BELL POTTER

10 October 2023

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GrainCorp Ltd (GNC)

Seasonal drivers and oilseeds

Recommendation
Buy (unchanged)
Price
$6.92
Target (12 months)
$9.45 (unchanged)

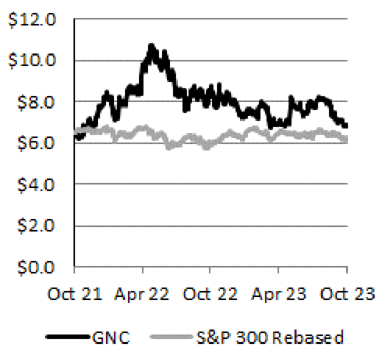
GICS Sector
Food Beverage and Tobacco

Expected Return	
Capital growth	**36.6%**
Dividend yield	**5.9%**
Total expected return	**42.5%**
Company Data & Ratios	
Enterprise value	**$2,647m**
Market cap	**$1,552m**
Issued capital	**224.3m**
Free float	**100%**
Avg. daily val. (52wk)	**$8.1m**
12 month price range	**$6.68-9.095**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	7.29	7.82	8.58
Absolute (%)	-5.62	-12.02	-19.81
Rel market (%)	-2.41	-8.79	-22.46

Absolute Price



SOURCE: IRESS

Oilseeds, basis and crops

In this note we review the most recent indicators for GNC near term and the attractiveness of expanding oilseed crush capacity in the medium term in light of through the cycle canola acreage and production expansion. Key points:

Near term drivers: Soil moisture and three-month rainfall outlooks remain below average. However, the CSIRO wheatcast model continues to project wheat yields in NSW (+10%) and VIC (+14%) above the 15yr average. Wheat basis has contracted, though is still in a stronger position (from a GNC perspective) than in FY18 and oilseed crush margins remain elevated by historical levels and at levels that would imply an FY24e outcome broadly consistent with the FY22-23e average.

Oilseed investments: Recently Cargill announced a A$70-75m investment to add ~100kt of capacity across three sites and GNC announced it has commenced evaluating the case for new crush capacity. When viewed in the context of a +25% uplift in canola acreage over the last decade and +74% growth in canola production (on a R5Y through the cycle basis) resulting in a growing exportable surplus we would expect any investment in new capacity is likely to be reasonably attractive from an earnings stand point.

We have reviewed our forecasts in light of recent movements in grain basis and oilseed crush margins, this results in EPS changes of -3% in FY24e and +4% in FY25e. Our FY25e forecasts have down risked canola crush margins from implied FY25e futures levels. Our target price is unchanged at $9.45ps

Investment view: Buy the dry

Our Buy rating is unchanged. When we consider the uplift in baseline PBTDA and improved corporate net cash position GNC is already trading at levels consistent with the previous seasonal lows. Trading at 5.5-6.2x through the cycle PBTDA, valuation is undemanding, with multiples likely to contract further as cash is released in lower crop volume years (i.e. unrealised trading cash earnings and lower working capital).

Earnings Forecast

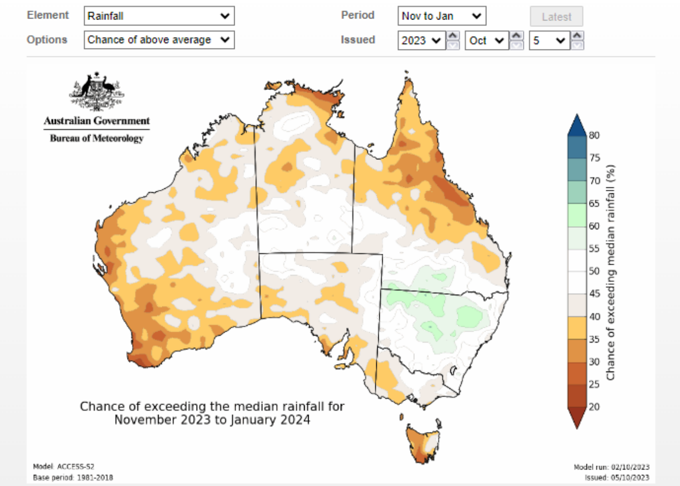
Year end September	2022	2023e	2024e	2025e
Sales (A$m)	7,868.3	8,127.2	6,845.6	7,436.6
EBITDA (A$m)	703.4	559.3	334.2	310.7
NPAT (reported) (A$m)	380.4	256.9	107.7	91.6
NPAT (adjusted) (A$m)	380.4	256.9	107.7	91.6
EPS (adjusted) (cps)	168.1	114.7	48.0	40.9
EPS growth (%)	176.2	(31.8)	(58.1)	(14.9)
PER (x)	4.1	6.0	14.4	16.9
FCF Yield (%)	16.1	7.8	12.5	5.2
EV/PBTDA (x)	2.1	2.9	5.2	5.7
Dividend (¢ps)	54.0	41.0	22.0	18.0
Yield (%)	7.8	5.9	3.2	2.6
Franking (%)	100.0	100.0	100.0	100.0
ROE (%)	26.2	15.9	6.4	5.3

