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Full Year 2019 Olam International Ltd Earnings Call

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CORPORATE PARTICIPANTS

Aditya Renjen *Olam International Limited - SVP of IR*
Neelamani Muthukumar *Olam International Limited - MD & Group CFO*
Shekhar Anantharaman *Olam International Limited - Executive Director & Olam Food Ingredients - CEO*
Sunny George Verghese *Olam International Limited - Co-Founder, Group CEO, Executive Director & Olam Global Agri - CEO*

CONFERENCE CALL PARTICIPANTS

Anita Gabriel *The Business Times - Senior Correspondent*

PRESENTATION

Operator

Ladies and gentlemen, good morning, and welcome to the fourth quarter and full year 2019 financial results of Olam International results briefing conference call. (Operator Instructions) I must advise you that this conference is being recorded today, 28th of February. I would now like to hand the call over to your first speaker today, Mr. Aditya Renjen from Investor Relations at Olam International. Please go ahead, Mr. Renjen.

Aditya Renjen ***Olam International Limited - SVP of IR***

Thank you. Very good morning, ladies and gentlemen, and welcome to Olam's Fourth Quarter and Full Year 2019 Financial Results Call. Thank you for joining us this morning. I'm Aditya, and I'll be your moderator today.

With me on the call are members of our senior management team. We have Sunny Verghese, Co-Founder and Group CEO of the Olam Group. We have Shekhar Anantharaman, Executive Director of the Olam Group and CEO of Olam Food Ingredients; and we have N. Muthukumar, Managing Director and Group CFO.

For those of you on the webcast, you'll be able to view and download our presentations and press release. The materials are also available for download on our website at www.olamgroup.com.

Before we begin, let me tell you the brief sequence of events for the call. First, the Managing Director and group CFO, Muthu, will share the results and provide an update on the progress of our strategic plan. We will follow that with a Q&A session after the presentation.

So with that, I hand over the line to Muthu.

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

Thank you, Aditya. Good morning, ladies and gentlemen. It's a pleasure to each of you to present a very strong fourth quarter and full year results for Olam International. I'm in the Slide 7 for people who are in the audio conference. This is a highlight of the 2019 results at a glance. We had very strong volume growth at 40 million tonnes, a 21% increase year-on-year. EBITDA, one of the key metrics that we track and report, up 25.6% to SGD 1.55 billion, up from SGD 1.24 billion this time last year. PATMI grew 62.2% to SGD 564 million. Operational PATMI, which is another key metric that we track and report, up a very strong 44% to SGD 498 million. Adjusting for the impact of the adoption of SFRS 16 standard, we would have been at SGD 524 million operational PATMI. We continue to deliver strong free cash flow -- positive free cash flow to equity at SGD 135 million despite investment of a gross CapEx of more than SGD 1 billion. Our gearing is at 1.38x. Again adjusting for the impact of SFRS 16, we would have been flat at 1.32x, well below our target of 2x.

Moving to Slide 8. First year of our strategic plan, we have been having strongly executed the strong momentum both on strong top line and bottom line growth in volume, EBITDA and operational PATMI. We have improved our EBITDA/IC at 10.2%, a 200 basis increase, up from 8.1% in 2018. We are happy to announce the higher dividend. Our Board of Directors have recommended a final dividend $0.045 per share, including the interim dividend of SGD 0.035, which were announced after the first half. The total dividend for the year is at SGD 0.08 per share, up from SGD 0.075 for 2018.

We have maintained a very strong balance sheet. Our cycle time has reduced by [6 days to 70 days] (corrected by company after the call) compared to 76 days in 2018. As I had indicated earlier, our gearing has been at 1.38x, adjusting for SFRS 16 at 1.32x, well under target of

2x. And I will talk about the strong momentum that we have built in executing our strategic plan postcompletion on the first year as well as highlight on the reorganization plan that we have announced in January.

Moving on to Slide 9. This is a snapshot on the volume across all our segments. Compared to 33 million tonnes that we did of volume in 2018, we have grown to now 40 million tonnes. Majority of this increase in volumes have come from the Food Staples and Packaged Foods segment, again, driven by strong grain trading volumes.

Moving on to Slide 10. This is, again, a snapshot of the segment-wise EBITDA, up from SGD 1.24 billion in 2018, we have had all-round increases in most of our segments, particularly in Confectionery and Beverage Ingredients of SGD 118 million increase, and Food Staples and Packaged Foods of SGD 166 million. And in Commodity Financial Services, there has been a good turnaround postclosure of our Fundamental Fund and performance from Quantitative Fund to a total of SGD 1.55 billion in 2019, an increase of 26%.

