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Full Year 2018 Olam International Ltd Earnings Presentation

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PRESENTATION

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

Thank you for your attention. At this point, I would like to introduce our senior management team. Sitting on my extreme left at the table is our Co-Founder and Group CEO, Sunny Verghese; and on his right is the Executive Director and group COO, Shekhar Anantharaman; and to my left is President and Group CFO, N. Muthukumar. Now I would like to remind you of this cautionary note on forward-looking statements that may be made during this presentation. This is also in your handout.

Now coming to the agenda. You will hear Muthu present our results highlights. He will also provide a review of the segmental results as well as a review of the results on the value chain basis, which we do so annually before summing up these key takeaways for today. So my introduction ends here, and I will hand over to Muthu now. Thank you.

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

Thank you, Hung Hoeng. Good morning to you, ladies and gentlemen, a warm welcome once again to our annual results briefing for 2018.

So let's start off with a summary at a glance on what has happened for us in 2018. The volume has been up 46%, EBITDA is marginally down at 7%, operational PATMI, which is a key parameter that we track is down year-on-year around 20% at SGD347 million. However, we have been able to generate a free cash flow equity of more than SGD1 billion, a second year in a row complemented by a slew of operational productivity both on working capital and very disciplined capital expenditure plan and that has resulted in a healthy net gearing of 1.32x as compared to 1.46x this time last year.

The results have been below expectations, especially tougher market conditions than anticipated in the second half of this year. However, we have been able to have a very strong balance sheet by having a reduced net debt of more than SGD800 million. And as I was highlighting earlier, our net gearing stood at 1.32x compared to 1.46x.

Aided by a very strong free cash flow positive position of SGD1 billion and also very healthy and reduced net gearing, we have been able to announce and pleased to announce a total dividend of SGD0.075 which is maintaining what we've declared in 2017. And finally, we had refreshed our 6-year strategic plan, which Sunny unveiled on 25th of January, 2019, which we are very excited about and I'll talk about it more as we progress today.

In terms of volume, we grew 46% year-on-year from 22 million tonnes to 32 million tonnes with almost all the growth coming in from Food Staples & Packaged Foods segment and most of it, again, coming in from the Grains trading volumes. However, going forward, we expect the Grains trading volumes to stabilize around these levels as we believe this is at the -- we are at the right-sized position as far as this business is concerned.

EBITDA declined 6.9% to SGD1.23 billion as compared to SGD1.33 billion at this time last year, primarily the decline coming from Edible Nuts and Spices segment of SGD100 million compensated by an exceptionally good performance from Cocoa in the Confectionery & Beverage segment, partially offsetting the lower performance in green coffee supply chain business, which was hit by very deep down-cycle on prices. Food Staples & Packaged Foods segment performed decently and it's a mixed bag and I will talk about it going forward and Industrial Raw Materials and Infrastructure & Logistics more or less performed well with Wood Products and Rubber businesses above plan, Cotton being steady and marginally lower contribution from Gabon SEZ.

Commodity Financial Services had a lower performance due to fundamental funds business, which we had closed down earlier this year. So overall, we were at SGD1.23 billion of EBITDA as compared to SGD1.33 billion this time last year.

PATMI declined 40%, primarily due to one-off income that we've recorded of SGD148 million last year, particularly of SGD155 million in the Q4 of last year due to sale of 50% stake in our sugar refinery business in Indonesia as well as the sale of some of our lands in U.S. and that had resulted in a variance of SGD148 million. Otherwise on an operational PATMI basis, we were at SGD347 million down 20% as compared to SGD432 million this time last year.

A significant reduction in invested capital of 6.4% almost SGD1 billion we have reduced our invested capital. This was on account of 2 things: first, reduced fixed capital expenditure, very disciplined and targeted CapEx that we had focused on and also executing on the planned divestments that we had done during the year releasing more than SGD200 million; an 11.2% reduction in working capital, more than SGD900 million of reduction in working capital despite a 46% growth on volumes and 16% growth on revenues.

Net gearing, as I highlighted earlier, stood at 1.32x, again, combination of lower working capital, lower CapEx and also cash release from divestments, more importantly, our adjusted net debt -- net gearing, adjusted for RMI and secured receivables stood at a very healthy 0.29x.

Free cash flow to equity, a second year in running, we have released SGD1.1 billion of positive FCFE, again SGD1.5 billion of free cash flow to firm. Even after adjusting for net interest servicing, we have released a SGD1.1 billion of free cash flow this year.

A combination of cash, readily marketable inventories, secured receivables, unutilized bank lines of SGD9 billion provides us a very healthy available liquidity of SGD19 billion, that means a headroom of SGD7.75 billion, very easily taking care of all our repayment and CapEx obligations that we have this year.

Moving on to segmental review. First, we will look at Edible Nuts and Spices. Overall EBITDA was lower compared to a very strong 2017 performance in Edible Nuts. This was primarily impacted by the Argentina peanuts business, which was, as I had highlighted in the earlier quarters, was impacted by drought during the crop season and again impacted by flood during harvest, which had a significant yield issue and also exacerbated by the currency devaluation that happened, and we have exited the Argentina peanuts business early this year, and that we've adjusted very strongly.

