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Q2 2019 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. I'm pleased to introduce our senior management team present at this briefing. Seated at the extreme left at the table is our Co-Founder and Group CEO, Sunny Verghese; on his right is our Executive Director and Group COO, A. Shekhar; and to my left is Group CFO, N. Muthukumar.

Before we begin, please take note of the safe harbor clause on forward-looking statements that we may be giving out during this presentation. Our Group CFO will now present our half year results and provide an update on the progress that we have made on the strategic plan. Please join me to welcome Muthu. Thank you.

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

Thank you, Hung Hoeng. Good morning, ladies and gentlemen. A warm welcome once again for the second quarter and first half 2019 financial results presentation of Olam International. I'll quickly go on to give you the highlights of the first half.

Volume up 40% to 19.1 million tonnes, primarily due to continued increase in our Grains trading volumes. EBITDA up SGD772 million, 14% on a year-on-year basis and again 14% on a [second quarter 2019 against second quarter 2018] (corrected by company after the call) and with all segments excluding IRM segment performing better on a year-on-year basis. Operational PATMI, our key metric that we track and report, at SGD248 million, marginally down from last year at this time of SGD254 million. However, adjusting for the impact of SFRS(I) 16, the new accounting standard that was introduced on 1st January 2019, there has been a negative impact at the operational PATMI level of SGD 13 million. If you adjust for that, the like-to-like number would be SGD261 million of operational PATMI for the first half, a 3.1% increase on a year-on-year basis.

Happy to report that we are continuing to deliver free cash flow to equity positive of SGD864 million in the first half as compared to negative SGD167 million that we delivered in the first half of 2018, a full $1 billion of cash flow being released on a year-on-year basis. The impact of all of this has reduced net gearing at 1.28x, down from 1.32x in March. And more importantly, if you adjust for SFRS(I) 16 impact again, it would have been, on a like-to-like basis, 1.19x.

Our revenue is up 16.2% to SGD16 billion on the first half and about SGD8.6 billion on the quarter 2 basis, again roughly 16% up on a [second quarter 2019 against second quarter 2018] (corrected by company after the call). Steady growth in EBITDA. I talked about 14% increase. There has been an impact of the SFRS(I) 16 standard as well. Even adjusting for that, that has been good operational performance, which has resulted in a net 14% increase on the EBITDA level.

We talked about the reduced net debt of SGD1.4 billion, primarily due to optimization efforts on working capital aided by lower commodity prices across our portfolio, and that has resulted in reduced net gearing to 1.28x. The Board of Directors are happy to announce an interim dividend of SGD0.035. We have maintained it as compared to last year the first half. We are continuing to strongly execute our strategic plan that we announced in January of this year, and I will give you more update as we go on.

I talked about the volume growth of 40%. More importantly, in quarter 2, the volume grew 60% on a [second quarter 2019 against

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second quarter 2018] (corrected by company after the call)). Primarily, as you can see, it's on the Food Staples segment. And predominantly, it is due to the Grains trading volumes that has been an opportunistic advantage that we have taken on the backdrop of the U.S.-China trade war.

In terms of EBITDA, all segments excluding IRM, has performed creditably. And I will talk about it more in the segmental section shortly.

PATMI, reported PATMI, down 8.5%. But as I had called out earlier, if you look at excluding exceptional losses that we had incurred on account of divestments and exit that we had executed in the first half and also adjusting for the impact of SFRS(I) 16 accounting standard, our operational PATMI is actually up at SGD261 million, a 2.8% increase on a year-on-year basis. You can see that there has been a healthy growth of EBITDA, and the impact of the SFRS(I) 16 has also been on depreciation impact of SGD47 million on a first half basis and more importantly, on the finance cost of SGD15 million.

The exceptional items primarily is on account of the 6 assets that we had divested during the first half, and again, I will talk about it during the strategic plan update.