Moving on to Slide 11. As I have indicated earlier, PATMI grew 62%. Here, again, adjusting for the impact of SFRS, our increase would have been [70%] (corrected by company after the call) to SGD 590 million, and operational PATMI has increased from SGD 347 million in 2018 to SGD 498 million, an increase of 44%; or again, adjusting for SFRS impact, it would have been a 51% increase to SGD 524 million. The majority of the increases coming from a strong growth in EBITDA.

Moving on to slide 12. This is slide on invested capital at the portfolio level. Overall invested capital grew 5.6% to SGD 15.6 billion in spite of net fixed capital increase of SGD 913 million mostly due to adoption of the SFRS 16, which had a net result of SGD 577 million into our invested capital. However, despite increase of 21% volumes, we have been able to manage and maintain our overall working capital and still have a small reduction of SGD 77 million.

Moving on to Slide 13. This is about our net gearing. We are at net gearing of 1.38x adjusted at 1.32x net gearing. Here, again, the impact of the application of SFRS 16 has been SGD 423 million in terms of lease liabilities. We had increased our fixed capital investment during the year, which was planned as part of our strategic plan and also executed strongly on our divestment plan.

Adjusting for marketable -- readily marketable inventories and secured receivables, our adjusted net gearing would have been at 0.29x only.

Moving on to Slide 14. We have delivered a free cash flow to equity positive of SGD 135 million in spite of significant increase in working capital requirements during the year, which was commensurate with the growth in volumes of 21%. However, there were strong operating cash flow improvement of SGD 300 million and a net reduction in -- due to CapEx and investments net of divestments of SGD 146 million. And the interest cost grew marginally due to impact and increase in interest rates, resulting in higher interest cost of SGD 91 million, overall, a SGD 135 million of positive free cash flow to equity.

Moving on to Slide 15. Here, we have a snapshot of our liquidity profile. We have a total of SGD 20 billion of liquidity, a combination of SGD 3 billion of cash, SGD 5.7 billion of readily marketable inventory, SGD 1.7 billion of secured receivables and more importantly, close to SGD 9.4 billion of unutilized bank lines, giving us a healthy headroom of SGD 7.4 billion over our gross or total borrowings of SGD 12.6 billion.

Now I move on to the segmental review. Slide 17, this talks about the first segment, which is Edible Nuts and Spices. In this segment, we had a similar delivery on EBITDA at SGD 342 million, a marginal growth of 0.7%. Edible Nuts overall did well with improved performance in cashew, while almonds, peanut shelling business in the U.S. and hazel nut businesses in Turkey performed less favorably and had a lower contribution this year. Overall, Spices had a lower EBITDA due to reduced contribution from our onion and garlic business in the U.S. More importantly, the -- our Olam Tomato Processors business, which has been underperforming for some time, we have taken a decisive action to shut down these operations in the last quarter of this year, and we will be reviewing options to divest the assets in the first half of 2020.

The invested capital reduced by 7% to SGD 3.34 billion primarily due to reduced inventory in tomatoes and other spices on working capital. Our fixed capital increased due to 2 reasons. One is an adoption of SFRS 16 standard as well as the investment of -- due to the acquisition of the Hughson Nut, Inc., the almond ingredient business in California, partly offset by the sale of permanent water rights in our Australia almond orchard and also some of the real estate assets in California of Spices business.

Moving on to Slide 18. Confectionery and Beverage Ingredients segment. This segment has 2 businesses: Cocoa and Coffee. Both have performed very well. Cocoa, continuing on a strong performance from 2018, had a stellar performance in all SBUs in supply chain, trading and processing with improved margins. In Coffee, the EBITDA improved as coffee supply chain business did better than the prior year, and soluble coffee continued its steady performance during this year as well. However, plantations, which are -- had a lower contribution on account of sustained low Arabica coffee prices, and we took a one-off impairment in 2019 to set this business right as we restructured it going forward in 2020.

There was a marginal increase in working capital due to higher cocoa and coffee prices and also inventory. Fixed capital grew on acquisition of BT Cocoa, the cocoa processing business in Indonesia and also due to the impact of SFRS 16 adoption.

Moving on to Slide 19, Food Staples and Packaged Foods segment. This had the maximum increase in our EBITDA contribution for the year. At SGD 455 million of EBITDA, a growth of 58%, up from SGD 289 million, driven by strong EBITDA growth in Grains and Animal Feed business, which also supported by improved performance from Packaged Food business, our Dairy and Edible Oil supply chain and trading businesses.

