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Q3 2019 Olam International Ltd Earnings Presentation

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PRESENTATION

Hung Hoeng Chow

Thank you for your attention, and I'm pleased to introduce our Olam senior management team here. Seated on the extreme left at the table is our Co-Founder and Group CEO, Sunny Verghese; to his right, our Executive Director and Group COO, A. Shekhar; and to my left, Group CFO; N. Muthukumar.

Before we begin, we ask that you take note of the safe harbor clause on forward-looking statements that may be given during this presentation.

I will now pass the microphone to Group CFO, Muthu. He will present our cumulative results for the 9 months as well as provide an update on our strategic plan progress. Thank you.

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

Thank you, Hung Hoeng. Good evening, ladies and gentlemen. It is a pleasant change from where I used to meet you every quarter in the morning. And this time, it is in the evening, and that's the change for us.

As I reflect, we are completing our 30th anniversary of our journey in Olam, and hopefully, many centuries to go. We started very humbly 30 years ago in 1989 with 1 employee, our Co-Founder, Sunny Verghese, with 1 product, cashew, and in 1 country, Nigeria, in 1989. And fast forward to today, we are operating in more than 60 countries with a top line of SGD 25 billion with more than 75,000 employees and more than 20,000 customers spanning across all of these geographies and dealing in more than 47 agricultural commodities.

Thank you for all your support, all our stakeholders, for where we are, and we need to continue to work together to take this organization to greater heights. And this month, we celebrate our 30th anniversary, and some of you will be joining us shortly as we enjoy a moment of reflection on where we are and what we are setting out in the next phase of our progress and journey.

So quickly moving on to the current. On our 9-month results for September 2019, we have grown volumes to 29 million tonnes, up 25% from 23 million tonnes. Two of our key earnings metrics that we track and report: the first one being EBITDA, we're already crossed SGD1 billion at SGD1.1 billion, up 17% compared to SGD905 million this time last year; the second key earnings metric, which is the operational PATMI, marginally down at 2.3% -- by 2.3% at SGD269 million. As most of you are aware, we have been talking about the introduction of the SFRS 16 on the lease accounting standard, effective January 1, 2019.

We just had a short-term negative impact on our earnings because of fast forwarding of higher depreciation and interest expense that we need to take over the leased period. Adjusting for the impact of SFRS 16 over the 9-month period, our adjusted operational PATMI would have been SGD288 million, actually, a 5% increase year-on-year.

I'm also happy to report that third year running, we have been able to generate positive free cash flow to equity of SGD767 million, up from SGD602 million this time last year, and with gearing steady at 1.37x, in spite of increased CapEx of SGD515 million compared to SGD149 million in the first 9 months of last year and also on account of increased volume of trade.

As I was indicating, the volume grew 25% over the 9 months, primarily due to increase in the segment of Food Staples and Packaged

Foods, more so in the bulk trading volumes, and particularly in the Grains trading volumes. The point to note is that on a 3-month to 3-month basis for this quarter, you may notice that we have kind of steadied around 10 million tonnes of volume at 3% growth. And we believe that at this level of volumes, we would have reached optimal scale in terms of our bulk trading volumes, and that is what we would like to indicate to you going forward.

EBITDA grew 17% year-on-year, with the -- with primarily all segments growing from last year, with the exception of IRM, and I will talk about it as we discuss the segmental performance.

I would like to particularly call out in terms of the Commodity Financial Services Group. As you all know, in the beginning of the year, we closed down the Fundamental Fund and bulk of our -- which had underperformed last year, and the Quantitative Fund, which had also faced headwinds last year had turned around and performed positively, and that has resulted in a good swing of SGD49 million on a year-on-year basis, allowing us to deliver more than SGD1 billion of EBITDA for the first 9 months of this period.

The operational PATMI, which I had talked about, again, on a reported basis is marginally down at 2.3%.

As I had indicated before, if you had to adjust for the impact of SFRS 16 standard, SGD19.5 million is the impact that we had taken in the 9 months. Adjusting for that, we would have been actually at SGD288 million, a net increase of 5% year-on-year.

Net gearing is steady at 1.37x. Again, at the cost of repeating the impact of SFRS 16, we would have been, on a like-to-like basis, actually, improved to 1.28x as compared to 1.38x this time last year. However, as you all know, we have very liquid readily marketable inventories and secured receivables. And adjusting for that, the actual gearing that we believe is attributable to our business is a very healthy 0.33x.