SOURCE: BELL POTTER SECURITIES ESTIMATES

Seasonal drivers

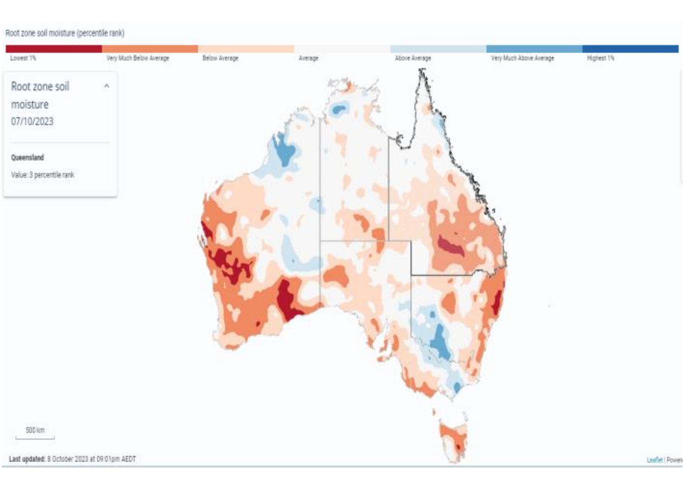
Seasonal conditions: Soil moisture profiles remain below average and well below levels seen a year ago. Three-month outlooks, while below average have in general improved relative to our last update despite the onset of El Nino. Despite drier conditions we note that CSIRO's wheatcast model continues to project wheat yield +10% above the 15yr average in NSW, +14% ahead of the average in VIC and -11% in QLD. The NSW yield forecast is the only one at this point deviating from the Sep'23 ABARE forecasts, which is weaker than the wheatcast model.

Figure 1 - BOM Three month rainfall outlook



SOURCE: BOM

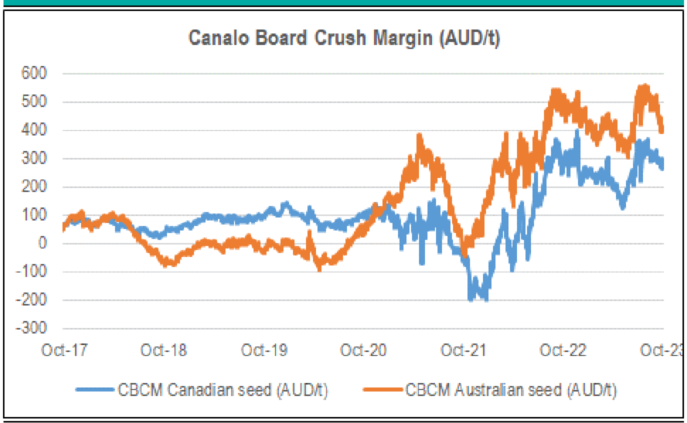
Figure 2 – Relative soil moisture profile