Overall, on a year-on-year basis, there has been a 9.2% reduction in our invested capital. More importantly, there has been a reduction of 27% on the working capital despite year-on-year volume increase of 40% and revenue increase of 16.2%. Fixed capital has increased due to the planned capital investments that we have started to make as part of the strategic plan program and also because of SGD605 million of increase in the fixed capital due to the introduction of the SFRS(I) 16 standard, which has come on balance sheet as a right-of-use asset.

Net gearing has again further reduced to 1.28x, as I had indicated earlier. Adjusting for the SFRS(I) 16 standard impact, it would have been, on a like-to-like basis, 1.19x. More importantly, adjusting for readily marketable inventories and secured receivables, our actual net gearing -- adjusted net gearing would be just 0.26x.

We had a very healthy, positive free cash flow to equity of SGD864 million, primarily due to optimization efforts that we have been doing in the last 2 years in working capital, of course, supported by lower commodity prices and also due to seasonality of crops impact. And we expect working capital to -- utilization to enhance because of seasonality of crops as well as impact of fixed capital investment that we will be doing in the second half of this year.

We have sufficient liquidity to take care of all repayment and CapEx obligations. As you can see, we have an unutilized bank line of roughly SGD8.8 billion, a 71% buffer in terms of our overall gross debt of SGD12.27 billion, resulting in a healthy headroom of SGD7 billion overall available liquidity in terms of cash, readily marketable inventories, secured receivables and unutilized bank lines.

Moving on to segmental review. First, Edible Nuts and Spices. The EBITDA grew 8% to SGD256 million, up from SGD237 million. All products in Edible Nuts, the platforms in Edible Nuts, cashew, almonds, hazelnuts, sesame, super foods, all have performed better than last year. And Spices as a platform also has performed better on a year-on-year basis.

As I had called out in the Q1 results announcement, we had exited the peanut farming and processing business in Argentina. And also, the peanut business in the U.S., the shelling business, has been negatively impacted due to the overhang of the oversupply in the market, which started in the second half of last year and continued in the first half. We are monitoring the situation closely, and we believe that the forthcoming crop in the second half would be in the -- should set up in a position for us to start the 2020 strongly for the U.S. peanut business.

Working capital has reduced, primarily due to lower inventory particularly in spices and almonds. Fixed capital, as I had called out earlier, is predominately increased due to the introduction of the SFRS(I)16 accounting standard.

Confectionery and Beverage segment has 2 platforms, the Cocoa and Coffee. Cocoa had a stellar year in 2018. And continuing from a strong performance of last year, the supply chain, the trading and processing operations all have continued to perform creditably and well positioned to perform strongly in the second half as well.

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Recently, in July, the Ivory Coast and Ghana governments had announced a $400 premium for the farmers, what they call as the living income differential for the farmers. And that has actually resulted in some shake-up in the industry. And everybody is closely monitoring that, and we are also watching what would be the potential impact of this living income differential that has been announced jointly by these 2 governments. As you may all are aware, more than 60% of the world's cocoa production come from these 2 countries. However, we are well positioned in terms of covering our cocoa beans requirement for the processing operations for the rest of the year.

Coffee continues to get impacted by lower prices. And since early last year, it has been on a deep downcycle. However, on a year-on-year basis, the green coffee and plantation business, though negatively impacted, had performed better than last year. Our soluble coffee business, both the plants in Vietnam and Spain, continues to perform very well and have sold-out capacity.

We have optimized our working capital in Cocoa and Coffee in the last 2 years, and we continue to do the same. And also, as I had called out earlier, due to lower commodity prices especially in Coffee, the working capital in terms of value was lower on a year-on-year basis. And fixed capital is primarily higher due to the acquisition of the BT Cocoa processing factory that we had bought in the first quarter of -- in Indonesia that we had acquired in the first quarter of 2019 and also partially the impact of the SFRS(I)16 accounting standard.

The Food Staples and Packaged Foods segment, again all round good performance excluding Rice and Sugar. The Grains trading business has performed very creditably. The cash trading business, the proprietary trading business, the freight trading business all have executed very well in the context of the U.S.-China trade war. And the Dairy supply chain business, the Edible Oils supply chain business also have performed very creditably. And Packaged Foods business has performed, particularly in Ghana where we have both the culinary brands as well as the biscuits, are now the market leaders. And for the first time in the history of Ghana, our brand, Tasty Tom, has become the #1 brand of tomato paste. And that is something which is very heartening to us.

