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## GrainCorp Ltd (GNC)

Goodnight, tonight, goodbye

**Recommendation**

**Sell** (Hold)

Price

**\$6.80**

Target (12 months)

**\$6.15** (unchanged)

**GICS Sector**

Food Beverage and Tobacco

**Expected Return**

Capital growth	<b>(9.6%)</b>
Dividend yield	<b>3.7%</b>
Total expected return	<b>(5.9%)</b>

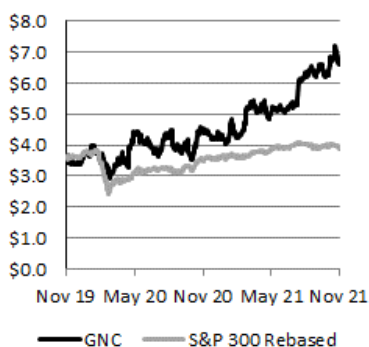
**Company Data & Ratios**

Enterprise value	<b>\$2,692m</b>
Market cap	<b>\$1,556m</b>
Issued capital	<b>228.9m</b>
Free float	<b>100%</b>
Avg. daily val. (52wk)	<b>\$7.4m</b>
12 month price range	<b>\$3.95-7.28</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	6.37	6.17	4.56
Absolute (%)	5.97	9.40	48.03
Rel market (%)	7.66	12.05	37.85

**Absolute Price**



SOURCE: IRESS

BELL POTTER SECURITIES LIMITED  
 ABN 25 006 390 772  
 AFSL 243480

**A record December crop forecast**

The Dec'21 ABARES crop report highlighted an east coast winter crop forecast of 29.1mt above last year's previous high of 28.6mt. Key observations below:

**East coast winter crop production:** The winter crop forecast upon which the WRI grains contract is based is 29.1mt vs. 26.5mt at the Sep'21 report and 28.6mt in the Dec'21 report. Under the WRI agreement, GNC commences payments at 19.3mt until ~24mt is reached, meaning the upper bound would be met (\$70m max outflow). The contestable crop (wheat, barley, canola and chickpea) which drives our GNC receipts estimate, is forecast at 27.4mt (vs. 24.2mt in Sep'21).

**ABARES contestable summer crop:** We focus on two grains, being cottonseed and sorghum. If achieved, the 2021-22 ABARES forecast of 3.5mt (3.1mt at Sep'21) would be the highest contestable summer crop since 2013. Note a total summer crop of 5.0mt (4.4mt at Sep'21) is forecast.

**ABARES accuracy:** Historically the December report has had ~97% average accuracy with a spread of 90-113%. 2010-11 was the most notable overestimate.

**YTD Crop receipts:** At its latest harvest update, GNC had received 4.55mt in storage, down -48% YOY and -14% below the 11 year average.

The crop report was stronger than the Sep'21 outcome and comparable to the Dec'20 record forecast. However, we have only incorporated additional summer crop volumes, resulting in NPAT upgrades of +3% in FY22-23e, with our \$6.15ps target price unchanged. The Dec'21 crop forecast implies record production in FY22e, however, we are cognisant a wet harvest in 2010-11 saw a subsequent ~3mt downgrade.

**Investment view: Downgrade to Sell**

FY22e is likely to benefit from two of the largest east coast crops on a record at a time when northern hemisphere crop failures have elevated canola crush and marketing returns. FY22e earnings look to reflect a seasonal high, with an expected 35-40% contraction in EBITDA and 45-50% contracting in NPAT when conditions normalise. We downgrade our rating from Hold to Sell.