SOURCE: BOM

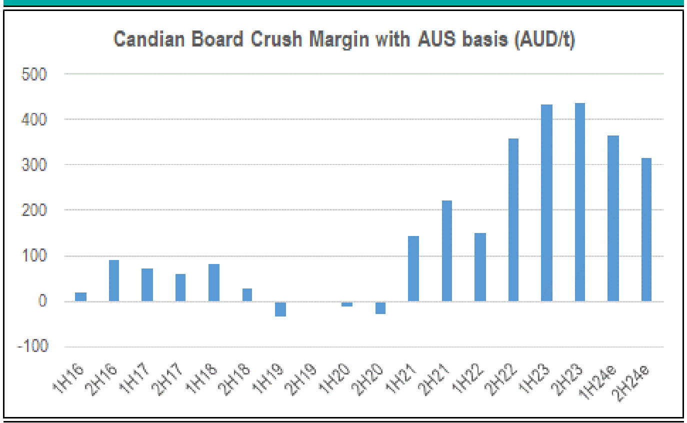
Crush margins: Oilseed crush margins have weakened in recent months on lower oil and meal prices, which have not been matched in their entirety by lower seed pricing. Despite the recent contraction, crush margins remain at historically high levels and with oilseed production volumes expected to exceed installed industry crush capacity we would anticipate another strong contribution from the oilseeds business in FY24e.

Figure 3 – Canadian Canola Board crush margin



SOURCE: GLOBAL TRADE DATA AND BLOOMBERG DATA

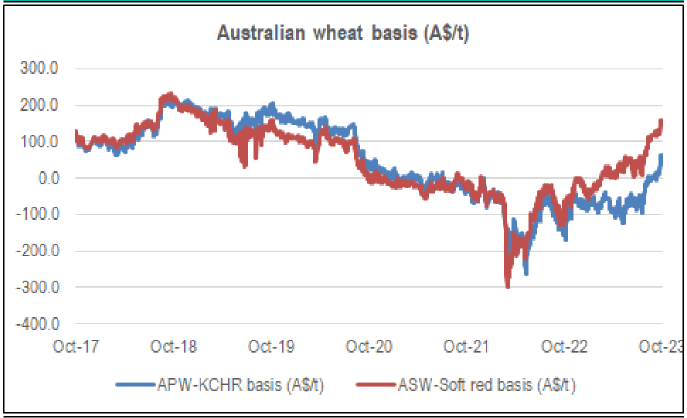
Figure 4 – Quarterly crush margins and peer reporting (A$/t)



SOURCE: BASED ON BLOOMBERG, CM AND ICE DATA

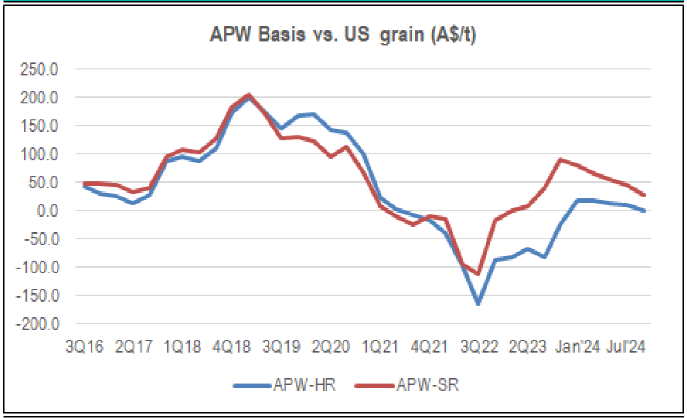
Wheat basis: There has been a material compression in wheat basis in recent weeks, particularly in lower protein grades. Futures pricing for east coast grain is below spot values and implies a lower level of implied basis for FY24-25e than spot outcomes and at a level from a historical point of view that would still be favourable relative to FY18-20 levels. Our FY24-25e GNC forecasts imply a material downward correction in PBTDA trading margins towards levels we estimate were generated in FY18-19.