Rice had looked at reducing the merchandising volumes. Even in last year, we had called out that we are looking at slowing down on the -- doing the merchandising volume into the hinterland of Western Africa and that we continue to focus on. And as I had talked about in the first quarter results announcement, we had closed down the Sugar trading desk, and that has impacted the performance on a year-on-year basis.

Despite a significant increase in the trading volumes of Grains, we have had lower working capital utilization, partially aided by the closure of the Sugar trading desk and more importantly, availability of the supplier credit for the bulk trading volumes. Fixed capital has increased due to our continued investments in our palm plantation in Gabon.

Moving on to Industrial Raw Materials, Infrastructure and Logistics segment. This is the only segment where we have had a lower performance on a year-on-year basis at SGD85 million compared to a SGD94 million this time -- the first half of last year, primarily due to some lower contribution from Cotton as well as impacted by the closure of Rubber and Fertilizer trading desks, which is part of the strategic plan in -- exiting deprioritized platforms.

Cotton has been impacted by the lower crop, especially the significant short crop in Australia. And more importantly, in the last 6 weeks, the prices of cotton has dropped significantly from a high of $0.75 to trading at an about $0.60. And that obviously has impact on liquidity and margins. And we are closely monitoring the situation, and we are doing whatever we can to ensure that we are able to navigate this sudden price fall well.

Wood Products, especially the Republic of Congo forestry concessions asset, has performed very well. It has performed very well in the last year as well and continue to perform very creditably in the first half of this year. Rubber and the Gabon SEZ, which has both concession as well as the industrial zone, continue to deliver steady results on a year-on-year basis.

Here again, working capital has reduced significantly, primarily due to lower inventory levels in some of these commodities as well as access to supplier credit in Cotton. Fixed capital has increased due to completion of our acquisition of 60% in -- or the parastatal, the cotton parastatal in Chad and also due to the impact of the adoption of SFRS(I)16.

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I would like to give you a strategic plan progress update. We had completed 2 acquisitions. I talked about the Cotontchad, 60% investment in the parastatal Cotontchad. Then we had also completed the acquisition of the BT Cocoa, the 85% shareholding in the Indonesian cocoa processing facility for $90 million. We had now given a final offer for acquisition of the Dangote Flour Mills in Nigeria for NGN 120 billion, roughly $331 million. And we expect the closure of this acquisition somewhere in the end of Q3, beginning of Q4. We had also acquired minority stake, 6%, from a minority investor in Rusmolco. Thereby, our upstream dairy business, where we are already investing, which is very a promising strong business for us, we now have full control of 100% ownership in the upstream dairy business in Russia.

We have focused on a disciplined and orderly exit and divestment of deprioritized businesses as well as identified assets. We have done -- in terms of exiting the peanut farming as well as the processing facility in Argentina, we sold our 51% ownership in a joint venture in a cotton gin, Collymongle ginning in Australia. We exited most of the trading desks of the deprioritized platforms, namely in Sugar, Rubber and Fertilizer. We also closed down our fundamental fund in the CFS segment, and the Wood Products trading desk of LatAm. All the above divestments have resulted in an invested capital release of $123 million in the first half of this year.

I should also call out that the Commodity Financial Services segment, which had a difficult year last year, has performed very creditably with both the Quantitative Fund as well as the Risk Management Solutions embedded function have performed creditably, and that has resulted in a SGD15 million positive EBITDA in the first half of this year, and again, well positioned to deliver better results in the second half of this year.

So in summary, continued top line growth both in terms of volume at 19.1 million tonnes, a 40% growth year-on-year; at SGD 16 billion, 16.2% growth on revenues; steady EBITDA growth at SGD772 million, a 14.1% growth, up from SGD676 million the first half of 2018; very strong positive cash flow generation of SGD864 million, a $1 billion cash release on a year-on-year basis, has resulted obviously in a very strong balance sheet for us, stronger balance sheet with a reduced net gearing at 1.28x. As I had called out earlier, adjusting for the SFRS(I)16 impact, it would have been at 1.19x on a year-on-year basis.