This in spite of having an impact of the lease liabilities of SGD556 million in our balance sheet, and also supported by lower commodity prices in some of our key businesses.

Free cash flow on FCFF basis, we already have crossed SGD1 billion yet again. And more importantly, from a free cash flow to equity, another key metric that we track and report, we have generated a positive amount of SGD767 million, up from SGD602 million this time last year. And again, as I would call out, in spite of increased CapEx of SGD356 million more than what we had invested in 2018 for the first 9 months. We have sufficient liquidity to cover all our obligations, including CapEx and repayment obligations, for healthy SGD18 billion against a gross debt of SGD11.8 billion that we have, consisting of almost equal long-term and short-term debt, a very healthy headroom of SGD7.1 billion will take care of any eventualities, including increase in commodity prices or any repayment obligation that we will have and/or any CapEx obligations that we have budgeted for.

Moving on to segmental review. The first is, on the Edible Nuts and Spices segment. The EBITDA had grown 12.4% year-on-year to SGD311 million. In the Edible Nuts segment, all Edible Nuts business, all SBUs, whether it is cashew, whether it is almond, sesames, superfoods, walnuts, pistachios, all have performed at plan or above plan. There have been 2 businesses which have been hit by cyclical trends. One, we had called out earlier in the year in the first 2 quarters as well, that is the peanut shelling business in the U.S., which had been hit by excess supply in the market, depending on -- which is carried forward from the late last year and that we have -- had a negative impact during the year, and that we believe is cyclical, and then the impact of it would largely have to blow away in the coming year.

But however, our ingredient business, the Universal Blanchers business, continues to perform positively, and that is performing at plan.

The second business which has been recently hit is the hazelnut business in Turkey. We had looked at the crop size, and we had correctly predicted that it'll be a bumper crop in Turkey this year. In 2018, to give you a perspective, the crop size was 580,000 tonnes, and the industry believed that there will be an excess crop in 2019, and that, more or less, proving out to be true. As we end the crop this year, we believe it will be a 800,000 tonnes crop.

And so everybody in the industry, especially the processors, believe that the prices have to be low because of excess supply in the market. However, due to political intervention through the Grains Board, what they call as TMO, the government had intervened and indicated a minimum support price and started buying from the farmers directly, and that had an adverse impact and that has led to tight trading conditions and squeezing of margins.

And that we believe that, again, it is something which will not sustain forever, but this will have an impact for us in Q4, and probably, in the first half of next year.

Spices business overall have performed very well. We have been indicating to you that the tomato processing business has had headwinds in the last 2 years, and we have been looking at restructuring that business in many ways. And we had just completed the season for the tomato business in the end of October. Post that, we have taken a decision that we will shut down or cease to operate both our plants in California, both the industrial tomato and the canning operations, and the inventory that is now produced, post the completion of the season, will have to be liquidated between now and first half of 2020.

On the invested capital side, the working capital has been reduced, albeit because of lower peanut prices and fixed capital increases, primarily, as I had reported in the earlier quarters, is primarily due to the SFRS 16 impact.

Moving on to the second segment, the Confectionery and Beverage Ingredients segment. This has got 2 businesses: Cocoa and Coffee. Cocoa continues to deliver stellar results and has been performing, both in supply chain as well as in processing business, and especially with improved margins.

On the other hand, in Coffee, which has been plagued by persistent low prices, we have had issues in terms of the plantations, which are exposed to price and that have had a negative impact.

However, green coffee, even though it is still working with compressed margins, have been performing better on a year-on-year basis for the first 9 months of this year. Soluble coffee business, both in Vietnam as well as in Spain, continues to deliver strong results and is poised to finish strongly in 2019. There has been a marginal increase in the working capital, primarily due to higher cocoa inventory, and we believe it is just timing. And the fixed capital increase in -- is essentially because of the acquisition of the BT Cocoa in Indonesia that we announced in the first quarter of this year, and also, partially, due to the impact of the SFRS 16 lease liabilities coming on to balance sheet.

The third segment in our portfolio, which is Food Staples and Packaged Foods segment. Again, strong delivery on EBITDA growth of 9.3%, primarily contributed from improved performance from Grains, Animal Feed and proteins business, packaged foods, especially, in Ghana. Edible Oils supply chain and trading business has been partly offset by difficult trading conditions in rice and also partly due to the closing down of our sugar trading desk that we announced in the first quarter of this year.