Overall, the spices business performed better in terms of our U.S. dehydrate business of onion and garlic, our pepper grinding business in Vietnam, our spices trading business in China and India as well as our dehydrated onion processing business in Egypt. And also, tomato processing business while it is still in the negative territory, had a lower loss as -- than compared to 2017 and overall, the spices platform performed better than last year.

Here the working capital increased marginally due to slightly higher Edible Nuts inventory, however, lower fixed capital was there due to sale of land in the U.S., partially offset by our investment in the cashew processing joint venture, Long Son, in Vietnam.

In Confectionery & Beverage segment, it's 2 businesses, the Cocoa business and the Coffee business. Cocoa business had an exceptionally strong performance this year. It's very heartening to note that in the third year of our integration of our ADM Cocoa processing business, we have performed better than our investment thesis that we had announced to all of you 3 years before. And all around, strong performance both in trading, supply chain as well as in processing business, more than compensating for the lower Coffee performance, which was impacted by a deep down-cycle of prices on green coffee.

However, our soluble coffee business, both in Vietnam and Spain, continues to perform very strongly and that we are very, very happy about. In this segment, as you can see, we had done a lot of working capital optimization in 2017 itself, and we continue to focus on further working capital productivity in this segment that had resulted in more than SGD500 million of working cap -- invested capital coming down, more importantly, on working capital due to -- also supported by lower coffee prices and reduction in inventory holding period.

On Food Staples & Packaged Foods segment, an overall EBITDA of SGD289 million. Here compared to -- it's a mix of good performance and steady performances and better performances and some lower performances. I'd like to call out on the lower contribution from the Dairy, Rice and Edible Oils business. Our Grains Milling business and trading business had a better year and Animal Feed business, which we started commercial production in early 2018 had a lower-than-expected contribution due to margin pressures faced from stiff competition.

Sugar had a very steady performance. This in spite of having a lower share of our sugar refining business in Indonesia, we have accrued only 50% of the profits of the sugar refining business in Indonesia post our 50% stake sale that we did in late 2017. Packaged Food business, which was in the negative territory in 2017 had turned around into strong positive territory, both our Ghana biscuits and Tomato business performed very strongly and continued to perform strongly. Our Nigeria biscuits business as well as Dairy beverage business have turned around the corner, and we expect this business to perform strongly in the coming years.

Point to note here, in spite of very high Grains volumes almost 10 million tonnes, which have resulted in a year-on-year increase, working capital has been flat or marginally lower. This is due to a slew of optimization initiatives that we had done during the year and also access to better supplier credit during the year.

In the Industrial Raw Materials, Infrastructure & Logistics segment, it has 4 businesses, the Cotton business, the Wood Products business, the Rubber business as well as the Gabon SEZ business. Cotton had a very steady performance during the year, had significant growth in volumes and also had a lot of improvement in terms of the working capital and that you can see here in terms of overall invested capital coming down by almost SGD600 million, primarily on account of working capital initiatives that we undertook in the Cotton business. Wood Products performed better than planned, supported by some strong prices in Europe and China for our Republic of Congo forestry concessions business. Rubber business, which has a midstream processing business in Ivory Coast performed strongly and Gabon SEZ, while it had contributed significantly this year as well had a relatively lower contribution even though both the ports business, which were in the first year -- full year of operations have contributed strongly.

As Hung Hoeng was saying, annually, we also provide a value chain analysis in terms of looking at our business not only from a segmental performance basis, but also from a value chain basis giving what -- how upstream businesses have performed, our core supply chain businesses have performed as well as our mid and downstream businesses, how they have performed.

And this slice we provide annually. As you can see, we had a SGD148 million of EBITDA from the upstream business in 2018 compared to SGD188 million in 2017. I had called out earlier the peanut farming business in Argentina had a difficult year, and we had exited that subsequently early this year. The Dairy farming business in Uruguay had a lower contribution due to drought that hit early -- in the early part of 2018, resulting in higher feed cost and that had an impact. And Olam Palm Gabon which has now started partially yielding, had a lower yield in the initial part of the year and that we're addressing through an irrigation -- drip irrigation plan as we go forward. And also because it is partially yielding, we can no longer capitalize the period cost and it had higher period cost during the year and that had contributed to lower contribution during the year, but partially offset by a very strong performance by our Republic of Congo forestry concession business supported by higher prices in Europe and China.

On the supply chain business, the EBITDA stood at SGD405 million, marginally down compared to SGD451 million at this time last year, primarily due to lower contribution from the green coffee business, Rice distribution business and the Dairy supply chain business. Working capital, however, came down very significantly, again, I had called out earlier in terms of the optimization initiative that we have taken, whether it is in Cotton, whether it is in Grains as well as accessing the better supplier credit for some of our businesses.

In the mid- and downstream business, was supported by very strong contribution from Cocoa processing business, from our soluble coffee business both in Vietnam and Spain, our Spices business in the U.S., in Vietnam and China and India, and our Packaged Food business both in Ghana as well as in Nigeria, was partially offset by a lower contribution from the PT DUS as I had called out earlier. We only have accrued 50%, our share of profits from the sugar refining business in Indonesia which is PT DUS, as well as a relatively lower contribution from the Gabon SEZ business and reduced contribution from the peanut processing business in the U.S., Edible Oil business and midstream business in Mozambique as well as the Animal Feed business in Nigeria.