Our Edible Oil refining business in Mozambique was impacted by a tropical cyclone during the year -- middle of the year, and they had some supply and demand issues. And we had taken a one-off impairment on this asset. Our dairy farming business in Uruguay continues to experience difficult operating conditions. And here again, we have taken decisive action in restructuring the business by focusing on the central region of Uruguay and shutting down our east and west farms. And we believe that this will help us to restructure this business and rightsize the business going forward in 2020.

Working capital for the segment was lower on closure of our sugar trading desk and also continued availability of supplier credit terms for our bulk trading volumes. Fixed capital increased on acquisition of our Dangote Flour Mills in Nigeria, which has made us now the #1 miller and pasta manufacturer in Nigeria as well as continued investment in our palm plantation in Gabon and expanding our dairy upstream business in Russia by building the third large dairy farm and also partially impacted by the adoption of SFRS 16.

Moving on to Slide 20 to the Industrial Raw Materials, Infrastructure and Logistics segment. We had a marginal decline in EBITDA at SGD 174 million, more or less flat, primarily due to reduced contribution from our Cotton business due to sharp fall in cotton prices during the second half of 2019 and also adverse trading conditions. However, this was offset by improved performance in our Infrastructure and Logistics business as well as our Wood Products business, especially our Republic of Congo wood processing operations.

Invested capital grew by 18% to SGD 1.85 billion primarily due to higher closing inventory for cotton in working capital. Fixed capital increased due to investment in our JV in Chad, our Central African operation, which is Cotontchad, and our continued investments in our rubber plantation in Gabon and also partially due to the impact of adoption of SFRS 16.

Moving on to the next section. Here, as is usual practice, we've given an update on the plan -- progress of our strategic plan. After completion of the first year of our strategic plan -- I'm on Slide 22 now. We have clearly highlighted 2 pathways. First is to streamline, focus and strengthen our portfolio. I'm happy to report that we have divested, deprioritized businesses and related assets and also recycled capital of SGD 488 million of cash was released, almost -- more than 1/4 of the USD 1.6 billion of target for the full 6-year plan. We had improved margin through cost efficiency close to USD 70 million of cost reduction and productivity improvement that happened. We had a positive free cash flow to equity of SGD 135 million. The cycle time reduced to 70 days compared to 76 days in 2018, and we have been able to maintain our gearing at 1.38x despite investment of gross CapEx of SGD 1 billion, which were both organic and inorganic, primarily the Dangote Flour Mills acquisition in Nigeria, the BT Cocoa acquisition in Indonesia, the Hughson Nut, Inc. acquisition in the United States and also the 60% stake that we took in Cotontchad in the Central African country, Chad.

In terms of the pathways, the third pathway that we talked about value-added offerings, we have a strong progress in our unique offering of AtSource. We have expanded the AtSource Plus offering to 13 products in 30 origins, more than 125 customers have now been onboarded with more than 2,000 -- 200,000 farmers being onboarded into this AtSource Plus platform.

We have been able to enhance our risk management solutions offering to 46 more new clients and have been able to embed into our own businesses the superior risk management solutions, up from 10% to 16% in 2019. We have been able to also meet all certification requirements and customize great offerings and extensive organic rates to meet rising demands across our portfolio in terms of coffee, almond, hazelnuts, sesame, tahini products, dried onion and garlic, chili, turmeric, cumin, cinnamon and black pepper.

We have also been able to continue our innovation pipeline to further pivot the company to the value-added ingredients, food ingredients business by launching multiple value-added ingredients during the year and also having leverage on developing unique solutions across our 14 innovation centers. For example, the True Dark cocoa powder, the nut paste, the soluble coffee offering as well as the private label offering we are doing for Costco into their China operations. We are continuing to build out capabilities for our new strategic initiatives as part of the first year completion of the 6-year plan.

Moving on to Slide 24, pathway 3b. As I talked about earlier, we have continued to focus on private label, contract manufacturing and foodservice solutions. We have been able to onboard 5 new large private label customers. More than 8 to 10 large private label customers are in pipeline, and that has resulted in an incremental revenue of USD 75 million during the year. In the e-commerce platform, more than 460 new customers have been onboarded, resulting in enhanced revenue of USD 30 million.

There are 3 new engines for our growth for -- being explored, which is primarily our Engine 2 initiatives in terms of the B2C initiative, the Farmer Services Platform as well as Controlled Environment Agriculture.