The Edible Oils refining business in Mozambique had been impacted, as I had earlier reported in Q2, due to the tropical cyclone that had hit in the central Mozambique. And our upstream plantation business in Gabon was negatively impacted by continued persistent low price of Palm in the first 9 months. But as we speak, the price of palm oil has increased by more than USD100 recently and we believe that will have an upward trend going forward and that should augur well for us in our upstream business in Gabon.

We have 2 upstream dairy operations. One in Russia. The Russian business, dairy farming business, continues to perform very strongly. And however, our dairy farming business in Uruguay is still faced with higher feed cost, continuing impact from the drought that had impacted Uruguay in the late last year.

On the IC front, working capital has been substantially lower because of first closure of the sugar trading desk as well as availability of the supply of credit structures that we have, especially for our bulk trading volumes in Grains, Rice, Edible Oil, et cetera.

Fixed capital increased on account of 2 things: our continuing investment in our palm plantation in Gabon; and more importantly, our expansion in our Russian Navy Farm. We have now completed our Phase 1 of our third modern dairy farm in Russia, slightly ahead of schedule, and that is also partially impacted by the SFRS 16 lease liabilities coming on the balance sheet.

The fourth segment, the Industrial Raw Materials, Infrastructure and Logistics segment, primarily has Cotton as the single largest business in this segment that has been impacted by sharp fall in prices. It was -- what was in mid-70s -- USD0.70 per pound around middle of August had dropped down considerably even sub-60 levels, but now come back and trading between USD0.60 and USD0.65 per pound, had created tight and trading conditions as well as compressed margins. However, the throughput in terms of our ability to sell into alternate markets has been good, and that has resulted in higher volumes for us in this segment.

But the good news is, however, this was partly offset but continuing strong performance in our Republic of Congo wood processing business, and also, higher contribution from the GSEZ, or Gabon SEZ operations.

As you may recall, the 2 ports businesses, which came into commercial operations in the middle of last year, has been performing -- has been contributing for the full year this time this year, and that has resulted in a higher contribution from the ports business in Gabon.

The working capital, however, has been kept under tight leash, but partially supported by lower prices in cotton. And also closure of our trading desk, whether it is in rubber or in fertilizer or in wood products, especially in LatAm.

Fixed capital increased due to our continued investment in maintaining our rubber plantations in Gabon as well as the impact of the SFRS 16.

Now I'll move on to give you an update on the strategic plan process. As we all know, we announced -- we unveiled our 6-year strategic plan in January of this year for the period 2019 to 2024. We have completed 9 months. As we speak today, we are almost 11 months into the first year of the 6-year plan. Happy to announce that we have completed most of the planned acquisitions that we have had, which will have a clear impact in some of our leading businesses.

For example, we completed the acquisition of the Hughson Nut, Inc. in California, which is an almond processor, that will give us a clear access to the domestic market in U.S., which we were not able to access before, and that was part of our strategic plan, and we hope to close the acquisition with the closing condition by end of this month.

We also completed the large acquisition of the Dangote Flour Mills for USD331 million, lower than our initial indication than we gave an offer price of USD361 million, where we have been working closely. The team on the ground had done an excellent job in looking at optimizing working capital as we took over. And we believe that post integration of this business, with our existing business in Nigeria, we would probably be established as the #1 wheat miller and pasta manufacturer in Nigeria in 2020.

We also completed, in the earlier 2 quarters, acquisition of our 100% in our Russia dairy farming, where we are -- and also completed the 85% acquisition of the BT Cocoa in Indonesia in the first quarter, and did the acquisition of Cotontchad, the parastatal that is there in the country, Central African country called Chad, which is an integrated ginning business.

Also, we have been -- remained very focused on divestments. As you all know, we talked about releasing USD1.6 billion of cash over the planned period in terms of divesting assets and from 4 de-prioritized businesses as well as specific assets on continuing businesses, which may not meet our revised return metrics that we have set for ourselves in the new strategic plan.

And some of which I had already announced to you in the first 2 quarters, and those are on the first 3 lines of this slide, in terms of divesting our peanut shelling business in Argentina and also exiting our peanut farming in the first quarter. We sold our remaining 51% interest in the Collymongle ginning in Australia. We exited several trading desks, be it in Sugar, Rubber, Fertilizer and the Wood Products trading in LatAm as well as the Fundamental Fund in the commercial -- in the Commodity Financial Services segment.