Here I want to restress and probably focus on the working capital reduction that we had taken even in the mid- and downstream segment where both on cocoa processing as well as on wheat milling business, we had taken a focused working capital optimization program.

This provides an overview of overall how from a value chain perspective how we have performed. What are the potential that is there for the capital that we have already invested in and what one can expect in the future for already committed capital expenditure, which can add to our bottom line.

You can see that out of the SGD4 billion of total invested capital in upstream, almost SGD2.2 billion in the upstream part are partially contributing on gestating. The SGD300 million that you see in gestating is our rubber plantation, which is still gestating in Gabon and is expected to come to production by 2022. The supply chain business is fully contributing, has a SGD5.2 billion of invested capital and mid and downstream business overall has a SGD5.6 billion, clearly reflecting that out of the total SGD14.8 billion of the invested capital, majority of our invested capital is in the mid- and downstream business and that indicates well, our strategic plan that we are focusing on growing our midstream ingredients business in the next 6 years.

Overall, it is 8.1% of EBITDA/IC. We've been able to maintain this EBITDA/IC average as compared to last year in lower EBITDA because of significant capital productivity exercises that we have taken, resulting in almost SGD1 billion of invested capital going down on a year-on-year aiding to maintain the EBITDA/IC at 8.1%.

On January 25, 2019, Sunny had unveiled a 6-year strategic plan for us, and I'm just providing you here a summary of what we have talked about in detail. You're all encouraged to -- if you have not already gone through our strategic plan, it is up in our corporate website olamgroup.com, please do go through our next 6-year strategic plan. Here, the summary talks about why do we exist as Olam? Our governing objective, our vision, our purpose remain unchanged. What are our financial goals in terms of our return norms, return on equity and EBITDA/IC.

We're looking at more than 12% of ROE, more than 13% of EBITDA/IC in the latter half of our plan period from [2021] (corrected by company after the call) onwards with clearly a focus on free cash flow to equity being positive during the period, and while very firmly focused on getting our net debt to equity well below 2x.

We have also very clearly indicated out of the 16 product platforms that we have today in our portfolio we will be existing 4 of them and the balanced twelve strong business platforms have already very global and leading positions in the market and that we believe will allow us to grow very strongly and more importantly being a very well differentiated global agribusiness, global agri ingredient business focused on Africa food and Africa infra and logistics businesses.

We will have a very balanced capital allocation process, as I had called out in the value chain segment review, we will be focusing more on investing with the specific thrust on midstream and value-added ingredient businesses with roughly more than 50% of our invested capital being allocated to midstream and ingredients business by 2024 from the current 40% that we have in 2018.

We will be continuing our focus in terms of having our global presence and leadership to serve our global customers and that we will do through 4 pathways in terms of rejuvenating and focusing on leadership and talent, focusing on operational excellence both on capital productivity and cost efficiency, sustainability which we have put at our heart for every one of us, when we talk about our purpose of reimagining global agriculture and food systems, sustainability is the heart of every one of us in Olam, and that will be a key thrust area for us to achieve our strategic plan.

And finally, digital. We believe that instead of getting disrupted by digital, we will focus on disrupting our industry by having significant investment in digital and use that as a primary thrust area to achieve our strategic plan by 2024.

In terms of key takeaways, while the results were below expectations, we had a lot of positives that we have to take home from 2018. We had a very strong balance sheet, we have been able to reduce our invested capital by almost SGD1 billion. We have been able to reduce consequently -- we have been able to reduce our debt by more than SGD800 million. Our gearing has come down to 1.32x. I would like to remind you most of you would have seen by end of 2016, we were at 1.99x and 2017 we were at 1.46x and now at the end of 2018 we are at 1.32x. We have been able to release yet again SGD1.1 billion of free cash flow to equity, and which has allowed us to maintain our total dividends of SGD0.075 per share for 2018. And finally, with a refreshed 6-year strategic plan, focusing on capitalizing on key consumer trends, we will be in a position to achieve sustainable and profitable growth in the next 6 years. Thank you.

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

Thank you, Muthu. We are happy to take your questions on the results and the strategic plan. Can we please take a microphone and tell us where you come from. Thank you.

QUESTIONS AND ANSWERS

Alfred Cang

Good morning Sunny. Alfred from Bloomberg. Do you see the tough market conditions you highlighted in the results will continue this year, especially, for Coffee business? Do you agree that what we see in the Coffee market cannot reflect the market fundamental? And why is that? On the Cocoa business, you are doing quite well in the past years. And are you going to keep expanding in the Cocoa supply chain? Do you have any price outlook for the Cocoa in coming years? And for the palm prices, do you think El Nino is still in the picture? Do you have any expectation or forecast on the palm production in Malaysia and Indonesia for this year? And the last question will be about the downward risks for this year. Do you think ASF will be a big risk for the total agriculture complex for this year?

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

What is ASF?