You should expect the CapEx investments in the second half of this year in line with our strategic plan announcement, including the already announced proposed acquisition of the Dangote Flour Mills. And also due to seasonality of crops, typically our procurement season is, in the peak, in the Q4 of every year. And we are expecting higher working capital utilization in the second half of this financial year.

We are focused on executing our strategic plan and especially in looking at capitalizing on the key consumer growth trends, whether it by -- through AtSource initiatives, through contract manufacturing initiatives, private label initiatives, e-commerce initiatives as well as running significant trials for our engine 2 initiatives, whether in the B2C initiative as well as in looking at farmer services platform. And we will be in a position to report more progress as we go along in the rest of the year.

We had announced -- the Board of Directors had announced a project to look at and explore ways to maximize long-term value for our shareholders. And we are appointing 2 independent financial advisers with Credit Suisse and Rothschild Singapore, and they are now working closely with our Board. And we are on track for completing this project by end of this year. And we hope to give you all an update during the first quarter of 2020. Thank you.

QUESTIONS AND ANSWERS

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

Thank you, Muthu. We'll move on to questions and answers. We request that you come forward -- sorry, you don't have to come forward. A microphone will be brought to you, and you tell us your name and the firm you represent. Thank you. Yes, please.

Amos Ang *DBS - Analyst*

Amos from DBS. Just 2 questions for me. Quarter 2 is thought to be seasonally weaker, but the Grains business really propped up your revenues this time around. How exactly did the opportunity from the trade war materialize? And is it sustainable? That's my first question. And separately, while working capital usage declined, and that helped to improve the operating cash flow, there was a

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Business Times article released today which suggested that working capital might increase in the near future. And is this in line with our potential view that commodity prices might increase?

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

Yes. As far as the Grains trading question is concerned, there is clearly an opportunity in the marketplace because of the trade war in the world will be created by that, and we maximized on that. But if you -- as part of our strategic plan, we had a clear target to create a Grains trading portfolio between corn, wheat and soybeans at about 23 million to 25 million tonnes. So we were a relatively small player 3 to 5 years ago. But in the last 2, 3 years ago, we have been deliberately looking at key markets in Middle East, Asia, et cetera, wherein we have created a good niche for ourselves. And at this point in time, we expect that the trading volume of 23 million to 25 million is something which is sustainable as part of the portfolio. We don't like to increase it too much beyond that. But around that level is something which is a sustainable volume. But there has been, in the first 6 months, a clear opportunity that we have participated in across the grains complex.

With regard to the working capital, I don't know which specific article you're referring to. As far as our own the working capital is concerned, as Muthu had pointed out during this period, it has been aided by a lot of working capital optimization that we have done across our portfolio as well as by lower prices especially in coffee. Cotton is trading at its lowest. The grains complex also and the oilseed complex are also trading at lows, although it has gone up a little bit. So in a normal sequence, we would expect in Q3 and Q4, when our major procurement kicks in, we will have an increase in working capital, notwithstanding -- even if there were no changes in prices. But since we are operating in a low price environment, we should always be ready for some movement in prices, which can cause some increase in working capital.

Ranjeetha Pakiam ***Bloomberg - Journalist***

It's Ranjeetha here from Bloomberg News. Just to tread forward a little bit more on the trade war and everything. This abrupt escalation in the U.S. China tensions, how do you see this affecting global agricultural trade flows, and in particular, Olam's business?

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

So in terms of our businesses, there is a mixed impact, I guess. For the overall agricultural complex, it has created volatility, which has been there for almost less 15 or 16 months now. And small announcements and big announcements keep creating that volatility and taking the markets up and down.

For our own business, if you look at the Cotton business where China is a very large market for us, the consumption -- there has been a consumption hit in cotton. There are large crops in the U.S. and Brazil. So on an overall basis, that's impacted cotton prices and to an extent, some parts of the -- our own sales into China. But we are making that up with our market access across the rest of Asia, and hence, are staying liquid with our volumes. We have increased our volumes even this year. So while there is an impact in terms of our business in China, but overall, we are making that up with other markets.