And all of these divestments, on a cumulative basis for the first 9 months, have released an invested capital of roughly USD153.6 million. However, we have been continually reviewing various options for divesting and/or restructuring our various assets and businesses. And as I had indicated earlier, we have been looking at -- we already announced the closure of our tomato processing business in California. We're also looking at how do we restructure our dairy farming business in Uruguay and some -- and the Edible Oils business in Mozambique. Some of these businesses, which are now looking at being challenged in terms of business prospects, we are evaluating various options and also looking at other options, divest some of these assets to optimize our balance sheet. So that we are able to deliver on our commitments of higher return metrics that we've committed to all our stakeholders.

And as and when these -- some of these may materialize during this financial year, and as and when these happen, we will make appropriate disclosures in this regard.

So in summary, there has been continued top line growth, a 25% volume growth, up from 23 million tonnes to 29 million tonnes; very steady EBITDA growth in the first 9 months, a 17% growth year-on-year to SG$1.1 billion compared to SG$905 million this time last year; continuing to deliver, more importantly, positive and improved free cash flow to equity of SGD767 million, even up from the same last year of SGD602 million. We have continued to maintain a strong balance sheet, managed to maintain gearing at 1.37x, even adjusting for the impact of SFRS 16.

We are well positioned to undertake significant CapEx. As you all know, in Q4, we have already invested USD54 million in acquisition of Hughson Nut, Inc. in California, and around USD331 million invested in acquisition of Dangote Flour Mills. And we are also well positioned to take care of our higher working capital requirement in the fourth quarter, which is typically our peak procurement season.

We remain focused in executing our strategic plan, and we have got off to a great start, both on the investment side as well as on the divestment side, and also have been working on the key consumer trends by looking at new engines for growth for the company, whether it is more focused on B2C, whether it is using other options in e-commerce, contract manufacturing, private label in some of our global businesses. And also looking at evaluating various options, as we had talked about in Q2, in unlocking more value for our shareholders, where we have been working with independent financial advisers, and we will be in a position to indicate to you what is the outcome of this as and when this exercise is completed.

Thank you.

QUESTIONS AND ANSWERS

Hung Hoeng Chow

Thank you for your attention. Thank you, Muthu.

We've come to Q&A. If anyone would like to ask the first question, can you please pick up the mic from one of our colleagues standing on the side, and tell us your name and the firm you represent.

Yes, Alfred?

Alfred Cang ***Bloomberg - Media***

Alfred from Bloomberg News. Good evening. So what's your outlook for cocoa prices going forward?

So what's your view on the supply surplus -- situation? And will there be another surplus for next year -- for next harvest year? And how will that affect your margins?

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

So firstly, we have our Global Head for the Cocoa business, our Indian CEO of the business, Mr. Gerry Manley, in the house today. So I'd encourage those of you who want to know more about the Cocoa business and trends to have a chat with him soon after this meeting is over.

But basically, we still maintain our outlook that cocoa prices will trade in the 2,100 to 2,700 range with potentially biased towards the upside of -- upper limit of this range. We see fairly strong momentum with the funds going along about 100,000 lots, despite a very strong record production in 2019 -- 2018/'19 crop of 4.9 million tonnes globally with a very, very strong production in Cote d'Ivoire. The market was still roughly in balance for that crop year.

We, based on our current estimates, expect a deficit of about 80,000 tonnes for the '19/'20 crop. But in that -- the projections we are assuming grinds will grow at about 3%. So assuming grinds will grow at 3%, we could expect that kind of potential deficit.

The other important highlight for the market is that we have a fairly deep backwardation in both the London and New York markets. With the New York market -- with the London market having traded at a premium of about GBP 281 December '19, December '20, which is quite high.

The other key highlight is that because of the introduction of the living income differential by both the Cote d'Ivoire government and the Ghanaian government, which is quite substantial at USD400 per tonne. Differentials have remained very strong across our growths in all countries.

And with many customers now entering into contracts, factoring in this living income differential, including us, where we have made some forward purchases 2021 crop, but those living differentials in mind, we expect differentials to remain strong going forward into the coming 2021 season as well in addition to what's happening in '19/'20.

In terms of butter ratios, prices for solids, it is slowly adjusting to the fact that this living income differentiator is now a reality. But many buyers are on the sidelines, waiting to see how all this will shake out. We've seen a gradual increase in powder prices. As a result, we've seen more conversion of cake into powder and cake stocks have declined somewhat.