Alfred Cang

Asian Swine Fever

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

So starting with your first question on Coffee. Coffee has had in terms of supply and demand and the balance sheet, potential 9 million surplus combined Coffee surplus which is Robusta and and Arabica coffees. We, however, feel that there would be some revisions to this balance sheet through the course of this year. We expect lower crop in the Central American and the Andean region of 1.5 million bags. We expect potentially a downward revision in the Colombian crop by about 1 million bags. Because of the fairly difficult weather in Brazil in the last 2 months, December and January, we expect further reduction in the Brazilian crop of about 1 million bags. So overall, we expect about 4 million bags potential revision to this balance sheet, in which case the 9 million bags combined surplus could be revised down to about 5 million bags. That will mean the end use ratios in terms of stock to consumption in Robusta coffee will be around 25.5% and in Arabica it will be about 33%. This combined with a record short position by the specs on the terminal markets so our estimate is now there is a 70,000 lot short position, which is equivalent to almost 20 million bags, that's a fairly unprecedented short position. So if you have any further weather-related surprises, this market could potentially rally. However, based on fundamentals, given the significant stock overhang, the market reflects fair value. The other big factor in this equation would be what will happen to the Brazilian real. If the Brazilian real continues to strengthen or the Brazilian real potentially devalues, I think, The Street has taken the new administration's economic team as a competent team and therefore there is a likelihood that the Brazilian currency would remain stable or strong and some part of coffee price direction is a result of what happens to the Brazilian real. So I don't think any of these markets for a long time would be mispriced or divorced from fundamentals. So I think the thesis that you alluded to that coffee prices are not reflecting fair value is probably not accurate. However, if there is these revisions that we expect in the balance sheet, that would be positive to coffee prices. As you saw in the last couple of days, Coffee prices have breached $1 and come down to $0.96, $0.95, $0.97 kind of range, that would mean that in many countries, the cost of picking the coffee itself many people will not pick all the coffee. They will not use all the agriculture inputs in terms of fertilizers and pest management controls, et cetera, because the viability or the profitability is lower. In many countries, now coffee prices are below the cost of production. And more importantly, in South America, we are now facing a major labor shortage. So labor wage inflation is quite high. So if it makes it even more expensive to pick coffee that is really trading at below cost, then that could also impact total harvest. So that's the coffee story. As far as the cocoa story is concerned, we believe that the 2018, '19 crop was in equilibrium and there was a very small surplus. However, we had very strong demand. So production and supply was more or less balanced with a little bit of surplus as far as supply was concerned, but we've had very strong robust demand growth. So grinds grew by about 4.8% last year largely driven by growth in Asia, Eastern Europe, the Former Soviet Union, Africa and the Middle East. So the non-traditional emerging markets showed a very high consumption growth. Globally consumption grew in terms of grinds growth by about 4.8%. In the next coming crop, we expect a slight surplus, our estimate is now 100,000 tonnes surplus. And we also see a significant growth in share in Côte d'Ivoire. So a couple of years ago, Côte d'Ivoire contributed roughly 40% of world production. There has been significant growth in supply from Côte d'Ivoire. Now, it is contributing almost 47% of world production. That is likely to continue to remain strong. Ghana is likely to remain very strong in the production. We expect strong production in Cameroon. We expect weaker production in Nigeria and in Indonesia, but we also expect a strong production in Ecuador. But the sum total of all of this supply-side and demand-side factors that I have mentioned is that we will see about 100,000 tonnes of surplus that is our in-house estimates for the next crop '18/'19. But demand we think will also taper off 4.8% grind growth is significantly above historical trend line growth, so 2, 2.2% stock will trend line growth, 4.8% is quite high. So we think that will moderate back. And therefore our outlook on Cocoa prices is that it will trade sideways with London trading between 2,100 and 2,700 is our range of where Cocoa prices will trade during the course of this year. We have to, however, watch out for weather developments during the rest of the season and based on how they pan out, that could have an impact on the scenario that I just outlined. So that is as far as Cocoa is concerned. I think the third question that you had was on Palm?

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

The question was also on whether we will continue to expand the Cocoa business.

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

Yes, we will to continue to expand in the Cocoa business. So as far as the Coffee business is concerned, we will continue to expand the soluble coffee business. I think our green coffee business is right sized. There will be some incremental growth in select origins and trade flows. But we will continue to invest more in our soluble coffee business as explained in our strategic plan. As far as the Cocoa business is concerned, we will continue to profitably grow that business. Yesterday, we made an announcement of making $90 million investment in acquiring cocoa processing facility in Indonesia, which is the largest processor by capacity. The capacity of this facility is significantly higher than the current utilized capacity. So we will make sure that we debottleneck as we go along and get to full capacity utilization. We also said in addition to the acquisition costs of $90 million there is a CapEx plan to get this business to full potential and that is really driving the trajectory of increased demand for powder in the Asian markets across ASEAN and also East Asia and South Asia, including India, there is a significant growth in chocolate consumption and cocoa powder consumption and that is why we will be continuing to invest and grow that business as well. The third question you asked was on palm oil. You saw palm oil prices rally in January and as well as in February and that is primarily a seasonal issue. We see a low seasonally the first quarter is always low production quarter and typically there is a rally in prices. Overall, we expect the growth of roughly 3 million tonnes of palm oil production this year in Indonesia and Malaysia combined. Most of that increased supply will be absorbed by the higher biodiesel demand as a result of the B20 implementation in Indonesia and the B10 biofuel policy implementation in Malaysia. That will account for absorbing some of this increased production surpluses that we will see this year. But demand in China and India is also growing very strong. Some of this will also depend on the resolution to the trade war between the U.S. and China. China is importing more palm oil as a result of slapping a hefty duty on soybean. And if there is a resolution to this trade war, which is the scenario that we now expect based on all that we are hearing from both sides, if that does happen then soybean prices are likely to rally and therefore the differential between soybean complex and the palm complex are likely to widen, which will allow palm prices also to rally to get back to what we think is a relative value between the 2 complexes. So that is a story as far as palm is concerned. And I don't have a view on AFS, the last question that you raised. But somebody from my team would be happy to get back to you on what potentially that impact would be. Thank you.