**Earnings Forecast**

Year end September	2021	2022e	2023e	2024e
Sales (A\$m)	5,491.5	5,942.7	5,295.2	4,672.4
EBITDA (A\$m)	330.8	382.9	268.8	249.0
NPAT (reported) (A\$m)	139.3	171.9	95.9	85.9
NPAT (adjusted) (A\$m)	139.3	171.9	95.9	85.9
EPS (adjusted) (cps)	60.9	75.1	41.9	37.5
EPS growth (%)	n.a.	23.4	(44.2)	(10.4)
PER (x)	11.2	9.1	16.2	18.1
FCF Yield (%)	3.6	6.1	2.2	11.0
EV/EBITDA (x)	8.1	7.0	10.0	10.8
Dividend (€ps)	18.0	25.0	20.0	20.0
Yield (%)	2.6	3.7	2.9	2.9
Franking (%)	100.0	100.0	100.0	100.0
ROE (%)	11.6	13.0	7.0	6.1

SOURCE: BELL POTTER SECURITIES ESTIMATES

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 THIS REPORT MUST BE READ WITH THE DISCLAIMER ON PAGE 6 THAT FORMS PART OF IT.

# GNC drivers

Figure 1 - GNC crop drivers

	Acreage (Ha)	Winter crop						Rainfall vs. average			3mth rainfall outlook vs average			Summer crop		
		Jun	Sep	Dec	Feb	Final	Apr-May	Jun-Aug	Sep-Nov	Dec-Jan	Jun	Sep	Dec	Acreage	Final	Rainfall
2021-22	10,799	22.1	26.5	29.1			-44%	8%	5%		Wetter	Wetter	Wetter	2,783	5.0	
2020-21	10,576	21.5	24.4	28.6	29.9	29.9	-5%	-20%	-7%	25%	Wetter	Wetter	Wetter	1,957	3.3	27%
2019-20	6,842	14.4	12.8	11.5	11.5	11.4	-37%	-45%	-62%	-42%	Drier	Drier	Drier	634	0.9	5%
2018-19	8,065	16.0	10.2	7.7	7.3	8.5	-61%	-42%	-27%	-24%	Drier	Drier	Average	1,799	2.3	-30%
2017-18	10,300	19.2	18.1	15.7	16.2	16.8	-24%	-48%	-6%	-12%	Drier	Average	Wetter	2,261	4.0	-21%
2016-17	10,668	19.4	21.0	26.5	29.6	28.2	7%	67%	59%	-15%	Wetter	Wetter	Drier	1,940	3.7	-9%
2015-16	9,339	16.0	18.0	17.2	17.6	17.3	-13%	-16%	-37%	2%	Drier	Wetter	Average	2,226	3.5	-19%
2014-15	9,790	18.2	17.6	15.9	16.0	17.0	-23%	-13%	-43%	18%	Drier	Drier	Drier	2,569	4.3	-9%
2013-14	9,702	19.2	18.6	18.2	18.1	18.1	-37%	-17%	-29%	-50%	Wetter	Wetter	Average	2,036	3.8	-23%
2012-13	10,531	18.4	18.5	18.1	18.3	20.2	-36%	2%	-44%	-36%	Average	Drier	Wetter	2,961	5.5	-16%
2011-12	10,585	20.5	19.6	20.8	20.6	21.6	-31%	-19%	12%	15%	Wetter	Average	Wetter	3,136	5.5	62%
2010-11	10,831	16.7	23.2	27.5	24.8	24.2	-13%	15%	123%	109%	Drier	Average	Wetter	2,614	4.4	111%

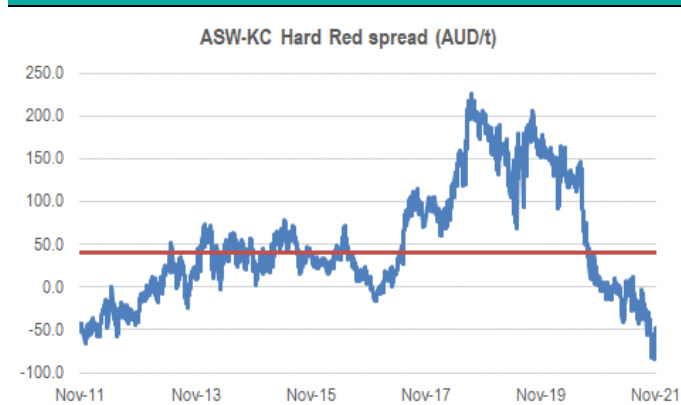
Note 2021-22 Rain until end Oct.