I would say that is a rough summary, but we have the world's leading expert in the house today, so take the opportunity to ask him a few more questions.

Hung Hoeng Chow

Do you have questions on the results and the strategic plan progress?

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

We knew it was a quiet quarter, but we didn't expect such a quiet audience.

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

I think the lesson is that we should have all our quarterly presentations in the evening.

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

In the evening.

Hung Hoeng Chow

Yes, Takashi.

Takashi Nakano ***Nikkei - Media***

Takashi from Nikkei. So as a whole, Edible Nuts is one of your core business. So you acquired U.S. almond processor company called Hughson Nut. But you did -- divested peanut shelling business in Argentina. So what's the difference between U.S. processing and South America processing?

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

I think when we announced the exit from Argentina, we wanted to focus the peanut business -- the peanut part of our Edible Nuts business on U.S., which we felt was a large market and where we had a really solid position on the ingredient side, and we have done 3 acquisitions there to consolidate.

And so today, we have a very good position in peanut. So within the Edible Nuts business and the peanut business, our focus is in the U.S. market, both in shelling and ingredients.

As far as the latest acquisition in Hughson is concerned, it has -- it's basically an almond sheller handler. And that gives us an ability to expand our grower network. We are already buying from a lot of growers and other handles. This gives us handling capacity to expand our grower network.

It also has a very -- a very new ingredient facility, and we will have then capacity to manufacture ingredients, both for almonds as well as potentially additional private-label packing for other customers.

So this gives us a very strong base in the U.S. We're already in ingredient manufacturing in other parts in, for instance, in Vietnam and Asia. So this will give us the capacity to expand in the U.S., both within almonds as well as other nut ingredients.

So within the larger Edible Nuts business, our focus is across multiple nuts, as you know. So we do almonds, cashews, peanuts, walnuts, pistachios, hazelnuts, et cetera. And the strategy is really to expand value added -- getting closer to customers, whether it's on the bakery, confectionery and multiple ingredients across all these nuts.

Anything on the net?

Hung Hoeng Chow

There's 1 question on free cash flow. With the 9 months having achieved positive free cash flow, what is the outlook for the rest of the year?

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

Like we had indicated that this year, we are likely to be negative free cash flow for the whole year because we had a CapEx plan. There is, as Muthu had outlined earlier, there are investments that we've already closed in Q4. So that will be, obviously, dilutive to cash flows.

We have been aided, however, on the commodity prices. The commodity prices have been low across various commodities, cotton, coffee, et cetera. So that has enabled us keep working capital low. We also done a lot of working capital optimization, which has also helped us.

So in the first 3 quarters, we have a positive free cash flow. We think that assuming our plans fructify and there are no commodity price shocks on the upside, we should be positive free cash flow, which should be a much better outcome than what we anticipated at the start of the year.

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

We've reduced working capital almost 15% in the first 9 months, 14.9%.

Hung Hoeng Chow

There's a question for you, Sunny. You mentioned last quarter that your top 10 planned investments will account for the bulk of the growth in CapEx. What are the businesses and adjacencies are you looking at, besides those that have been announced? Are you looking at other mega deals, like DFM? Or other modest ones, like Hughson? What is the range for each investment?

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

I can't obviously speak specifically about those assets, et cetera, but I've indicated to you what the broad direction of travel is. And we will be sticking to acquisitions which are accretive, and most importantly, in line with our strategy and mostly in line with our plan. They will vary in size, and we have told you that over the course of the next 6 years, we will be investing about USD3.5 billion in our continuing businesses to strengthen and focus those businesses and build leadership in those businesses. Partially, this will be funded by releasing about USD1.65 billion of cash. And as Muthu has showed you in his presentation, for the first 9 months, we already released USD153 million. USD1.65 billion is to be released over the course of this plan, which is over the next 6 years.

So as we have also indicated in the press release, there are a lot of transactions that we continue to work on, both in terms of divestments and acquisitions, which will have a -- based on how they materialize in Q4, be reflected in the Q4 numbers or as and when these transactions get completed, we will make those announcements and those disclosures.

But I can't be specific about targets.

Hung Hoeng Chow

Just a follow-up question on whether recent events like the trade war or Brexit has affected your strat plan progress?

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

Yes. So we are fortunate in that we have a very diversified sourcing footprint. And we are, therefore, able to flexibly reorient ourselves to trade flows which are not affected by the U.S.-China trade war. Quite clearly, there are many products that we deal in, which have been impacted by the trade war, starting from beans, to cotton, to almonds, going into the U.S. from America, but also products that we are exporting from China to the U.S., both being impacted.