Moving on to Slide 25. Here, I -- we have talked about the completed acquisitions during 2019. Four large significant investments have happened during the year, all materially changing the strong position of these businesses in terms of the almond ingredient business or in terms of the wheat, flour and pasta manufacturing business or in terms of the cocoa processing business or in our ability to do the integrated cotton ginning in Africa.

Moving on to Slide 26. Here, we are talking about the disciplined focus on divesting deprioritized assets. Early in the year, we disposed 100% interest in our Argentina peanut farming. We exited our sugar, rubber, fertilizer and food products desk in Latin America. We closed down our Fundamental Fund in the beginning of the year and also sold our 51% interest in our Collymongle gin in Australia. As I had highlighted earlier, there were 3 divestments we have done resulting in a significant cash release of SGD 500 million, which were in terms of the real estate assets of onion and garlic facility in Gilroy, California, a sale and TRSA of our permanent water rights in our Australia almond orchards and also divesting a 10% stake in our reorganized Infrastructure and Logistics platform in the industrial zone to Africa Finance Corporation. All this had also resulted, more importantly, not only releasing cash of close to SGD 500 million but also resulted in a one-off post-tax gain of $374 million.

We had made an announcement on 10th of February primarily after we had reviewed our portfolio and particularly looking at some of our deprioritized assets as part of the strategic plan, and we took a one-off impairment restructuring or exit cost for 4 of our assets: our upstream dairy operations in Uruguay, our Olam Tomato Processors, our tomato paste facility in the U.S.; our 4 coffee plantations across Zambia, Brazil, Tanzania, Laos; and our edible oil refinery in Mozambique. All of these have -- we have taken a P&L charge of close to SGD 300 million in the fourth quarter of 2019.

Moving on to Slide 27. This is further to our announcement in January 20 on layering on top of delivering the strategic plan, the reorganization of the Olam business to unlock long-term value for our continuing shareholders. This was unveiled by our Co-Founder and Group CEO, Sunny Verghese on 20th of January wherein we wanted to simplify and sharpen focus of our portfolio into 2 new coherent operating groups, Olam Food Ingredients consisting of our industry-leading businesses of Cocoa, Coffee, Edible Nuts, Spices and Dairy, which offer sustainable natural value-added food ingredients, which are on trend. The second operating group is Olam Global Agri. This is primarily focused on high-growth emerging markets by offering differentiated global agri businesses, again, comprising of Grains; Animal Feed, Protein business; Edible Oils, Rice, Cotton and Commodity Financial Services.

The Olam International, the holding company will continue to hold these 2 operating groups and provide stewardship for both these groups by providing parenting advantage, ensuring the continuity of the Olam Way of operating and also provide shared services to these 2 new operating groups. In addition, Olam International will work as an incubator and accelerator in terms of nurturing our gestating assets, which are 3: our palm plantation in Gabon, our Packaged Foods business in West Africa, and our Infrastructure and Logistics business in Africa, and more importantly, incubate new engines for further growth. At this point of time, I had highlighted we have identified 3 new initiatives: the B2C, the Farmer Services Platform and the Controlled Environment Agriculture. And this will allow us to focus further on exiting noncore deprioritized businesses and assets and more importantly, redeploy capital for further growth.

Moving on to the final section of this presentation, the outlook and key takeaways in the Slide 29. I'm sure most of you will be very keen and eager to know how Olam has been prepared and acting on the COVID-19 outbreak. Obviously, there have been heightened volatility in commodity prices. That is the potential for increased counterparty risk in China and also risk of disruptions in global supply chain. We are closely monitoring the situation. To maintain the safety and integrity of our people, assets and operations, we are looking at all options including adhering to the guidelines from all relevant international organizations and national authorities, and we will be able to focus and continue to implement our business continuity plans.

On 7th of February, SGX or Singapore Stock Exchange had announced that we will no longer be required to release financial statements on a quarterly basis. This is a welcomed move, and hence, we will now start reporting our financial results on a half yearly basis. However, as is usual practice, we will continue to provide relevant disclosures on the company's strategy, operating and financial conditions as and when required as appropriate.

And finally, the key takeaways of this presentation, the Slide 30. We have successfully executed key initiatives in the first year of our strategic plan but more importantly, with strong momentum being carried forward to 2020 and beyond. We're well positioned to execute on strategic plan and also capitalize on the key consumer growth trends. We remain focused on divesting and restructuring deprioritized assets and businesses, which have been identified as part of the strategic plan.