Figure 5 – Australian –US wheat basis (A$/t)



SOURCE: BASED ON BLOOMBERG DATA

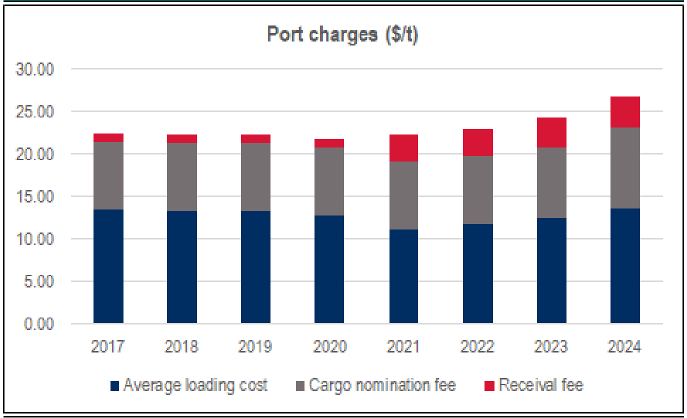
Figure 6 – APW premiums (discounts) (A$t)



SOURCE: BASED ON BLOOMBERG,ASX AND CME DATA

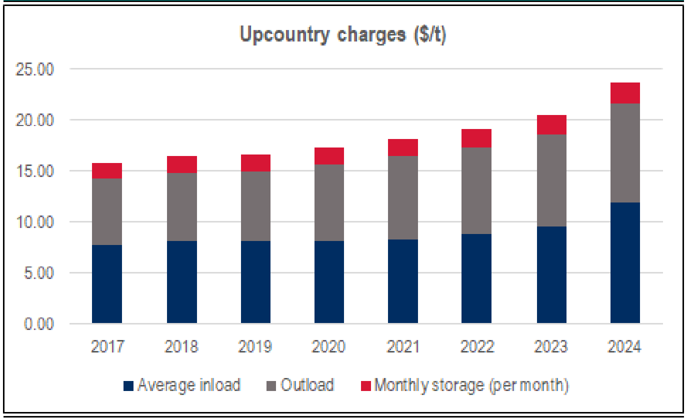
Supply chain pricing: GNC has now released all fee schedules for the 2023-24 season, both upcountry and port. As we noted in our last report, port charges were up an average +11% and now we have seen upcountry charges lift +18-25% YOY in receival fees and a +7-8% YOY uplift in monthly storage and outload fees. The uplift in receival fees should be viewed in the context of a higher free storage period and as such the overall increase is more likely be much lower than the headline, but would increase the level of minimum earnings per ton received upcountry in lower crop years.

Figure 7 – GNC port charges ($/t)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 8 – GNC upcountry charges ($/t)

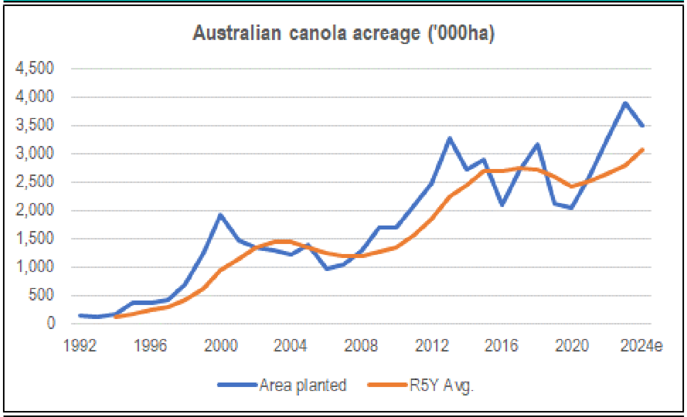


SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Oilseeds review

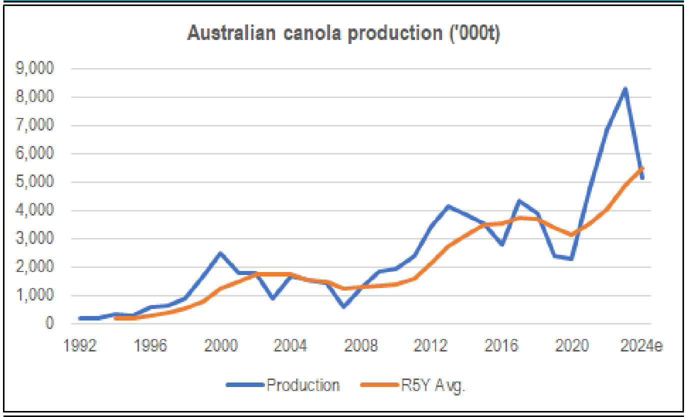
On a through the cycle basis (R5Y average to proxy this) we have witnessed a +25% uplift in canola acreage over the last decade and +74% growth in canola production over the same time frame. Domestic canola seed production now materially exceeds installed industry crush capacity, which would imply there is the scope for further investment in crush capacity as foreshadowed by GNC at the 1H23 result.