We already talked about the fact that there were opportunities for us to trade Brazil, South American grains into China, which we participated in and expanded that volume. So that's been an opportunity that we have participated in. In the almond business for instance, where there has been a restriction of U.S. almonds into China, we have been able to participate very well. And there's been an opportunity for us to sell our Australian almonds, which we have been able to trade there at a premium.

So there are some negative impacts and positive impacts. And I think from a business viewpoint, we stay focused on ensuring that we have multiple markets so that we can find access to even if there are some tariff impact going into China. So overall, I think while there is volatility to be contended with in all our markets, specifically grains, cotton, et cetera, but I think we are well positioned for any of the short-term impacts to manage the short-term impact.

Bhim Ahluwalia ***ICICI - Banker***

I'm Bhim from ICICI Bank. I had just one question. What would be the key reason for increase in net finance cost, especially in the Q2, by about SGD 50 million?

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

During the presentation, I talked about the impact on increase in finance costs are threefold. The first is because of the introduction of the SFRS(I)16, the leases -- our operating leases had come on balance sheet. And because of these right-of-use assets, now we have to have differential accounting treatment, which is then split into depreciation and interest costs. So the first is a SGD15 million impact in Q2 on account of this introduction of the standard. The second is between last year and this year, on a net interest rate basis, there has been 125 basis point increase across our portfolio. And that has resulted in increase in finance costs overall net debt of SGD8.5 million. The third is also increase in trading volumes. So we have had a 60% increase in trading volumes on a year-on-year basis, and obviously, that has also impacted in terms of utilization of working capital and subsequent -- consequent impact of interest costs on that. These have been offset partially due to a reduction in working capital, absolutely, as well as higher finance income that we have had during the first half of this year.

Bhim Ahluwalia ***ICICI - Banker***

The 125 bps increase in interest cost is due to increase in LIBOR, the interest rates or...

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

That is correct. So we have roughly SGD7 billion of floating rate debt across our portfolio. And that obviously has an impact as and when LIBOR goes up.

Takashi Nakano ***Nikkei - Journalist***

Takashi from Nikkei. I have follow-up questions to the previous questions. So for example, in terms of almond trade from Australia to China, how much have you been able to increase in terms of volume? And how about cotton trade from U.S. to China, how much have been impacted by the trade war?

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

In terms of the trade from Australia, we are, as you know, growers in Australia, so we have a total volume of roughly 40,000 tonnes, which used to be traded in China and to other markets, predominantly in India and a bit to rest of Asia and Europe. This year, a predominant part of our Australian volume has gone to China. We have almost done very insignificant volumes into India, which we have been focusing on from our Australian business -- so sorry, the U.S. business. So the U.S. business is focused on India, whereas the Australian business has focus in China. So this year, we will expect to do almost about more than half of our Australian almond business into China. So that's kind of -- so our overall volume is not grown from Australia because the orchard produces only what we can produce. But the share of China has gone up significantly.

As far as cotton is concerned, we are -- we have actually increased our volumes out of U.S. cotton, which was your specific question. But the sales have been distributed more in other markets outside of China. So again, therefore -- and from our other growth from West Africa, from Brazil, et cetera, Brazil especially has been -- and Australia because it was a shorter crop, has all gone into China. So it's been a reorientation of our overall volume, which has had some impact on U.S. liquidity overall. But in terms of our volume, we have still been able to maintain and actually grow our volumes in the cotton portfolio.

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

We have had questions on the left side of the audience. Can we have the questions from the right side?

Yes. We move on to questions from the webcast. The first question is on capital expenditure. Olam's 6-year plan envisages growth CapEx of $3.5 billion over 6 years, and Dangote acquisition at EV of $331 million is significant relative to the growth CapEx plan. Can you elaborate on how Dangote is expected to fit into your growth plans? And what should we expect CapEx to be -- should we expect CapEx over the next 6 years to be larger than USD 3.5 billion?