We have significantly improved financial performance in 2019. Our EBITDA/IC -- EBITDA over invested capital had increased 200 basis, up from 8.1% to 10.2%. There has been a strong top line growth of 21% and a strong bottom line growth of 62%; PATMI growth, 44%; operational PATMI growth, 26% of EBITDA growth. We are -- continue to maintain very strong balance sheet and have managed to maintain the gearing at 1.38x in spite of gross capital investment of more than SGD 1 billion. And we have maintained positive free cash to equity of SGD 135 million.

On the reorganization plan, as I had highlighted earlier, this will mean there is heightened focus on 2 coherent operating groups. The OFI, Olam Food Ingredients; and OGA, Olam Global Agri business, simplifies our portfolio, sharpens our focus and more importantly, allows our investors to participate in 2 distinct themes via potential carve-outs that will be unveiled in 2021 and our IPOs that will accelerate our profitable growth.

As I highlighted earlier, Olam International will continue to hold these 2 new operating groups and provide parenting advantage and also ensure synergy and continue to work and operate on the Olam way of operations. As the reorganization progresses, we will provide you periodic updates on the process and related developments. And more importantly, we'll report financials and key performance metrics for each of these operating groups from the first half of 2020.

With that, I complete this presentation and will hand over to the operator for taking the Q&A. Thank you.

Aditya Renjen ***Olam International Limited - SVP of IR***

Thanks, Muthu. So we'll start taking your questions now. We'll start with the questions on the call first before we move to questions coming in from the webcast. Operator, over to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Aditya Renjen ***Olam International Limited - SVP of IR***

Okay. So while we're waiting for those, we have a bunch of questions that have come in on the webcast. I think we can start with those. So there are a lot of questions relating to COVID. So I probably put them all together, some from Bloomberg, some from DBS, some from OCBC. The questions -- Sunny, I'll let you take this one. The impact of COVID on our operations on supply chains and any immediate impact on margins in the near term as a result of the COVID outbreak.

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

Thank you. The first point to make is that China is not as salient for us as a market compared to probably some of the other participants in the space. Nevertheless, COVID virus definitely impacts demand and has had a fallout in terms of lower commodity prices across some of the products in our portfolio. So palm prices have come off, and some of the grain prices have come off. Almond prices have come off, and dairy prices have come off as examples of the impact of the virus on commodity prices. And because China is a significant source of the marginal demand for many agricultural raw materials and other commodities, there will be an impact of the crisis on global prices.

But in terms of market -- the market itself, China not being as salient for us in our portfolio from a market demand standpoint, it will have some impact in some of the commodities that I've spoken about, which is that China is a market for us. So China is an important market for us in cotton. It is also a market for us in some of the grains categories. It is a market for us in almonds, and it's a market for us in dairy. Principally, these are the principal commodities where demand for us originates in China, and that demand is clearly slowing down as a result of this virus. And depending on when the issues is resolved, there will be some impact. But if you look at the overall proportion of China sales for Olam, it is a small proportion compared to the overall sales of Olam.

Aditya Renjen ***Olam International Limited - SVP of IR***

Thanks. Operator, we'll go back to you if there are any questions on the audio bridge.

Operator

Yes, we have a question from the line of Anita Gabriel from The Business Times.

Anita Gabriel ***The Business Times - Senior Correspondent***

Just a follow-up from the issue on the impact of COVID. I was thinking that since the outbreak has now expanded beyond China, then considering that China is not a salient market for you, there would still be worries in terms of the impact on your business. Would that be correct? And could you give some more details on that?

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

Yes, it could be correct that there would be impact in other markets where -- the direct impact in markets, which have already been affected by coronavirus but also the fact that because China is a marginal demand generator. Global commodity prices and global commodity markets is impacted by the weakened demand in China. So you're right that there will be some impact in the other markets as well.

Anita Gabriel ***The Business Times - Senior Correspondent***

Okay. So no other details on where exactly the pinch is going to be.

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

Yes. So we don't know exactly where the pinch is going to be and how the situation -- because Europe is a large market for us, and we have seen it evolve in Italy. And if that is not the same, then we will have demand compression if that becomes more of an epidemic across Europe. So that's an important market.

For the U.S., the virus currently is at an early stage of the outbreak the U.S. authorities are able to control the spread of the virus there. U.S. is another very important market for us. So we have to really wait and watch and see that the markets in other emerging countries we operate in are relevant and salient to us like Africa, like South Asia, India, in particular. These markets currently are -- touch wood, have at least announced it is less of an issue, that includes the Southeast Asian markets of Indonesia and other markets as well.

Korea, for example, where there is a growing problem, we really have very little exposure in Korea in terms of markets or customers. So at this point in time, it is difficult to estimate what the impact would be. There's some impact already that we are experiencing, and it'll differ from market to market and category to category.