Figure 9 - Canola acreage planted by year ('000Ha)



SOURCE: ABARES

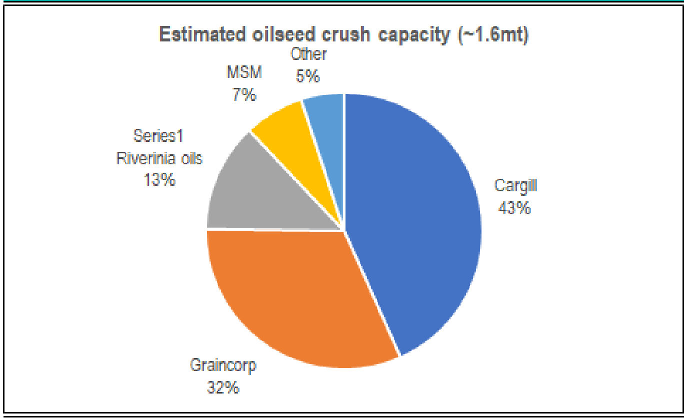
Figure 10 - Canola crop by year ('000t)



SOURCE: ABARE

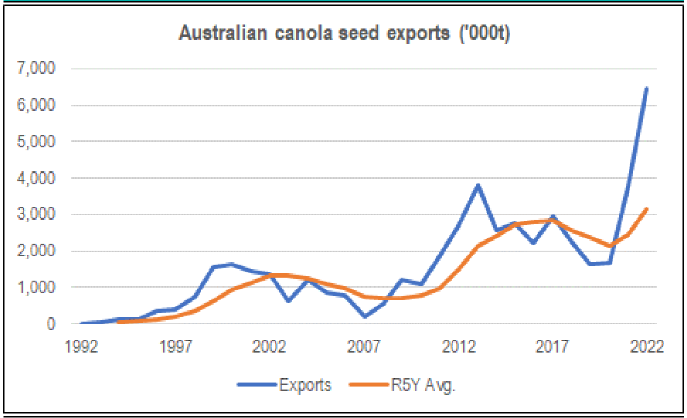
Recently Cargill announced a A$70-75m investment to add ~100kt of capacity across three sites and GNC announced it has had commenced evaluating the case for new crush capacity. The scope to replace seed exports with higher value oil exports and meal sales into the domestic feed industry would look a reasonable strategy.

Figure 11 - Crush capacity by processor



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 12 - Australian canola seed exports by calendar year ('000t)



SOURCE: COMMTRADE

Crush margins (see page 2) have retraced from the recent highs and at levels broadly consistent with FY22-23e averages in forward markets. In a historical context they remain elevated and a multiple of levels seen in FY18-19. We continue to anticipate FY24e oilseed outcomes somewhere consistent with the FY22-23e average. To this end any material investment in new crush capacity is likely to be reasonably attractive from an earnings point of view. We had previously noted that the additional 40kt in oilseed crush referenced in the sustainable earnings uplift (announced with 1H23 results) was estimated at ~$10m EBITDA through the cycle.

GNC Company overview

Company Description

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

Target price

Our target price for GNC is $9.45ps and is based on: (1) normalised east coast crop production of 20-23mt (east coast winter + sorghum) and returns we would expect the grain and oilseeds business to generate in that year (through the cycle PBTDA range estimate to $235-265m); and (2) a value for its holding in UMG at market value.

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 breakdow/n, 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.