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

So I think the first thing we want to clarify is the $3.5 billion of CapEx envisaged in the next 6 years, roughly $2.3 billion is growth CapEx, $1.2 billion is maintenance CapEx. And if you look at the 10 -- top 10 investments that we are planning over the next 6 years, they will account for about $1.6 billion of growth CapEx. And as Muthu and Shekhar have already explained, we have already initiated some

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significant investments already in the first half. So we completed the acquisition of Cotontchad. We acquired 85% of BT Cocoa in Indonesia. And we are in the final stages of completing the acquisition of Dangote Flour Mills.

On the second half of your question in terms of how the Dangote Flour Mills is relevant to our strategy, so clearly, one of the key thrusts and plans of the Grains platform is to focus on destination processing. Muthu and Shekhar already explained the role of the supply chain trading business in the Grains platform, which is another pillar of its strategy. But the big piece of the Grains strategy is really destination processing, which is wheat milling in West Africa in particular. So we have mills in Nigeria. We have mills in Ghana. We have mills in Senegal. We have mills in Cameroon. And in each of these places, we've also expanded capacity over time.

So in Nigeria, with the Dangote acquisition, we will continue to increase our market share and our leadership position within the wheat milling business in Nigeria. But we are also making a big pivot in that wheat milling business to go to more B2C from B2B. So rather than just supplying wheat flour, we are also doing B2C products. So pasta is a big piece of the integrated wheat milling strategy. And with the acquisition of Dangote Flour Mills, we will significantly ramp up our pasta production capacity as well.

But the whole underlying logic in terms of how we will create value through this acquisition is we have much higher utilization rates compared to the rest of the industry in Nigeria. So average industry capacity utilization is about 40% in Nigeria. We have capacity utilizations of 83%, 85%. So that gives us a lower cost curve.

Second is really in terms of our technical capacity and execution capability in the milling piece. So that will result in higher extraction efficiencies. So we have extraction efficiencies that are close to 79.5%, which is 3 to 5 percentage points higher than the average in the industry. This allows us to have a significant cost leadership.

And the final pieces are innovation. So how we customize products to the different end user segments, whether it's bakers or whether it is noodle manufacturers or biscuit manufacturers or user of flour as our customers, our ability to innovate and provide fortified products, et cetera, that meet these various customers' evolving preferences is another way and logic through which we create value.

So we are very excited with that acquisition. As you know, we started our wheat milling business in Nigeria first acquiring CFM. And then we acquired BUA. And now we are acquiring Dangote. In the interim, we have also expanded capacity organically as we improve utilization rates and got better extraction efficiencies and got more into the B2C segment. So we have done 3 acquisitions and consolidated the industry. We have not really tried to build all of this capacity greenfield so that the industry profitability and the industry margins are also maintained.

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

There is a question on slide -- sorry, can we just -- yes. Ranjeetha?

Ranjeetha Pakiam ***Bloomberg - Journalist***

Just wanted to ask specifically about cocoa. We recently had a story that the Ivory Coast and Ghana are expecting rains. So that's boosting the -- expected to boost the cocoa harvest there. What are your thoughts about cocoa demand and supply and a price outlook, if you have one?

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

So cocoa, the 2018/'19 crop which will end now in August, September is -- we are forecasting a mild surplus, 50,000 tonnes in terms of supply/demand balance and mild surplus. We have seen very strong consumption kind of growth, 3.8%, which if you look at historical average is well above trend. At this point in time, we have seen some stresses in the April, July growing period in terms of very dry conditions. However, our pod counts and estimates still show a fairly strong crop both in Cote d'Ivoire and in Ghana and in Cameroon and Nigeria. So we are expecting a balance -- S&D balance for the 2021 crop.

Prices are -- been trading at between $2,100 and $2,700. We have a fairly overbalanced industry, [expect] long position. So we think we have to, as Muthu mentioned in his introduction, establish the impact of the living income differential of $400 that the Ghana and Cote d'Ivoire government is proposing to introduce in the coming season. But we are also seeing extremely strong cash differentials, I think,

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historically high cash differentials. So we have to take both into account.