So palm oil, for example, China is the largest demand generator for palm oil after India. 9% of the world's palm oil demand comes from China. And one segment in China, which is seriously impacted is the foodservice segment as people go less to restaurants and eat out. And then that part of the segment is about 40% of the demand for palm oil as an example. So we expect the palm oil demand in China to be much weaker at this point in time as a result of the virus.

So we have to be very nuanced about establishing what in each market, what the impact is going to be. What I'm saying is there would be impact on our business. We are already experiencing some of that impact. But China, which is the epicenter, is not as salient for us as a market and that's context in which you might (inaudible).

Anita Gabriel ***The Business Times - Senior Correspondent***

Wondering if the lower demand that we're expecting globally as well as the softening economy, is that going to hurt the timeline of your divestment program, and lower commodity prices as well? Would that -- are you expecting that to hurt the timeline of your divestment or not at all because you've got quite a big window to work on?

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

Yes. I -- so it really depends on how quickly we can recover from this virus and how quickly the virus can be brought under control. So it can only take 3 months or it can take 6 months or it can take a year. Sentiment will remain weak as long as the virus is still not fully contained or controlled.

However, on the divestments, it's a longer structural thing people look beyond these cycles. And as you rightly pointed out, we have a 6-year window to responsibly divest the deprioritized assets, while we have front loaded our target for divestment into the first 3 years, which is, by 2021, we want to get a substantial chunk of the divestments of deprioritized assets underway. We have exceeded the plan that we had for 2020, which is -- for 2019, which is the first year of the plan, and we are making strong progress that we see on some of the other assets that we have earmarked as being noncore to our strategy or deprioritized.

Aditya Renjen ***Olam International Limited - SVP of IR***

We'll probably go back to some questions on the webcast now. So Shekhar, this one's for you. This is from DBS.

Any updates on the living income differential that's been announced for cocoa? Any guidance on the impact on confectionery margins? And will Olam be able to pass on this additional cost down to consumers?

Shekhar Anantharaman ***Olam International Limited - Executive Director & Olam Food Ingredients - CEO***

Right. So before I answer that question, just an overall comment. I think we have had an exceptional year overall as a company as well as a very good quarter. Very pleased with that. And within that, as Muthu had highlighted, the Cocoa business within the Confectionery, Beverage Ingredients business has also had a very good year in 2019 and is very well positioned for 2020.

So your specific question regarding the LID is something that emerged in the middle of last year and had a lot of uncertainty with that regard during the second half of 2019 and across 2020. As you're aware that the LID comes to force in 2020 main crop, which is starting October. So what has happened is it's put a lot of pressure on differentials on the bean side, which have kind of -- which are at the highest level even prior to the 2020 LID coming into force, to transition the -- into the new LID post-2020.

So I think that has been happening over the last 6 months. The differentials remain high for the main crop of 2019, 2020. And the -- with LID crops for 2020 and beyond have started trading on that basis. What is gratifying is that because of our origination presence in all these countries, our processing spread, we are fairly well positioned both for our own processing and working very closely with our bean customers as well as our product customers to provide effective solutions to all our customers through this uncertain period. And we think we are very well positioned to do that through 2020 as well.

Aditya Renjen ***Olam International Limited - SVP of IR***

Thanks, Shekhar. Sunny, the next one's for you. This is from Bloomberg. There are -- I think there were some market chatter that we are close to selling our stake in a JV with Mitr Phol, and they want to know the latest development on this transaction.

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

So Sugar, as a business unit, is one of the deprioritized business units, and we have taken a series of measures to exit that business responsibly over time. So we closed down our sugar trading desk early in 2019, and we are looking to sell off our interest in Mitr Phol as well as you -- sorry, sell off our interest in the refinery in Indonesia as well. We sold 50% of our stake in that business to Mitr Phol, our joint venture partner, and we are in discussions and negotiations with Mitr Phol to see how we can effect our strategy of divesting our stake over a period of time in a responsible way. Those discussions are reasonably advanced. And if there is any conclusion at the appropriate time, we will make the necessary announcements. So we are making progress on executing the strategy of exiting the Sugar business including the refining asset in Indonesia and our other manufacturing asset as well.

Aditya Renjen ***Olam International Limited - SVP of IR***

Thanks, Sunny. Muthu, the next question's for you. This is from DBS. In Q4, there was a substantial increase in inventories. And could you share the reasons for the working capital deficit of SGD 791 million in Q4 '19 compared to a surplus of SGD 660 million in Q4 '18? Second part, was there any changes to the supply credit terms? And the third part is can you share your outlook on working capital for 2020.