But we've been able to flexibly reorient our trade flows. So as almonds from the U.S., where subject to import duties and tariffs contributing duties in the U.S., we have been able to redirect our Australian almonds into China and ship more of the U.S. almonds to India and other markets.

So that flexibility has allowed us to navigate this much better. We will, therefore, continue to stay diversified, and as a rule of thumb, we want to be in 90% of the key sourcing regions for the various products that we are dealing in. And we want to be directly in 80% to 90% of the key consumption markets.

So by being in the various significant producing and consuming countries, if there are disruptions in trade flow because of tariff, non-tariff barriers, we are in a much better position to cope and navigate through that compared to others who might not have a similar footprint.

So our strategy is not going to change as far as that is concerned.

On Brexit, we, again, have fairly significant investments across Europe, including the U.K., and all of those investments in manufacturing facilities serve the global market. So we will be able to take advantage of any intra-Euro trade. And depending on what the shape of the trade agreements between the U.K. and the European Union will be post whatever form of Brexit finally eventuates, the key thing is to get the uncertainty out of the picture. And with the December elections slated for the U.K., we hope that by the January deadline, we will have this problem resolved more clearly.

And therefore, we can then begin to plan better in terms of how we will react to that in terms of the final action plans. But we have contingency scenarios based on what the potential Brexit outcomes could be, and we feel quite comfortable in terms of how we are positioned for that.

Hung Hoeng Chow

Muthu, there's a question for you. Can you talk about the progress on the sustainability linked club loan as well as the digital loan? And what are some of the specific purpose-linked KPIs on the latest sustainability loan?

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

Okay. So the first sustainability loan that we had done, this is a USD500 million loan, was primarily linked to a series of sustainability indicators that we had agreed with the banks, and which had to be externally reviewed and certified by an agency called Sustainalytics. And that is supposed to be an annual exercise. And they will look at the variety of agreed sustainability indicators and see whether we are maintaining or improving on those sustainability indicators. And being an inaugural effort from our side, the time that has been taken to really review -- because this is more than 50-plus sustainability indicators that we had agreed to be under review by this external agency, had taken more time than we had anticipated. And obviously, it has given us a lot of learnings in terms of how do we look at setting the baseline and how do we monitor the progress in terms of what we had set out for and what we have done. The good news is that we have kind of cleared on almost all of these sustainability indicators positively. And the banks -- the group of banks that had participated in this particular club loan are now in the process of reviewing the interim report that has been submitted by this external agency, and we'll hopefully come with the -- with their feedback soon.

But moving on, what we have done this year, based on those learnings, we had, again, recently launched USD525 million sustainability KPI-linked loan, which is primarily looking at 3 main areas where we are looking at Olam impacting the sustainability in our industry and in the larger world. And that, we believe, is probably more in our control. And that would be in the position to be easily tracked, measured and monitored. And again, having said that, that will also be subject to an external review by Ernst & Young on an agreed-upon procedures basis. And that, in our opinion, collectively, between these two of USD525 million and USD500 million, that's roughly 11% of our debt portfolio this year. And we hope to do more such green financing going forward in the -- in 2020 and beyond.

Hung Hoeng Chow

There is a question, I think, suitable for Shekhar. How much impact has Olam's digital solution drive have had on the business? And how committed we will be going into the future? That's the first question. The second question is on AtSource, how is Phase 2 getting on? And what is the impact on our business?

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

So digital is not a project, so digital is a journey, and it's deeply embedded into everything that we do. And it's probably true for many sectors and many companies. And our digital journey encompasses what we do with farmers and how we reach them faster, quicker, better. It goes across the supply chain in our interaction with various service providers, warehouse keepers, logistics, banks, and then most importantly, right up to the customer and how we interface with big customers or reach out to small customer that we don't today reach. So it is not one single project with -- it is a series of products that we have developed. Products that we have tried proof of concept in 1 or 2 origins or 1 or 2 markets and then taking them and scaling them. So it is tough to put a single number of what is the impact of digital on the business because it is all-encompassing. But needless to say, we are committed to that, not just in terms of funding, but in terms of organization that we have built, both in terms of the digital organization as well as embedded members who run digital in the individual businesses and the individual countries to catalyze this process. And there's a lot of -- more than the technology, it's as much a mindset change. It's a lot of training. It's a lot of -- so their technology is one part of it, but it is larger than that. So in terms of both dollars that we are commenting, in terms of people that we are committing, in terms of impetus in each business and as an organization as a whole, it is something which is -- I think we have an ability to be path breaking in our industry in the use of digital, and we are committed to that.