On the combined ratios, we are seeing butter ratios, which had shown some weakness in the last quarter, again firm up a bit. So block butter is now trading 2.5x ratios and liquid butter is trading at about 2.6 ratios. Powder prices are gaining momentum and growing strongly. So therefore, the combined ratios are still quite attractive.

So that's the view on cocoa. We see a mild surplus this year of 50,000 tonnes. We see a balanced S&D for the next season. And we expect the prices to trade around this region. But everything will depend on really the impact of the living income differentials and how it's going to be implemented. That's difficult to predict at this stage.

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

Can you use the microphone? Thank you.

Ranjeetha Pakiam ***Bloomberg - Journalist***

On the prices, you say you expect it to trade within that range of $2,100 to $2,700, was it?

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

For the moment that is our view, yes.

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

Let me just take one question from the online audience. This question relates to Slide 19 on the continued investments made in Olam Palm Gabon. Can you tell us what are these continued investment needs? And what's the share of investments that are already there? And also comment on the gestation profile of these palm plantations. Shekhar?

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

So continuing investments are palm plantation in -- which is OPG where we have a 60% shareholding with 40% with the Republic of Gabon. We have a total of planted areas of roughly about 63,500 hectares. And there's an ongoing investment to complete the planting and the upkeep for the first 3 years post, in which it starts maturing. So as far in terms of the maturity profile, we would expect it to hit full yield capacity in 2022 or early '23. At this point of time, against a total capacity of roughly 350,000, 360,000 tonnes that we expect at full maturity, we are less than -- we are at about 50,000 tonnes. So therefore, a long way to go to get to full maturity.

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

CPO terms.

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

In terms of -- in CPO terms.

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

There are 2 questions on the results and going forward. What do you expect the impact on the finance costs going forward in terms of the long-term and short-term financing given that there's a possibility of the yield curve inverting with the 10-year USD use touching the 2 years?

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

So while the long-term yield curve is bearish, and that is probably some are indicating there's indicators of a potential recession, surprisingly, the short-term interest rates are firm. And if you recall recently, when a 1-month LIBOR is at 2.23, it's still fairly robust. So we believe even the Fed rate cut that was announced in July of 25 basis, actually if you look at -- trickling down to corporates like us, maybe in the annualized basis, maybe 4 or 5 bps.

So we don't expect anything dramatic to happen for our short-term interest rates in terms of working capital requirements in the current year. However, we -- as you can -- the way you can look at our debt portfolio, we are quite balanced. We are at 62% long-term debt and 38% short-term debt. And we are quite balanced. We want to maintain at least 25% or 30% of our working capital requirements to be

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financed by long-term debt to ensure that we are able to take care of any price -- sudden price shocks or any margin -- money -- margin requirement. So we don't believe -- we are well positioned to care of any reduction in interest rates. But especially in the short-term interest rates, we don't see any impact for the current year at least.

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

Another question for you, Muthu, on the cash cycle. At 61 days as of 30th June, versus 76 in March, significantly lower than internal targets that you have communicated previously. Are these cash cycles for the last 2 quarters an aberration? That's the first part. And the second part is what's your current internal target for cash cycle. Is this still at 100 to 120 days?

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

I think our normal cash-to-cash cycles should be between 100 and 120 days. So that is something which we believe is appropriate for our business model, especially considering that the way we do the primary procurement and handle internal logistics and warehousing and then do exports in predominantly many of our supply chain businesses. And also, as we have gone into more midstream and downstream businesses, our holding period, especially on inventory, will be required. And the cycle time should be between 100 and 120 days.

The current cycle time of 61 days is predominantly because of 2 reasons. One is the increase in volumes have been primarily due to the Grains trading volume, which is a very short cash-to-cash cycle, roughly 15 to 30 days. And that has an impact on the overall cycle time. And second is the lower commodity prices across our portfolio. So these 2 obviously have resulted in a lower working capital utilization in terms of absolute number. And that has resulted in whatever we feel that 61 days is not something sustainable. A more 100 to 120 days is something what we believe is appropriate to our business.