Aradhana Aravindan

Hi, Aradhana from Reuters. I just wanted to go back to the Indonesia acquisition that you announced 2 days ago, if you can elaborate a little bit more on why Indonesia? You mentioned a little bit about the ASEAN consumption for cocoa. And also in that case since you said you're going to continue to invest in cocoa, can you -- will it be through acquisitions? Are you looking for more acquisitions? If yes, would the deal size be around the same $100 million? And maybe I'll ask more questions after.

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

So in our cocoa processing portfolio, Indonesia was the missing piece. So we had very strong configuration of assets and processing footprint in Africa, both in Côte d'Ivoire and in Ghana and Nigeria. We have a strong footprint in Europe across the U.K., Holland, Germany, in terms of our processing and manufacturing footprint. One of the missing pieces for us was Indonesia. And with this acquisition, we have completed that footprint. And that will make us -- strengthen our global presence. We were already processing in this facility that we have acquired on a toll basis. So we've had the good understanding of the facility. The cost competitiveness of the facility, the potential of the facility. So the risk for us is very low because we have been working with this partner in this same facility for almost 2 years. So that's why we have invested there. What I mentioned is that, as far as the Cocoa strategy is concerned, it is one of our crown jewel businesses. We believe that we have very strong winnability in that business in terms of a very differentiated business, very strong organization strengths. We out-origin our competition, very strong processing capability, very privileged access to customers for the customer franchise. We have very strong innovation and research capability. So in each of these areas we will continue to invest. So it's not acquiring a facility that I was referring to when we said we will continue to invest in growing our -- or extending our lead in the Cocoa business. It is in all of these areas where we are differentiated and which is necessary for us to build the global market-leading Cocoa business.

Kevin Lim

Sorry can I turn to the Nuts business...

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

Can you tell us your...

Kevin Lim

Oh Sorry. I'm Kevin. I'm with Nikkei Markets. Okay I'm not that familiar with Olam, but you said that you want to expand your Nuts business. But earlier in the presentation, you spoke about what you call downsizing or cutting back on your peanuts business in Argentina. Can you kind of reconcile the two and perhaps for my benefit just explain broadly how the Nuts business is going to be grown?

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

So as far as the Nuts business is concerned, we have many SBUs within the Nuts platform. So one is almonds. We intend to continue to grow our investments in the almond business. Today, the almond business has an upstream business and then a supply chain and trading business and then ingredients business. The upstream, which is a plantation business we seek to grow our acreage in almond plantations, particularly in the U.S. to better balance our upstream assets in almond business between Australia and U.S. We have a significantly larger plantation footprint in Australia compared to the U.S. So we will want to increase our almond footprint in the U.S. as an example. We are making a very big push into ingredient manufacturing in almonds, which is converting almond into value-added ingredients. There is a growing demand for these value-added ingredients across the globe and that is a trend, that we want to capitalize on. The second business for us in the Edible Nuts portfolio is a cashew business. We're already world leaders in cashew business and as Muthu explained, last year, we made an additional investment in taking a 30% stake in Vietnam's largest cashew processor exporter, Long Son, is an example of how we want to continue to grow our cashew business even further. We will continue to expand our Africa cashew processing footprint in select geographies. We will continue to grow our sourcing and origination reach and therefore increase the market share in various cashew producing countries. Cashew is grown in 19 countries around the world. We are present in almost every one of them and we'll continue to strengthen our penetration and our origination reach to grow our market shares in cashew. The third business there is hazelnuts. We will continue to organically grow our hazelnuts market share, particularly out of Turkey. And fourthly, we have pistachios. We will continue to look for opportunities to grow our pistachio upstream footprint, mainly in the U.S. And in a few years' time, we will look at Iran, which is another important producer of pistachios. So we will continue to see growth in the pistachio business. The walnut business, so we will maintain that business at current levels. There will be some increase in trading volumes but unlikely we will invest more in upstream walnut plantations. So that then brings us to the question of peanuts. So in the peanut business, we have 3 activities. We have peanut farming activity, which is in Argentina. In Argentina, we lease the peanut farming land. And in the lease model, structurally you will be challenged to make money across cycles because every year or every 2 years you have to renegotiate the lease fee for the land. And based on competing alternative crops that can be planted like soybean, et cetera, the lease fee will change every year. That then changes your cost of production every year. Then all of peanut growing in Argentina is really rain fed, not irrigated. So you are exposed to higher agricultural risk, if there is a drought or there is a weather-related rainfall issue, et cetera, you increase your agricultural risk. So we have decided that if you can't irrigate and reduce agricultural risk, for example, then it is not good for us to remain in that investment for the long-term. So we have decided to exit the peanut upstream investment, but we will continue to grow the rest of the peanut business. What does the rest of the peanut business contain for us? One is, we have an ingredient manufacturing business in the U.S. We are the largest independent peanut processor, which means we take peanuts and convert it into peanut paste, or peanut -- other peanut value-added ingredients. That's extremely profitable business. We are in a very strong competitive position. We are going to continue to expand organically the capacity in peanut ingredient manufacturing in the U.S. Then we have a peanut shelling business. Most of you would know in the last couple of years, we made 2 acquisitions McCleskey Mills and Brooks, and we had combined the 2 businesses as -- and we have become now amongst the top 3 peanut shellers in the world. That business also we will continue to invest and grow. So the only peanut piece that we are under emphasizing is exiting the peanut upstream farming business. So overall, Edible Nuts business like the cocoa business is another one of our crown jewels and I mentioned in my strategic plan announcement that we will disproportionately invest in the Edible Nuts business as well to grow, and we have very high relative market share compared to our next biggest competitor, which reflects that we have a very differentiated Edible Nuts portfolio and therefore we can profitably scale and grow that business.