Plant: April-August  
Development: August-September  
Harvest: October-December

Plant: Sep-Feb  
Harvest: Feb-May

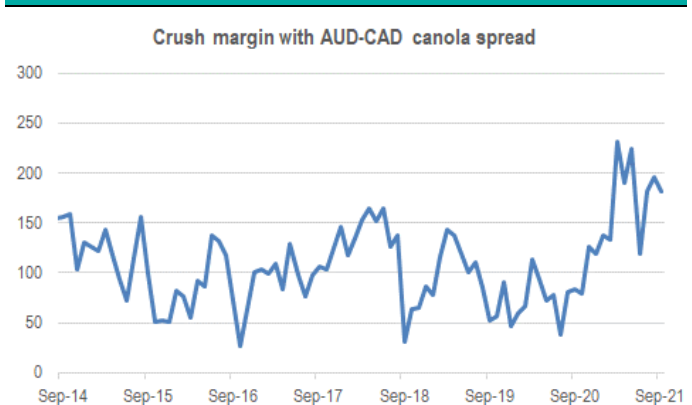
SOURCE: ABARES AND BOM

Figure 2 - Australian - US grain spreads



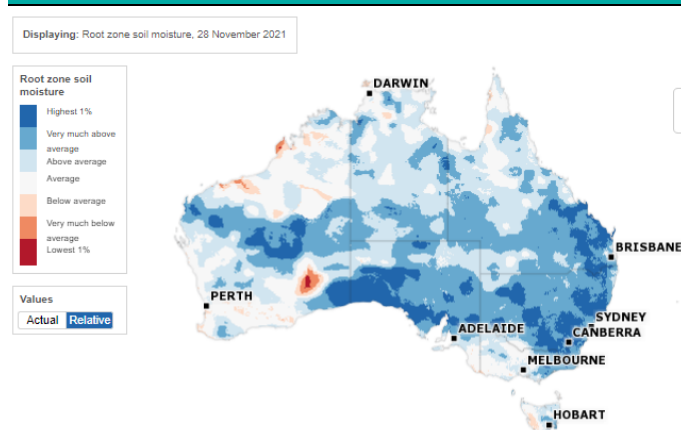
SOURCE: BLOOMBERG

Figure 3 - Canola crush margins (A\$/t)



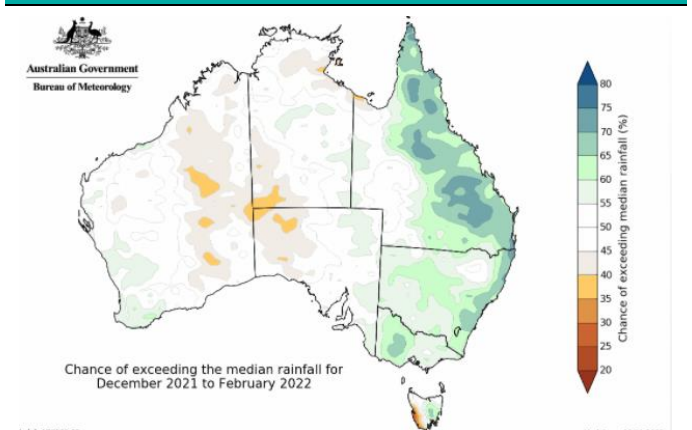
SOURCE: CANADIAN EXPORT DATA

Figure 4 - Relative soil moisture profile - Nov'21



SOURCE: BOM

Figure 5 - Three month rainfall outlook - Nov'21



SOURCE: BOM

# GNC Company overview

## Company Description

GrainCorp (GNC) provides handling, storage, marketing, logistics and agronomic service to the east-coast grain industry. GNC also retains an interest in listed malt producer UMG.