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

Thanks, Aditya. First is Q4 is traditionally a peak working capital requirement because there is substantial procurement that we do in Western Africa and some parts of Latin America as well. And coupled with some increase in some of our commodity prices, especially in cocoa and coffee that we witnessed in Q4 of 2019, obviously, that has resulted in increase in inventory across the board in Q4, but there is nothing out of turn in terms of the seasonality of our procurement is concerned.

As far as the supplier credit terms are concerned, there has been no changes, and we continue to enjoy similar supplier credit terms for our various businesses, but the mix of the businesses, obviously changed, is that our bulk traded volumes are more than -- there is a greater impact on the supplier credit terms as we can leverage on them. If there are commodities that we buy during some quarters, which are more on a primary procurement model, and obviously, we will not be able to enjoy the supplier credit terms. So it is essentially depending on the mix of the commodities that we procure throughout the year.

As far as the outlook on working capital requirement for 2020, it is hard to predict. We believe that most of our volume growth that we have witnessed in the last 2, 3 years are kind of stabilizing. And hence, we don't see much of working capital requirement growing on account of significant volume growth in 2020. However, we cannot predict commodity prices and any increase and with the heightened volatility that we are witnessing on account of the COVID-19 outbreak. We will not be able to predict exactly the impact on working capital requirements on account of commodity prices.

Aditya Renjen ***Olam International Limited - SVP of IR***

Thanks Muthu. There's question from OCBC asking for updates on PureCircle and would we expect any further impairments on this in our long-term investment holdings.

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

So as far as PureCircle is concerned, we have classified it as an asset held for sale and we, therefore, fair value carrying value that asset periodically. As of 31st December, we have valued our stake closer to -- at the last traded price before the shares were suspended, which is at GBP 1.30, and that is the carrying value at which we now hold our residual investment in PureCircle. We are still waiting for the company's auditors to announce the audited results for the -- for June 2019, and that I'm told will be expected in short order.

And subsequent to the announcement of the audited results, I'm sure they will be seeking to lift the trading suspension, and we will know how the market is reacting post that. So we are watching events closely in this regard, and we feel that we have value continuing residual holding at the fair value and at value, which we think we can recover.

Aditya Renjen ***Olam International Limited - SVP of IR***

Thanks, Sunny. Muthu, next one for you from OCBC. How much of the unutilized debt facilities as of 31st December are committed? Part 2, are these provided to Olam International Limited, the company? And part 3 is will the holding company still hold the supposedly intended carve-out and IPO of this business?

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

Thanks, Aditya. First is out of our unutilized debt facility of roughly SGD 9.4 billion, close to 15% to 20% of these unutilized debt facilities are committed. These facilities are, obviously, given to the Olam International. There is only one legal entity presently, which is Olam International Limited. And however, most of our funding is done through our specific treasury vehicle called call Olam Treasury Private Limited, which is a wholly owned subsidiary of Olam International. And at this stage, as we begin to execute our reorganization plan, we are evaluating very many options to look at how do we restructure the debt facilities. At this stage, it's too early for us to say whether it will continue to remain at the central level or we will be pushing down the debt to the operating groups. But as and when we have clarity on this, we will keep you posted.

Aditya Renjen ***Olam International Limited - SVP of IR***

Thanks, Muthu. This is a slightly longish question. Olam has import, export and domestic operations in cotton, sesame, peanuts, tomato paste, almonds, pistachios, cashews, walnuts, coffee, cocoa, sugar, palm, rubber trees and dairy in China. Which part of China is it located in? What's the capacity? And earlier, Sunny, to your question is you had said that there will be demand reduction in dairy and almonds and grains due to the virus. Why so? Because these are not considered luxury items. So why are you anticipating a demand destruction because of the virus?

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

So firstly, we don't have any manufacturing facilities of note in China. What we refer to as the -- these products in China, there's a market for us. We have some minor processing operations in terms of cleaning and sorting and grading facilities but no major manufacturing facilities in China.

You're right in all of the commodities that you've identified where we do sell into China, and the reason -- and the question that you asked about, if these are food products, they are really recession sensitive. People got to eat whether there is health problem or otherwise. But some of the large growth in demand for these raw materials in China or these food items in China has been the foodservice segment, the out-of-home eating segment. And much of that currently, as people don't go outside as much to dine in public places, that demand is definitely significantly impacted. So that is the reason why palm oil demand in China is likely to be weaker because a lot of palm oil is used in cooking in restaurants and cafes and other foodservice outlets, which we see a decline in. And that would apply to all food items that are -- where the foodservice segment is an important channel or an important part.