Aradhana Aravindan

Just going back to Cocoa, if you can elaborate a little bit on what those investments will look like? Will it be a combination of acquisitions and organic growth and maybe, which geographical markets like Indonesia you mentioned also...

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

We cannot prejudge that but as I mentioned in my strategic plan, we are going to be investing a lot of in innovation and research. When we acquired ADM, we also acquired lot of innovation centers. So I mentioned, as an example, we have developed in our Cocoa business the first truly dark cocoa powder. This first of its kind. And if you've eaten Oreo cookies, you will see the black powder. So in order to get the black powder, you need to alkalize the cocoa powder using an alkalizing agent. But we have now developed in our innovation center the first truly dark natural cocoa powder without any alkalizing agent. So our investments in Cocoa, would be to continue to make that kind of innovation and that is what I meant by investments. That -- we also said as another example, that we have developed a truly white cocoa butter, white cocoa butter is cream-ish. For some applications and some end-users, customers prefer a whiter color. So again, we've generated the first real white cocoa butter. All that is very innovation-intensive. So this whole thrust in the new strategic plan to decommoditize and get into more value-added ingredient manufacturing, which is a research and innovation fuelled or based, is an example of what I meant about the kind of investments. So it's not about acquiring new plants et cetera. In all our existing facilities, we will continue to invest organically to maintain our market share because if cocoa market is growing at 2%, 3%, whatever it is growing at in order to maintain our current market share we will continue to increase the capacities in our existing footprint that we have.

Aradhana Aravindan

Just one more question. I wondered, if you already appointed your financial adviser for the restructuring?

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

No I mentioned in my strat plan that we will be appointing them around the middle of March. So we are in the final stages of selecting the financial adviser or advisers, and that will be done by the middle of March. And as I said, they will be given 6 months to complete that exercise. And based on their recommendations and how the board determines and assess and evaluates those options, we will make in appropriate announcement at the right time.

Anita Gabriel

Anita from Business Times. The last time we met, I know it wasn't too long ago, you mentioned that your asset divestment could unfold as early as within the next 12 months.

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

Yes.

Anita Gabriel

Since then, however, the global environment has weakened. I'm wondering, if any of this has made you reset the expectations of the time line on your asset divestments?

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

No. So we are progressing that, and we are pleased with the trajectory of our discussions and negotiations on these assets. As I told you at the strategic plan review, we are in no hurry to sell those assets. There is no gun on our heads that this should be disposed of tomorrow. And we will do absolutely no kind of fire sale of any of these assets. So we will do this in an organized way, in a responsible way from a position of strength. But to answer your specific question, as to is there any developments in the last month or 2, since our announcement, I think a month ago that we announced, right. Since that time no, there isn't any change we see in the environment, so we will be continuing with our execution plan to selectively divest those assets that have been identified, which are now no longer aligned to the priorities of our new strategic plan.

Anita Gabriel

Another follow-up question because you're involved in an array of businesses. I was wondering, which spots or which areas, do you think present the most significant risks over the next 6 to 12 months?

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

Okay. So the agribusiness is exposed to inherent cyclicality and volatility. And it is very difficult to forecast, which would pose cyclical risks, that will depend on, for example, if you are in the plantation business a lot of those risks are agriculture related risks so what happens to weather? While we can try and predict a little bit better now than in the past, it is not very easy to establish what the rainfall is likely to be or whether there is going to be a drought or flood or whether there's going to be extremely dire temperatures, all of that is difficult to predict. All that we can say is that, the 12 businesses that we've chosen to continue in are all businesses where we have differentiated positions and where we feel we have clear winn-ability, and we have a strategy that will allow us to navigate through some of the risks that you have sort of identified. Having said that, based on the first question that was asked, we continue to see some headwinds in the Coffee business for the first half of this year and therefore Coffee business margins will be under pressure in the first half. For the other businesses, I think, there are normal trading conditions in. So I don't see anything that I need to highlight particularly. But I think, the Coffee business will continue to face some headwinds in the first half of the year.