## Target price

Our target price for GNC is \$6.15ps and is based on: (1) normalised east coast crop production of 19.0-20.0mt (east coast winter + sorghum) and returns we would expect the grain and oilseeds business to generate in that year. These earnings are implied on a range of 7.5-8.5x through the cycle PBTDA (with the lower multiple applied to GNC's target of \$240m EBITDA reflecting the higher crop assumption base), (2) a value for its holding in UMG at market value; and (3) incorporation of planned \$50m in cash asset sale proceeds.

## Risks

Risks facing an investment in GNC include but are not limited to:

**COVID-19:** The substantial impact of COVID-19 on the global and domestic economies is creating enormous volatility and uncertainty in global share markets. The forecasts in the report may be subjected to significant changes if this situation continues for an extended period of time.

**Weather:** Weather patterns around the winter cropping season (April-November) are the major driver of grain volumes produced on the east coast of Australia and hence volumes that can be delivered into the GNC network.

**New competition:** The emergence of three new grain terminals at Newcastle and Port Kembla have added 3.1mt of capacity to an industry that already has sizeable excess capacity. Competition for grain has the scope to reduce returns generated to legacy assets and reduce GNC's share of crop.

**Grain trading risks:** a material portion of the earnings of GNC are exposed to grain trading margins which are linked to domestic and international prices. Rapid movements in global arbitrages or the inability of GNC to develop attractive margins in its grain trading operation can have a detrimental impact on group returns.

**UMH Group trading value:** GNC will retain a 10% holding in the demerged operations of UMH Group. Sharp movements in the value of the UMH share price can impact the value of GNC and the potential for GNC to access future cashflow if a sale were to be pursued.

**Disruption of or changes to transportation services:** GNC's operations rely on rail and road transportation to move grain from farms into country storage sites, and from these sites to port terminals and domestic consumers. A disruption or delay in rail transportation service provision, for instance as a result of temporary or permanent rail track closures, a lack of rolling stock or train crews or access to rail paths, may adversely impact GNC's operations and operating results

**Grain and oilseed prices:** A sudden devaluation or revaluation in oilseed prices can impact the returns generated in the oils business, given the exposure to spot sales and inventory carry required to produce the final selling product.

**Processing risks:** Companies involved in the grain and processing industries are subject to various operational risks, including those which may be categorised as claims and disputes in relation to grain or finished product inventory, machinery breakdown, extreme

weather, fire, supply issues, loss of long term agreements for supply or for premises, regulatory requirements, workplace disputes and impacts of environmental obligations.

**Food and feed industry risk:** GNC is subject to food and stockfeed industry risks which include, but are not limited to, spoilage, contamination, fumigation or treatment applications which do not meet destination requirements, incorrect grade classification, tampering or other adulteration of products, product recalls, government regulation, destination or industry standards, shifting customer and consumer preferences and concerns, including concerns regarding genetically modified organisms and plants, and potential product liability claims.