Aditya Renjen ***Olam International Limited - SVP of IR***

Thanks, Sunny. Operator, are there any other questions on the call?

Operator

There are no further questions at this time. (Operator Instructions)

Aditya Renjen ***Olam International Limited - SVP of IR***

Okay. On the webcast. The next question is on the impairments that we had announced on Uruguay Dairy, Olam Tomato Processors, coffee plantations and Edible Oils. The question is that have these been divested? And if not, why the impairment was included in exit costs and done in Feb -- if the impairment was decided to be done in Feb, should these have not been booked in 2020 instead of 2019 financials?

Shekhar Anantharaman ***Olam International Limited - Executive Director & Olam Food Ingredients - CEO***

Yes. So we do an impairment review on whichever assets are in that -- where there might be doubt about the carrying value. And this is done with auditors every quarter. So this is not something that we do episodically. We do this every quarter. And as part of the Q4 review, the audit was done -- the review was done on these 4 specific assets.

In some cases, in terms of the total exit costs, et cetera, we have taken an impairment on assets that are still continuing, in the continuing business, for instance, the coffee plantations, the Mozambique oil refinery and the central area of Uruguay, we're still continuing business. So we've not disposed of these assets, but we have written down the value of the residual assets in our books as of Q4.

In the case of our tomato processing assets, we have shut down the business, again, not disposed of the assets, but we have announced the closure of both our plants and appropriately impaired, written down the assets, again, to market value. So that is the situation vis-à-vis these 4 assets, which were reviewed in the Q4. And based on different reasons in each of these relating to these particular businesses and these assets, a differential write-down was done based on residual market value.

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

And that will run at the close of the quarter. So this is for the period ending 31st December, but the review happens post the quarter close.

Aditya Renjen ***Olam International Limited - SVP of IR***

Thank you. The final question from Anuradha, Sunny, this for you. Any outlook for palm oil prices?

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

Yes. So we saw a significant value in palm oil prices in the second half of 2019, and that momentum was carried forward into the early part of the year when coronavirus hit. And as a result of that, there is the anticipation of significantly weakened demand, and prices have fallen almost 15% from then. Much of the rise in prices in the second half of 2019 was driven by lower supply as a result of the drought conditions and the dry weather, plus the fact that a prolonged period of low palm prices meant that growers and farmers were using less inputs, particularly fertilizer, which all affected demand.

Our view is that the first half of 2020, demand will still continue to be weak. Net growth in supply is estimated for next year from our internal projections with a decline of about 0.5 million tonnes of production in Malaysia to closer to 19 million tonnes and a 1.5 million tonnes increase in production in Indonesia, which will take it to about roughly 44.8. So the net growth in supply, there's only about 1 million tonnes. Growth in demand currently is predicated at 1%, but there are 2 factors. One is coronavirus and demand disruption, particularly in China, as a result of that because, again, the earlier comment that I made in terms of foodservice outlets are constituting a fairly significant share of demand for vegetable oils.

In India, because palm oil prices went up quite significantly in the second half of the year, other alternative soft oils became more viable and competitive and also because of the Indian-Malaysian spat on additional tariffs on Malaysian palm oil, that also shifted some demand from palm oil to other soft oils. And also during this period, palm oil differential to soybean and other alternatives prevented the parity from a traditional $100 kind of discount on an average that they trade, which also resulted in some shift in substitution from palm oil to these other oils. So we feel that there will be softening and weakening of palm oil prices in definitely a little bit more in the second half as seasonally more supply and production will happen. And then everything depends on really how quickly the coronavirus can be contained as it will have an important impact.

The other thing to note is that we've had significant drop in crude oil prices. So the alternative use of palm oil as a biodiesel raw material, crude oil prices dropped, and crude oil prices is impacted about $100 per tonne in terms of biodiesel viability. So that's a major impact, and some of palm oil prices are driven by the parity between food prices and biodiesel. And that is also a negative at this point in time for palm oil prices.

The positive side is that the Indonesian government is very focused on executing the B30 mandate, and that will drive some incremental demand for palm oil. And we have to just keep a watch on all of these factors that will drive palm prices forward.

Aditya Renjen ***Olam International Limited - SVP of IR***

Thank you, Sunny. So with that, we'd like to conclude Olam International's Fourth Quarter and Full Year 2019 Results Call. Thank you for joining us today. And if there are any further questions, you can contact us via IR at olamnet.com. Thank you, and have a good day.

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

Thank you all.

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

Thank you.

Operator

Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.