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

If there are no questions on the floor. I would like to take some questions online. There is a question regarding this current financial year's free cash flow. It was said during the strat plan that it will be negative before it returns to positive territory, what are the kind of size of investments are we talking about here and what would gearing become during that year?

A. Shekhar ***Olam International Limited - Executive Director & Group COO***

As outlined in the strategic plan, there will be -- we have investment plan of roughly $3.5 billion over the course of the plan. And some part of that might be front-loaded. So they are already ongoing investments, which should be invested for whether it would be cash investment during 2019. And a few other investments, one of which we announced yesterday was also something that we've planned for in '19. So I won't put an exact number to it, but there would be a front-loading of the $3.5 billion into this year. Some parts of the divestments will also happen during this year. So based on our current view on that investment/ divestment pipeline, we would expect to be free cash flow negative. So in relationship to the last 2 years of free cash flow positive, which Muthu also presented in 2018, it's important that a lot of the changes we have done to our cash-to-cash operating cycle, working capital optimization, suppliers' credit, et cetera, a significant chunk of those optimization have been done. We're also at very low commodity price levels, and we've talked about that across the portfolio. So that's another aspect. So things like operating cash cycle, portfolio mix, commodity prices will also impact our free cash flow beyond capital, investment and divestment pipeline. So since we have done 2 years of significant free cash flow generation, we are starting from a very low commodity price base. We have a certain investment/ divestment pipeline which we have a view of. We would -- our view was that we will be negative free cash flow and we will see how we'll work on each one of this as we go along each of these quarters.

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

Question on gearing.

A. Shekhar ***Olam International Limited - Executive Director & Group COO***

So in terms of gearing, again, in the strategic plan, we would like to -- we won't manage the business for gearing so gearing is a boundary condition and we would like to stay below 2x. We are currently at [1.32x](corrected by the company after the call) which is a very comfortable position. So we don't see gearing might change a bit, but we are well within the norms that we set out during the plan.

Simon Jong

Hi, Simon from DBS. Can I just ask just with regards to 2018, we saw a significant improvement in terms of the volumes and at the same time, the general sense is that working capital has come down through the optimization measures. I'm just wondering, considering both of these in tandem, how are you able to achieve the higher volumes with lower working capital? And is that something that is sustainable for the medium- to long-term? That is the first question. And the second one is that I also observed, specifically, within 4Q, that there was a significant jump in terms of the payables -- I mean the yes, payables almost SGD1 billion. And I was wondering, can I just understand where is that coming from?

A. Shekhar ***Olam International Limited - Executive Director & Group COO***

Great. So I think, there are 2 questions are interlinked and there probably a few things there. So one is the product mix, the second is the business model mix and both that impacts our cash-to-cash cycle. So for instance, if you are buying a lot of the volume increase happened from Grains trading, and there we are doing bulk business, very short cash-to-cash cycles, we can buy from large farmers, stroke trade houses and therefore availability of supplier credit is possible for that kind of business. So if the product mix and the business model mix is -- provides us the flexibility to do it on a much shortest cash-to-cash cycle as well as with supplier credit, that will determine some part of what is sustainable out of the supplier credit increase that you saw or the cash-to-cash cycle mix or the cash release that we've been able to achieve. So we think if you look at based on a sustained or sustainable cash-to-cash cycle for our portfolio mix on an average across all the products, 90 to 100 days is probably what is a sustainable product mix. For last year, we are down to 75, aided somewhat by the significant increase in our bulk volumes as well as therefore the supplier credit available against that. So on overall basis, we would guide towards more a 90 to 100 days, which should be very optimum balance on a cash-to-cash cycle basis. That will be impacted by commodity cycle, that will be impacted by supplier credit and the cost of that supplier credit compared to cost of financing, and that will determine the actual outcomes on an ongoing basis. So again, like I mentioned in my previous thing, there are parts of our free cash to cash -- free cash flow release of the last 2 years and our improvements in cash-to-cash cycle, which are sustainable, which is the operational efficiency part that we'll stay focused on. Some part of the commodity price and some part of suppliers' credit availability and cost of that will determine market conditions and our product mix.

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

There is a question here from the webcast. SG&A expenses have gone up during the year. And you have mentioned, there are some initiatives undertaken for AtSource and digitalization. When would you expect these initiatives to contribute and how much have you invested in both these initiatives?

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

So Muthu, can probably address the SG&A cost, I'll address AtSource and digital.

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

So if you look at the SG&A cost, it's -- overall if you look it's just 5.5% increase on a year-on-year basis. It is not a significant increase there. So adjusting for normal inflation and also for growth because we had new businesses, which were fully integrated like the Animal Feed business, which came into commercial production in early 2018 plus normal inflation-related impact has resulted in a marginal increase of SG&A by 5.5% on a year-on-year basis. So we feel quite comfortable about this.