Table 1 - Financial summary

Sept year end	2017	2018	2019	2020	2021	2022e	2023e	2024e	
<b>Profit &amp; Loss (A\$m)</b>									Share price (\$) 6.80
Sales revenue	4575.7	4253.1	4849.7	3660.9	5491.5	5942.7	5295.2	4672.4	Recommendation Sell
... Change		(7.1%)	14.0%	(24.5%)	50.0%	8.2%	(10.9%)	(11.8%)	Diluted issued capital (m) 228.9
<b>EBITDA</b>	<b>390.1</b>	<b>268.8</b>	<b>68.5</b>	<b>108.1</b>	<b>330.8</b>	<b>382.9</b>	<b>268.8</b>	<b>249.0</b>	Market cap (\$m) 1556.2
Deprec. & amort.	(146.4)	(153.2)	(142.4)	(109.5)	(107.1)	(109.6)	(109.6)	(107.1)	Enterprise value (\$m) 2691.9
EBIT	243.7	115.6	(73.9)	(1.4)	223.7	273.3	159.2	141.9	<b>Target price (\$)</b> <b>6.15</b>
Interest expense	(39.0)	(42.2)	(50.1)	(26.4)	(25.9)	(27.7)	(22.2)	(19.2)	EV Based on T12M average net debt and adj. for UMG stake
Pre-tax profit	204.7	73.4	(124.0)	(27.8)	197.8	245.6	137.0	122.7	
Tax expense	(63.1)	(3.1)	42.3	11.9	(58.5)	(73.7)	(41.1)	(36.8)	
... tax rate	30.8%	4.2%	34.1%	42.8%	29.6%	30.0%	30.0%	30.0%	
Minorities	-	-	-	-	-	-	-	-	
<b>Net Profit</b>	<b>141.6</b>	<b>70.3</b>	<b>(81.7)</b>	<b>(15.9)</b>	<b>139.3</b>	<b>171.9</b>	<b>95.9</b>	<b>85.9</b>	
Abs. & extras.	(16.4)	-	(31.3)	359.2	-	-	-	-	
<b>Reported Profit</b>	<b>125.2</b>	<b>70.3</b>	<b>(113.0)</b>	<b>343.3</b>	<b>139.3</b>	<b>171.9</b>	<b>95.9</b>	<b>85.9</b>	
<b>Cashflow (A\$m)</b>									
EBITDA	390.1	268.8	68.5	108.1	330.8	382.9	268.8	249.0	
Tax Paid	(21.0)	(2.4)	(24.3)	(6.3)	-	(43.4)	(41.1)	(36.8)	
Net Interest Expense	(39.5)	(42.4)	(48.9)	(40.1)	(26.1)	(26.8)	(24.9)	(20.7)	
Change in Wkg Capital	(82.3)	(256.2)	(55.0)	127.8	(511.6)	(73.6)	105.7	101.6	
Other	53.2	215.5	(76.5)	(192.5)	351.4	(48.3)	(171.6)	(31.2)	
<b>Operating Cash Flow</b>	<b>300.5</b>	<b>183.3</b>	<b>(136.2)</b>	<b>(3.0)</b>	<b>144.5</b>	<b>190.8</b>	<b>136.9</b>	<b>261.9</b>	
Capex	(226.2)	(141.9)	(83.6)	(77.7)	(54.6)	(55.0)	(45.0)	(45.0)	
Div Paid	(42.3)	(52.6)	(18.3)	-	(34.3)	(41.2)	(57.2)	(45.8)	
<b>Free Cash Flow</b>	<b>32.0</b>	<b>(11.2)</b>	<b>(238.1)</b>	<b>(80.7)</b>	<b>55.6</b>	<b>94.6</b>	<b>34.6</b>	<b>171.1</b>	
Acquisitions	(35.6)	(1.9)	(13.8)	(1.7)	(26.2)	-	-	-	
Disposals	189.8	17.2	2.8	198.2	25.8	24.2	-	-	
Share Issues	-	-	-	-	-	-	-	-	
Other	(10.6)	(237.9)	42.8	781.2	(415.2)	48.3	171.6	31.2	
<b>(Inc.)/dec. in net debt</b>	<b>175.6</b>	<b>(233.8)</b>	<b>(206.3)</b>	<b>897.0</b>	<b>(360.0)</b>	<b>167.1</b>	<b>206.3</b>	<b>202.3</b>	
<b>Balance Sheet (A\$m)</b>									