GrainCorp Ltd
as at 10 October 2023

Recommendation	Buy
Price	$6.92
Target (12 months)	$9.45

Table 1 - Financial summary

Sept year end	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Profit & Loss (A$m)									
Sales revenue	4575.7	4253.1	4849.7	3660.9	5491.5	7868.3	8127.2	6845.6	7436.6
. . . Change		(7.1%)	14.0%	(24.5%)	50.0%	43.3%	3.3%	(15.8%)	8.6%
EBITDA	**390.1**	**268.8**	**68.5**	**108.1**	**330.8**	**703.4**	**559.3**	**334.2**	**310.7**
Deprec. & amort.	(146.4)	(153.2)	(142.4)	(109.5)	(107.1)	(117.3)	(122.7)	(122.2)	(118.4)
EBIT	243.7	115.6	(73.9)	(1.4)	223.7	586.1	436.6	212.0	192.3
Interest expense	(39.0)	(42.2)	(50.1)	(26.4)	(25.9)	(36.0)	(69.7)	(58.1)	(61.3)
Pre-tax profit	204.7	73.4	(124.0)	(27.8)	197.8	550.1	366.9	153.9	130.9
Tax expense	(63.1)	(3.1)	42.3	11.9	(58.5)	(169.7)	(110.1)	(46.2)	(39.3)
. . . tax rate	30.8%	4.2%	34.1%	42.8%	29.6%	30.8%	30.0%	30.0%	30.0%
Minorities	-	-	-	-	-	-	-	-	-
Net Profit	**141.6**	**70.3**	**(81.7)**	**(15.9)**	**139.3**	**380.4**	**256.9**	**107.7**	**91.6**
Abs. & extras.	(16.4)	-	(31.3)	359.2	-	-	-	-	-
Reported Profit	**125.2**	**70.3**	**(113.0)**	**343.3**	**139.3**	**380.4**	**256.9**	**107.7**	**91.6**
Cashflow (A$m)									
EBITDA	390.1	268.8	68.5	108.1	330.8	703.4	559.3	334.2	310.7
Tax Paid	(21.0)	(2.4)	(24.3)	(6.3)	-	(47.3)	(110.1)	(46.2)	(39.3)
Net Interest Expense	(39.5)	(42.4)	(48.9)	(40.1)	(26.1)	(36.0)	(52.8)	(63.9)	(59.7)
Change in Wkg Capital	(82.3)	(256.2)	(55.0)	127.8	(511.6)	(313.1)	148.9	288.3	(24.6)
Other	53.2	215.5	(76.5)	(192.5)	351.4	100.1	(217.5)	(205.4)	(13.6)
Operating Cash Flow	**300.5**	**183.3**	**(136.2)**	**(3.0)**	**144.5**	**407.1**	**327.8**	**307.1**	**173.4**
Capex	(226.2)	(141.9)	(83.6)	(77.7)	(54.6)	(80.8)	(85.0)	(50.0)	(50.0)
Div Paid	(42.3)	(52.6)	(18.3)	-	(34.3)	(76.5)	(120.9)	(62.8)	(42.6)
Free Cash Flow	**32.0**	**(11.2)**	**(238.1)**	**(80.7)**	**55.6**	**249.8**	**121.8**	**194.2**	**80.8**
Acquisitions	(35.6)	(1.9)	(13.8)	(1.7)	(26.2)	(5.7)	(8.3)	-	-
Disposals	189.8	17.2	2.8	198.2	25.8	3.6	20.6	-	-
Share Issues	-	-	-	-	-	(50.0)	-	-	-
Other	(10.6)	(237.9)	42.8	781.2	(415.2)	(138.6)	182.5	205.4	13.6
(Inc.) /dec. in net debt	**175.6**	**(233.8)**	**(206.3)**	**897.0**	**(360.0)**	**59.1**	**316.6**	**399.6**	**94.4**
Balance Sheet (A$m)									