On AtSource, once again, I think it is a extremely novel product, a unique product. There are multiple definitions of sustainability used by everything. And, I think, with this platform, I think we can take each customer -- firstly, it defines our sustainability journey, and as we are able to do to standardize that across all our product offerings to all our customers. And then we can specifically create products and programs for customers and provide them the transparency in a digital form and fashion. And all this we can do only because we have the back-end strength at origination. There are lots of people who can create the platform and the technology platforms. But what we are really giving life to with AtSource is the fact that we can link our back-end strengths -- the physical back-end strengths, infrastructure, farmer networks, capacity on the ground, and provide that digitally in a more transparent manner, more direct manner to our customers.

So again, in Phase 2, we have already got more than about 125 customers signed up for different programs. And we are going -- in each product, they are looking at adding on customers, and we are getting a lot of interest from most of the majors, but also -- as well as a lot of the small businesses, which find us a unique proposition that they can use to market and reach their consumers better. So we are very excited with it, and we believe that this will be -- can be uniquely transformational for, not only our business, but even for our customers.

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

And I'd encourage all of you to look at the Cocoa Compass, which is the cocoa business' sustainability, strategy and plan, which as we released recently. And again, you can use the opportunity to ask Gerry more about the Cocoa Compass. You might have to spend your night here, Gerry..

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

Gerry thought he was here for a 30th anniversary celebration.

Hung Hoeng Chow

Still on the digital, there's a question on the update on farmer service platform? Do you have any update on the platform as well as your plans for the next 1, 2 years?

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

Yes, that's a -- sorry. So on the farmer service platform, we are doing 4 projects in 4 different countries: 3 of them in Asia; 1 in Africa. So we are still in the early stages of determining how we are going to participate in terms of what the unique value offering is. We don't want to be under the me-too digital marketplace. So we want to leverage on the key capabilities that Olam has built, which is very distinctive to Olam in terms of our sustainability, capability as an example. So we have, in our digital journey that Shekhar alluded to, we have built various modules, which are distinctive and unique, including Olam Direct module, which is including digital origination, Olam Traceability module. So we are trying to use all of those data platform in terms of our Olam Farmer Information Systems. So we are taking all those pieces that are unique to Olam's digital journey and seeing how we can offer a distinctive value proposition in terms of this digital marketplace, focusing on breaking some key pain points that the growers and the farmers across different agricultural commodity supply chains are currently encountering. And then providing a hook that will try and solve for some of those pain points and issues that, that supply chain is providing. So we're quite excited about it, but it's still early days, and something that is not yet fully launched. We are in the development and testing phase.

Hung Hoeng Chow

Before I take some more questions, let me come back to the floor. Anybody else who want to ask a question? Otherwise there is a last question here. Oh, there is a question at the back. Yes, please?

Unidentified Analyst

This is [Bastivi] from DBS Bank. My question is with regard to cotton. A couple of questions. One is that what is your view on cotton prices? And do you see any impact on it in your Q4 results? And the other one is, you mentioned that you have -- although the prices are low, the volumes have increased and you have moved to other markets. So it's -- a little bit color on that if that's possible?

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

Yes. The cotton market has been quite volatile, and it's probably one of the products which has been most affected by the trade war, and it's a bit of on and off. And the markets, if you take the whole year, 9 months till date, it's moved from mid-70s down to as low as USD0.55, now trading between USD0.63 and USD0.66 or thereabouts.

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

Entirely a tweet-driven market.

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

It's a tweet-driven market. And from a structural basis, I think we are very well positioned because we have very strong origination strength, not only in the U.S., but South America, Africa as well as Asia.

And similarly, across markets, we also supply to all the major markets. So the trade flows are altering as we speak. So what was a U.S.-China is now being supplied by Brazil to China and the U.S. is going to other markets. So we have been able to work through this uncertainty. It is still causing a major overhang on the market. So certainly, the trade war gets sorted out tomorrow, and there is a lot of agricultural purchase that China certainly does from the U.S., these markets can run up. So it is very tough to predict that, that changes every day.