Cash & near cash	388.9	370.9	265.3	124.7	126.6	111.9	141.5	308.8	
Receivables	466.2	528.1	624.0	260.6	510.7	552.7	492.4	434.5	
Inventories	579.1	824.5	738.4	277.4	665.6	720.3	641.8	566.3	
Other	84.7	152.9	280.0	121.7	235.3	235.3	235.3	235.3	
<b>Current assets</b>	<b>1,518.9</b>	<b>1,876.4</b>	<b>1,907.7</b>	<b>784.4</b>	<b>1,538.2</b>	<b>1,620.1</b>	<b>1,511.0</b>	<b>1,545.0</b>	
Fixed assets	1,500.5	1,514.3	1,335.2	678.2	668.1	625.3	596.7	570.6	
Right of use assets	-	-	-	177.1	189.2	189.2	189.2	189.2	
Intangibles	494.5	502.9	471.0	125.1	102.4	102.4	102.4	102.4	
Other	84.50	81.10	161.70	414.40	388.80	388.80	388.80	388.80	
<b>Non current assets</b>	<b>2,079.5</b>	<b>2,098.3</b>	<b>1,967.9</b>	<b>1,217.7</b>	<b>1,159.3</b>	<b>1,116.5</b>	<b>1,087.9</b>	<b>1,061.8</b>	
<b>Total assets</b>	<b>3,598.4</b>	<b>3,974.7</b>	<b>3,875.6</b>	<b>2,002.1</b>	<b>2,697.5</b>	<b>2,736.6</b>	<b>2,598.9</b>	<b>2,606.8</b>	
Creditors	357.8	408.9	363.7	153.4	280.1	303.1	270.1	238.3	
Borrowings	336.6	537.9	633.2	213.9	575.8	394.0	217.4	182.4	
Lease liabilities	-	-	-	26.9	31.7	31.7	31.7	31.7	
Other	115.8	181.1	135.6	152.9	252.8	336.0	357.8	392.3	
<b>Current liabilities</b>	<b>810.2</b>	<b>1,127.9</b>	<b>1,132.5</b>	<b>520.2</b>	<b>1,108.7</b>	<b>1,033.1</b>	<b>845.3</b>	<b>813.1</b>	
Borrowings	748.4	762.9	768.3	150.0	150.0	150.0	150.0	150.0	
Lease liabilities	-	-	-	204.9	210.1	210.1	210.1	210.1	
Other	179.4	141.7	138.5	236.6	233.7	233.7	233.7	233.7	
<b>Non current liabilities</b>	<b>927.8</b>	<b>904.6</b>	<b>906.8</b>	<b>386.6</b>	<b>383.7</b>	<b>383.7</b>	<b>383.7</b>	<b>383.7</b>	
<b>Total liabilities</b>	<b>1,738.0</b>	<b>2,032.5</b>	<b>2,039.3</b>	<b>906.8</b>	<b>1,492.4</b>	<b>1,416.8</b>	<b>1,229.0</b>	<b>1,196.7</b>	
<b>Net assets</b>	<b>1,860.4</b>	<b>1,942.2</b>	<b>1,836.3</b>	<b>1,095.3</b>	<b>1,205.1</b>	<b>1,319.8</b>	<b>1,370.0</b>	<b>1,410.1</b>	
Share capital	1,343.8	1,344.5	1,347.9	572.8	570.6	570.6	570.6	570.6	
Reserves	64.3	117.6	151.2	16.3	23.3	23.3	23.3	23.3	
Retained earnings	450.8	480.1	337.2	506.2	611.2	725.9	776.1	816.2	
Outside equity interests	1.5	-	-	-	-	-	-	-	
<b>S/holders' funds</b>	<b>1,860.4</b>	<b>1,942.2</b>	<b>1,836.3</b>	<b>1,095.3</b>	<b>1,205.1</b>	<b>1,319.8</b>	<b>1,370.0</b>	<b>1,410.1</b>	
Net Debt (Cash)	696.1	929.9	1,136.2	239.2	599.2	432.1	225.9	23.5	
<b>Valuation Ratios</b>									
EPS (p/s)	61.9	30.7	(35.7)	(6.9)	60.9	75.1	41.9	37.5	