Cash & near cash	388.9	370.9	265.3	124.7	126.6	322.4	456.7	651.1	732.0
Receivables	466.2	528.1	624.0	260.6	510.7	630.2	650.9	548.3	595.6
Inventories	579.1	824.5	738.4	277.4	665.6	857.5	697.1	466.1	464.3
Other	84.7	152.9	280.0	121.7	235.3	423.8	423.8	423.8	423.8
Current assets	**1,518.9**	**1,876.4**	**1,907.7**	**784.4**	**1,538.2**	**2,233.9**	**2,228.5**	**2,089.2**	**2,215.7**
Fixed assets	1,500.5	1,514.3	1,335.2	678.2	668.1	663.8	655.4	624.8	598.0
Right of use assets	-	-	-	177.1	189.2	190.1	190.1	190.1	190.1
Intangibles	494.5	502.9	471.0	125.1	102.4	99.0	99.0	99.0	99.0
Other	84.50	81.10	161.70	414.40	388.80	348.30	383.30	383.30	383.30
Non current assets	**2,079.5**	**2,098.3**	**1,967.9**	**1,217.7**	**1,159.3**	**1,111.1**	**1,137.7**	**1,107.1**	**1,080.3**
Total assets	**3,598.4**	**3,974.7**	**3,875.6**	**2,002.1**	**2,697.5**	**3,345.0**	**3,366.2**	**3,196.4**	**3,296.1**
Creditors	357.8	408.9	363.7	153.4	280.1	278.4	287.6	242.2	263.1
Borrowings	336.6	537.9	633.2	213.9	575.8	712.5	530.0	324.6	311.0
Lease liabilities	-	-	-	26.9	31.7	37.8	37.8	37.8	37.8
Other	115.8	181.1	135.6	152.9	252.8	508.9	538.3	560.7	601.6
Current liabilities	**810.2**	**1,127.9**	**1,132.5**	**520.2**	**1,108.7**	**1,499.8**	**1,355.9**	**1,127.5**	**1,175.8**
Borrowings	748.4	762.9	768.3	150.0	150.0	150.0	150.0	150.0	150.0
Lease liabilities	-	-	-	204.9	210.1	203.5	203.5	203.5	203.5
Other	179.4	141.7	138.5	236.6	233.7	242.5	242.5	242.5	242.5
Non current liabilities	**927.8**	**904.6**	**906.8**	**386.6**	**383.7**	**392.5**	**392.5**	**392.5**	**392.5**
Total liabilities	**1,738.0**	**2,032.5**	**2,039.3**	**906.8**	**1,492.4**	**1,892.3**	**1,748.3**	**1,520.0**	**1,568.3**
Net assets	**1,860.4**	**1,942.2**	**1,836.3**	**1,095.3**	**1,205.1**	**1,452.7**	**1,617.9**	**1,676.4**	**1,727.8**
Share capital	1,343.8	1,344.5	1,347.9	572.8	570.6	516.6	516.6	516.6	516.6
Reserves	64.3	117.6	151.2	16.3	23.3	21.0	21.0	21.0	21.0
Retained earnings	450.8	480.1	337.2	506.2	611.2	915.1	1,080.0	1,138.4	1,189.6
Outside equity Interests	1.5	-	-	-	-	-	-	-	-
S/holders' funds	**1,860.4**	**1,942.2**	**1,836.3**	**1,095.3**	**1,205.1**	**1,452.7**	**1,617.6**	**1,676.0**	**1,727.2**
Net Debt (Cash)	696.1	929.9	1,136.2	239.2	599.2	540.1	223.3	(176.5)	(271.0)