But we are well positioned because of our diversified origin and market capacity to move around the trade flows, although there might be some short-term uncertainty. So we don't expect a very huge impact. It might delay some shipments and delay some contracts in Q4, which might move into next year. But overall, I think we feel quite comfortable with our position to tackle any of this, which ever ways this goes.

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

So the announcement yesterday from President Trump about mini trade deal, or a smaller trade deal, do not have a direct reference to cotton, but did refer to beans, for example. So we have to wait and see what the resolving -- partially the trade deal dispute will mean in terms of China renewing to buy cotton.

Hung Hoeng Chow

There are now 2 questions to answer. Let me take the first one. Nigeria Federal Government is pursuing a strict regime of closing her borders against smuggling and inflow of foreign goods -- foreign foods. How is Olam positioning to relate and explore this development?

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

I think overall, it's positive for Olam because some of our domestic -- we have a fairly strong domestic presence and distribution -- processing and distribution across grains, pasta and a lot of our packaged food business as well as some of the larger bulk trading items like dairy.

And then there is, of course, rice, palm and internal rice branding and distribution. So all this have actually been helped by the fact that the porous border is now very -- there is a strong control over that border in terms of what was getting -- coming across the border, unofficially.

So it is quite positive. We'll have to wait and watch on how long this continues and how strong the controls are. So we are currently -- it's been quite positive for our overall business.

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

So the key question is why is the Government only extending it for 2 months? Cross-border trade or smuggling should be banned, right? So the central question is, while it is supportive in the near term, why should this not be something that isn't held permanently if you don't want any smuggling into the country? So we hope the government will see the value of having strong borders and not allowing cross-border traffic.

Hung Hoeng Chow

Last question is none other than the weather. What's the outlook on the weather? And weather El Niño happened this year on mix and its impact on the products that we're involved in, like coffee, palm, et cetera?

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

So it depends on whether they're asking for weather forecast for the next day? Or the next year? Or -- if it is the long-term weather forecast, it is like asking me the question, what can grow on Mars? So we all know that global warming is real, and I think we all know that the climate crisis is now a climate emergency. And we know that the Paris Accord and commitment of getting no more than 2 degrees global warming is a tough challenge.

But we know that even at 2 degrees global warming, there could be a cataclysmic disruptive climate change impacts. So now the world is saying that we have to go to 1.5 degrees. 0.5 degree difference really makes a world of a difference, we know that as well.

But the more frightening scenario is that we might really end up having a 3 to 4 degrees rise in global temperatures, which would mean we're entering a Hothouse Earth scenario. And if we're entering a Hothouse Earth scenario, then all bets are off in terms of what crops can be grown in which places. In many parts of the world, you can't grow anything at that kind of global temperature increase.

But that has been compounded by the fact that we're having a biodiversity collapse and both climate crisis, climate emergency and biodiversity are not something that we can smell, touch and feel easily. And therefore, it's not on the top of our consciousness, but these are the 2 or the 3 big challenges that we are facing, which will have a significant impact on food production patterns, cost of food production, prices of food over the long term, if these -- if we do not have the ability to significantly bend these curves.

And in the past, we thought we had time till 2050 to do it. Now it's very clear, we have, at the most, time till 2030 to materially been these curves. So that is why climate-related warming and biodiversity collapse, et cetera, have been identified by the Global Risks Report, which is a report that is published every 2 years. The 14th edition of this report, for the first time ever, has shown that environment-related risks, including biodiversity and climate change, ranked amongst the 3 out of the top 5 risks in terms of probability of materializing. And in terms of the impact, 4 out of the top 5 global risks, for the first time ever, are all climate-related and environmental-related risks. So this is significant.

And the final issue is really about social inequalities. So despite all the economic growth and per capita income growths in both transition economies, developed economies, both the developing economies and the developed economy have growing inequalities. So much of that growth in GDP per capita and GDP growth has gone to a very narrow tiny sliver of the population.

And inequalities have risen, both in the developed world as well as in the developing world. These problems are, in some sense, interconnected and interrelated. In Olam, we are taking this extremely seriously in terms of how we should respond to it. And how we are shaping our portfolio, how we are mitigating this risk and how we are participating to manage what we think the biggest risk that we face.

Hung Hoeng Chow

Okay. I hope you are happy with the answers. So this was the last question. And if there are no further questions from the floor and from the webcast, we will happy to close this session.

Thank you for participation and your questions. We'll see you in the next quarter.

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

Thank you. Thank you very much. Thank you.