Change (%)		(50.4%)	n.a.	n.a.	n.a.	23.4%	(44.2%)	(10.4%)	
PE (x)	11.0	22.1	n.a.	(97.9)	11.2	9.1	16.2	18.1	
EV/EBITDA (x)	6.90	10.01	39.30	24.90	8.14	7.03	10.01	10.81	
EV/EBIT (x)	11.05	23.29	(36.43)	n.a.	12.03	9.85	16.90	18.97	
NTA (\$ps)	5.97	6.29	5.97	4.24	4.82	5.32	5.54	5.71	
P/NTA (x)	1.14	1.08	1.14	1.60	1.41	1.28	1.23	1.19	
Book Value (\$ps)	8.13	8.49	8.02	4.79	5.27	5.77	5.99	6.16	
Price/Book (x)	0.84	0.80	0.85	1.42	1.29	1.18	1.14	1.10	
DPS (¢)	30.0	16.0	-	7.0	18.0	25.0	20.0	20.0	
Payout (%)	48%	52%	0%	-101%	30%	33%	48%	53%	
Yield (%)	4.4%	2.4%	0.0%	1.0%	2.6%	3.7%	2.9%	2.9%	
Franking (%)	100%	100%	0%	100%	100%	100%	100%	100%	
<b>Performance Ratios</b>									
EBITDA/sales (%)	8.5%	6.3%	1.4%	3.0%	6.0%	6.4%	5.1%	5.3%	
EBITA/sales (%)	5.3%	2.7%	-1.5%	0.0%	4.1%	4.6%	3.0%	3.0%	
OCF Realisation (%)	104%	82%	(224%)	19%	104%	111%	143%	305%	
FCF Realisation (%)	52%	59%	n.a.	508%	65%	79%	96%	253%	
ROE (%)	7.6%	3.6%	(4.4%)	(1.5%)	11.6%	13.0%	7.0%	6.1%	
ROIC (%)	9.4%	4.3%	-2.5%	-0.1%	14.3%	15.4%	9.5%	9.4%	
Asset Turn (years)	2.66	1.75	0.48	0.99	3.09	3.49	2.45	2.32	
Capex/Depn (x)	1.55	0.93	0.59	0.71	0.51	0.50	0.41	0.42	
Interest cover (x)	6.25	2.74	(1.48)	(0.05)	8.64	9.88	7.16	7.40	
Net Debt/EBITDA (x)	1.78	3.46	16.59	2.21	1.81	1.13	0.84	0.09	
Net debt/equity (%)	37%	48%	62%	22%	50%	33%	16%	2%	
<b>Segmental operating EBITDA (A\$m)</b>									
Agribusines	241.6	111.9	(93.7)	78.5	275.1	323.1	228.7	208.8	
Agriprocessing	22.8	17.6	15.7	45.5	77.7	81.8	62.2	62.2	
Other/Discontinued	158.4	170.1	175.5	-	-	-	-	-	
Corporate	(32.7)	(30.8)	(29.0)	(15.9)	(22.0)	(22.0)	(22.0)	(22.0)	
<b>EBITDA</b>	<b>390.1</b>	<b>268.8</b>	<b>68.5</b>	<b>108.1</b>	<b>330.8</b>	<b>382.9</b>	<b>268.8</b>	<b>249.0</b>	
<b>ABARES EC (mt)</b>									
ABARES EC winter crop (mt)	28.2	16.8	8.5	12.2	30.4	29.1			
ABARES EC summer crop (mt)	2.3	2.8	2.0	0.5	2.4	3.5			
ABARES contestable EC (mt)	29.9	17.7	8.6	11.0	30.3	30.9			
<b>Adopted contestable EC (mt)</b>									
GNC receivals (mt)	15.0	6.8	3.1	4.2	16.5	15.1	9.3	9.3	
GNC grain exports (mt)	7.2	2.7	0.3	1.3	7.9	10.8	5.1	4.2	
EC grain sales (mt)	7.1	5.0	2.9	3.5	6.7	7.9	6.1	5.5	
Offshore grain sales (mt)	1.2	1.9	4.2	4.3	3.4	1.9	4.0	4.0	
Total grain sales (mt)	8.3	6.9	7.1	7.8	10.1	9.8	10.1	9.5	
Carryout (mt)	3.3	2.3	1.5	0.7	4.3	3.6	2.7	2.8	
Throughput (mt)	21.4	10.3	4.9	6.6	22.6	26.2	14.8	13.4	

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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