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

We have questions from Bloomberg on the outlook for coffee supply and balance in 2019 to 2020. The second question is on the palm prices in the coming months, taking into account the trade war and peak production cycle in the top growers.

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

Yes. So as far as coffee is concerned, again like in cocoa, we have very, very strong cash differentials across the board. So where we have weak term, both in robusta and arabica coffee, we have very, very strong cash differentials. For example, Vietnam cash differential is actually trading at $200 above so that is historical quite unprecedented.

Second is as you saw in the last year for a fairly protracted period, we had markets in the deep backwardation. Both the robusta market and the arabica market are now in carry. And the carry in the arabica market is now almost 14% on an annualized basis. Come off a little bit from the 16% carry that we had seen just before.

In terms of crop, we had a mild frost event in Brazil in July. We think that will reduce the arabica crop by 1 to 2 million bags for the 2021 season, not the '19/'20 season. The '19/'20 season, as you know, is our off year in terms of Brazilian coffee production. And also, we have seen a decline in production in many Central American countries including the milds from -- washed milds from Colombia and Peru. But across Central America and the Andean region, we are seeing lower production.

At these very low prices, in most countries, it is below the marginal cost producers' cost of production. So in many countries, it's below the cost of production. So farmers are putting less fertilizer. In many cases, they are not even harvesting the crop because the cost of harvesting is more than the value of the harvest. So in many places, they are not even the harvesting the crop. So as we always keep saying, the cure for low prices is low prices. And we will see all the structural or medium-term farmers adjusting supply. And I think we are getting into that phase.

The other big factor about coffee prices is really the Brazilian real. And with differential reforms being passed, et cetera, the Brazilian real was beginning to strengthen. Now with the trade war and the implications of that, the real has again slightly weakened. A large part of coffee prices is driven by the Brazilian real and the exchange rate to the U.S. dollar, and that's very difficult to predict in terms of how that will go. So if it devalues, coffee prices will continue to fall. If it strengthens, coffee prices will rise on that account. But there's, of course, the S&D.

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From the demand side, the demand side is pretty robust. So we are seeing many roasters and soluble coffee manufacturers extending their coffee cover to take advantage of these very low coffee prices. So we are seeing pretty strong demand with roasters and coffee manufacturers taking advantage of these low prices.

As far as palm is concerned, as you have seen, we have seen quite a decline in prices for the last 5, 6 months, largely driven by growing crop as well as growing end use inventories. Some of it is seasonal. So we have seen an increase in production in Malaysia 1.1 million tonnes. So they've gone up from 19.3to about 20.4 million tonnes. We've seen Indonesian production grow by roughly 1.3 million tonnes. So Indonesia is now estimated to have a crop of 44.6 million tonnes. So there's about a 2.4 million tonnes increase in supply in palm -- in Malaysia and Indonesia, which are the 2 major producers around the world.

Demand, on the other hand, has slowed down, partly because of European regulations, partly because of the notion that palm oil is less healthy now with some new research reports, et cetera. So these are combined to soften a little bit on the demand side. However, the enforcement of the B20 mandate or the implementation of the B20 biofuel mandate in Indonesia is surprisingly robust. And therefore, there is clear offtake of CPO going into biofuel production. And we similarly believe that other countries which are implementing, including Brazil, which is implementing this mandate -- B20 mandate in Brazil as well, will I think divert a lot of food and feed crops into ethanol and biofuel manufacturing, which will be supportive for this.

Also, there's a link between palm oil prices and other soft oil prices. And we have just discussed what's happening in soybean and the bearish nature of the market with rising inventories and lower acreage and production and the African swine fever and therefore disruption in production of protein production in China and across the Asian -- ASEAN region. All of that will have an impact. So on balance, it is bearish. Our view is that this market will probably trade between MYR 2,100 and MYR 2,300 for the coming 6, 9 months.

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

Any questions from the floor?

If there are no questions, then we bring this session to a close. We appreciate your participation, and we'd like to see you next quarter. There's still some refreshments at the back. Please join us if you can.

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