Share price ($)	6.92
Recommendation	Buy
Diluted issued capital (m)	224.3
Market cap ($m)	1552.4
Enetrprise value ($m)	2647.1
Target price ($)	**9.45**

EV Based on T12M average net debt and adj. for UMG stake.

Sept year end	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Valuation Ratios									
EPS (¢ps)	61.9	30.7	(35.7)	(6.9)	60.9	168.1	114.7	48.0	40.9
Change (%)		(50.4%)	n.a.	n.a.	n.a.	176.2%	(31.8%)	(58.1%)	(14.9%)
PE (x)	11.2	22.5	n.a.	(99.6)	11.4	4.1	6.0	14.4	16.9
EV/EBITDA (x)	6.79	9.85	38.64	24.49	8.00	3.76	4.73	7.92	8.52
EV/EBIT (x)	10.86	22.90	(35.82)	n.a.	11.83	4.52	6.06	12.48	13.77
EV/PBTDA (x)	**3.86**	**5.73**	**27.62**	**14.80**	**4.63**	**2.15**	**2.90**	**5.17**	**5.67**
*****PBTDA is EBITDA less marking interest. EV in this cacluation utilises net debt (cash) ex-marketing book**									
NTA ($ps)	5.97	6.29	5.97	4.24	4.82	6.05	6.77	7.03	7.26
P/NTA (x)	1.16	1.10	1.16	1.63	1.44	1.14	1.02	0.98	0.95
Book Value ($ps)	8.13	8.49	8.02	4.79	5.27	6.50	7.21	7.47	7.70
Price/Book (x)	0.85	0.82	0.86	1.45	1.31	1.07	0.96	0.93	0.90
DPS (¢)	30.0	16.0	-	7.0	18.0	54.0	41.0	22.0	18.0
Payout (%)	48%	52%	0%	-101%	30%	32%	36%	46%	44%
Yield (%)	4.3%	2.3%	0.0%	1.0%	2.6%	7.8%	5.9%	3.2%	2.6%
Franking (%)	100%	100%	0%	100%	100%	100%	100%	100%	100%
Performance Ratios									
EBITDA/sales (%)	8.5%	6.3%	1.4%	3.0%	6.0%	8.9%	6.9%	4.9%	4.2%
EBITA/sales (%)	5.3%	2.7%	-1.5%	0.0%	4.1%	7.4%	5.4%	3.1%	2.6%
OCF Realisation (%)	104%	82%	(224%)	19%	104%	107%	128%	285%	189%
FCF Realisation (%)	52%	59%	n.a.	508%	65%	86%	95%	239%	135%
ROE (%)	7.6%	3.6%	(4.4%)	(1.5%)	11.6%	26.2%	15.9%	6.4%	5.3%
ROIC (%)	9.4%	4.3%	-2.5%	-0.1%	14.3%	30.9%	22.8%	12.7%	13.0%
Aseet Turn (years)	2.66	1.75	0.48	0.99	3.09	6.00	4.56	2.74	2.62
Capex/Depn (x)	1.55	0.93	0.59	0.71	0.51	0.69	0.69	0.41	0.42
Interest cover (x)	6.25	2.74	(1.48)	(0.05)	8.64	16.28	6.26	3.65	3.13
Net Debt/EBITDA (x)	1.78	3.46	16.59	2.21	1.81	0.77	0.40	(0.53)	(0.87)
Net debt/equity (%)	37%	48%	62%	22%	50%	37%	14%	-11%	-16%
Segmental operating EBITDA (A$m)									
Agribusiness	241.6	111.9	(93.7)	78.5	275.1	624.1	378.9	210.5	231.4
Agriprocessing	22.8	17.6	15.7	45.5	77.7	127.0	180.4	153.7	109.3
Other/Discountinued	158.4	170.1	175.5	-	-	-	-	-	-
Corporate	(32.7)	(30.8)	(29.0)	(15.9)	(22.0)	(47.7)	-	(30.0)	(30.0)
EBITDA	**390.1**	**268.8**	**68.5**	**108.1**	**330.8**	**703.4**	**559.3**	**334.2**	**310.7**
EC winter crop (mt)	28.2	16.8	8.5	12.2	32.6	31.3	29.2	17.7	18.4
EC summer crop (mt)	2.3	2.8	2.0	0.5	2.3	4.2	4.0	2.8	2.8
Adopted contestable EC (mt)	29.9	17.7	8.6	11.0	32.4	33.5	31.5	19.0	19.7
GNC receivals (mt)	15.0	6.8	3.1	4.2	16.5	16.3	14.5	7.7	9.0
GNC grain exports (mt)	7.2	2.7	0.3	1.3	7.9	9.2	9.0	3.7	3.6
Domestic outloads (mt)	6.2	5.6	5.8	5.1	5.0	6.4	6.8	5.5	5.5
EC grain sales (mt)	7.1	5.0	2.9	3.5	6.7	6.1	6.3	3.7	3.6
Offshore grain sales (mt)	1.2	1.9	4.2	4.3	3.4	3.5	3.5	4.0	5.0
Total grain sales (mt)	8.3	6.9	7.1	7.8	10.1	9.6	9.8	7.7	8.6
Carryout (mt)	3.3	2.3	1.5	0.7	4.3	4.9	3.6	2.0	1.9
Throuput (mt)	21.4	10.3	4.9	6.6	22.6	25.2	24.2	12.2	12.6
Crush volume (kt)	298	260	371	424	459	471	500	500	495

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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