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

Okay. On AtSource, as you know, we launched that offering in April of last year. So Phase 1 of the trials is completed. We are now organizing to scale up and ramp up that across the businesses. In the first phase of the trial, we had embedded AtSource in 4 products, which was Cocoa, Edible Nuts, Coffee and Spices. We supplied to about 17 customers, large global customers. In all of these cases, we proved our thesis that based on whether we are offering AtSource or AtSource Plus or AtSource Infinity, we were able to further differentiate our offering with the customers. We got a larger share of the customers' wallet, created more stickiness with the customers and in AtSource Plus, we were able to extract pricing premium as a result of the service. Total capital that we've invested in that business so far is between $5 million and $6 million, but we think it will create a lot of value for us. The initial valuation of the brand and the franchise is already quite significant, and that will continue to grow as we penetrate more of our customers with the 3 ranges of AtSource offerings. So we are very excited about AtSource and it is very central to our next 6-year strategy of further differentiating ourselves. Nobody else is able to make that kind of offering today to our customers. On digital, we have multiple initiatives across 3 buckets. So we have a set of digital initiatives, which we call Olam Direct digital initiatives. In that, we are doing digital procurement, we are doing digital warehousing, we are having Olam Farmer Information System database. We are doing digital origination, as examples of various projects within that first bucket of Olam Direct. Significant traction and positive outcomes in this first bucket. In the second bucket, we have categorized the digital initiatives into 2 main projects: one is AtSource, which we call Olam Inside and the second is a customer digital engagement portal. And about 4 products are now commercialized in this customer digital engagement portal. That is basically to reduce the cost to serve for small and medium customers because today in the way we are organized, we serve the demand from large customers and the cost to serve for small and medium customers is quite high. But through the digital engagement e-commerce portals, we are able to then access these small and medium customers with a much lower cost to serve. And the last bucket of digital initiatives is on developing smart farms, smart factories and smart supply chains. So in smart factories, we've already put sensors on all our motors. We run 206 manufacturing facilities around the world. There are hundreds of thousands of motors in all of these facilities. So you can dramatically improve predictive maintenance and maintenance costs by understanding and anticipating when these motors needs to be refurbished, to do predictive and preventive maintenance, so that's an example of a smart factory initiative. But we have many initiatives in the smart factory, digital initiatives in the smart factory projects. And then we have smart farms. So we are doing a lot again, putting sensors on trees to reduce water usage efficiency. In our almond plantations, we've improved water usage efficiencies by roughly 20% as a result of putting these sensors on the trees and being able to improve water usage efficiencies. Or using of drones, both in terms of doing 1 meter square aerial NDVI mappings of all our plantations to then following from that do position agricultural applications, applying nutrients and applying pesticides exactly where it is required, precisely when it is required rather than a broadcast application of these inputs, as another example of a smart farm initiative. How we produce on our farms between 3 years ago and today is completely revolutionized and completely different. It will be very difficult 3 years ago to anticipate this is how it will change. We use data analytics in a big way in our farms and in our factories. And similarly, the third piece is on supply chain. So using data analytics to improve our trading capacity and capabilities. So we have assembled a good data analytics team that will help us here, getting into paperless documentation. So we are part of a lot of blockchain trials with multiple partners. Those are all examples of smart supply chains. Totally, we have spent between $8 million and $9 million this year on our digital initiatives. There will be a substantial additional investment that will be making in 2019. When I say this year, it was 2018, about $8 million to $9 million, we spent -- we'll spend close to $14 million, $15 million in 2019 on digital initiatives. But we think all of that will continue to differentiate our business, and when Muthu summarized the strategic plan for the next 6 years, the 4 enablers that he had identified one was digital and the second was sustainability and AtSource and digital, the question you asked about the investments that's roughly the size of the investments, that's roughly what it gives to us an advantage and that roughly is what we will continue to do in terms of investments in these 2 key differentiator investment -- key differentiation strategies for 2019.

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

I have two questions. The first is on OpEx which has seen some forex losses, is this an issue and a concern for Olam? Maybe Muthu can take that question.

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

So if you look at other operating expenses, it primarily contains unrealized foreign exchange losses because of foreign currency loans, which are paid from the principal company, which is Olam International to many of our subsidiaries who procure these agricultural commodities for us, source these and then export it back to the parent. So that is a time -- this is only a timing issue. In terms of -- we have to revalue all foreign currency loans, which are there in our subsidiary balance sheets to the month end or year end exchange rate of between the local currency and U.S. dollars or the euro or British pound as the case may be. And that goes into the P&L under other operating expenses. This is just a non-cash timing expense, which gets reversed when actual shipments happen and these foreign currency loans are retired by the subsidiaries to the parent. So it is not actually -- this does not concern us, it is part of the normal business.

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

The second question is on views on El Niño. Is it still in the picture today this year and what commodities will it be affected?

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

The probability for an El Niño event has gone up. But we see it as a moderate event at this point in time based on our weather experts that we have and our in-house models. So we wait and see how this develops, we'll keep you informed if there is a material change. We know that El Niño will impact different crops in different regions differentially. So it will have a negative impact in terms of palm production, therefore positive impact on palm oil prices. So it will vary from region to region and crop to crop, but I think, there is a fairly good understanding that everybody has on the specific impact of El Niño. So we had the last one in 2016, the previous one in 1998, we'll see how this develops.

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

We're all good online. Any other questions from the floor? And if we have explained our results very well, we thank you for your questions and your participation today.

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

Thank you all very much.

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

Thank you.