross debt. So does management focus on these 2 ratios? Can you explain?

Neelamani Muthukumar - *Olam International Limited - President & Group CFO*

So first is we focus on net debt to equity, because of the significant presence in a variety of geographies, we are in more than 6 geographies, there is always cash flow that needs to be maintained because we are in physical business. And we will be paying out money and collecting funds across the world, and we will have a certain degree of cash that needs to be maintained at all points of time as a group. So our focus is looking at maintaining

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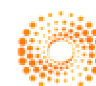

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the net debt in control because of the cash flow that we need to carry. And as far as the interest coverage ratio is concerned, while it is a problem of rising interest rates for everybody, but what we are focused on is ensuring that we are able to look at our operating cycle time. As you can see, at this time last year, in June '17, we were at 129 days overall cash-to-cash cycle and we are already down to 100 days. And that is something what we are focusing on and ensuring that our working capital productivity has improved, overall cycle time, operating cycle time has improved. And that has a positive impact in terms of not only using lower working capital and consequently lower interest cost, even though the absolute interest costs in comparison will be higher because of rising interest rates. So we are comfortable with the coverage ratio.

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

The next question is on the strategic plan. As we conclude the current strategic plan by the end of this year. So what is planned after the completion of the new plan? What is it going to comprise of?

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO & Executive Director*

Well, as you know, we do strategic planning exercises every 3 years, refresh strategic plan every 3 years. And we do it for time horizon of 6 years. So we split up plans into two 3-year cycles. So we're currently underway. This current plan ends in December 2018. So the new plan will commence from January 2019. The first phase of that plan will be 2019, 2021. And the second phase of the plan will be 2022 to 2024. So currently, we are engaged with all our stakeholders and internally to develop that new strategic plan. That will be approved by our board somewhere in the third week, fourth week of December. So we will have a new and approved strategic plan that we will then start implementing on from January of 2019. So we'll see how that goes. If there are a major changes to the current strategy, we'll obviously share that and discuss it with you. If it is not a major change, then you will know that we are continuing on our existing path and strategy. So we'll just wait and see how that develops.

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

Just a follow-up on, Sunny, your comments on the trade war. Are there commodities businesses that could be adversely affected from more tariffs outside of the grains complex, outside the soy complex? Would that affect palm oil? How would palm oil...

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO & Executive Director*

It'll affect everything. It'll affect everything, including definitely palm oil because if soybean crush is going to be reduced in China by any amount, say, 15 million tonnes, various models suggest various potential, possible reduction of soybean crush in China. That will have to then be compensated by other competing oils in the complex. Palm will be one. And therefore, it will impact palm business but it will also impact the whole edible oil complex, the energy complex because they're all linked through biodiesel and bioethanol production as well. So yes, I don't think anything will be left unscathed or spared. All agricultural commodities will get impacted in some form or the other.

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

And of course, the next question is on your outlook on the palm oil production in this year.

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO & Executive Director*

As Hung Hoeng mentioned last time, we want to focus the results on results, results briefing on results and not on market analysis or giving you a point of view on market price in relation. But she always said that we'll take 1 or 2 questions if required.

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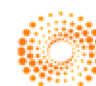

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Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

This is the last question.

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO & Executive Director*

Okay. So as far as palm is concerned, we expect a flat production in Malaysia, around 20 million tonnes, so no growth in Malaysian production this year. We, however, expect totally meaningful growth in Indonesia. We expect Indonesian production to grow by about 7.4% to about 38 million tonnes. So we expect Malaysia, Indonesia production to be around 58 million tonnes, take or leave 0.5 million tonnes in terms of range. And therefore, with these fundamentals in place and depending on what kind of substitution happens, India edible oil complex between soy and grapeseed and sunflower and palm, in particular, cottonseed, peanut oil also will be smaller factors. But the first 4 major crops will have a significant substitutability for various applications of -- and use of edible oil. So we all expect prices to trade in the range of MYR 2,100 to MYR 2,400 for the rest of the year. That will be our prediction based on supply-demand carryout, stock carryout fundamental analysis. This could be what it will be. But we have to really have a more detailed modeling of the various scenarios of substitution as a result of the trade war to really have a more precise sense of what is likely to happen.

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

That is really the last question.

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO & Executive Director*

Thank you all very much.

Hung Hoeng Chow - *Olam International Limited - General Manager of IR*

Is there any last question from the floor before we close? [Alfred]? If no, we thank you for your attention and your participation this quarter. We hope to see you in the next quarter. There's still some refreshments at the back at the [vista] area. Please join us after the briefing there as well. Thank you.

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO & Executive Director*

Thank you all very much.

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