NAMOI COTTON
Growing Together

ASX ANNOUNCEMENT
24 OCTOBER 2019

NAMOI COTTON LIMITED (ASX: NAM)
FY20 HALF YEAR FINANCIAL RESULTS

Results Summary

	H1 FY20 $'000	H1 FY19 $'000
Ginning volume (bales)	*436,037*	*1,113,561*
Total revenue	1,219	2,392
Trading margin gains	35,164	77,574
EBITDA(1)	7,823	30,085
Impairment	8,198	-
Net (loss)/profit after tax – reported	(4,015)	14,293
Net profit after tax – normalised(2)	1,723	14,293
Receipts from customers	253,061	563,045
Net cash (outflow)/inflow from operating activities	(11,504)	19,959
NTA per share (cents)	*91*	*103*

(1) EBITDA is defined as earnings before interest, tax, depreciation and amortisation and is presented prior to impairment charges.

(2) Normalised for post-tax impairment charges.

"EBITDA" and "Net profit after tax – normalised" balances presented in this announcement are unaudited non-IFRS measures that, in the opinion of the Directors, are useful in understanding and appraising the Company's performance.

Financial Results

Namoi Cotton Limited ("Namoi") today reported a $4.02 million loss for the six months ended 31 August 2019, which was $18.31m unfavourable to the prior comparative period ('pcp'). The result was profoundly impacted by the severe drought conditions being experienced in Eastern Australia and particularly in the core Australian cotton growing regions.

The drought conditions impacted cotton supply and thus Namoi's 2019 cotton season ginning volumes were down by 677,524 bales or 60.8% on pcp. This was in line with the decline in volume for the entire Australian cotton crop in the 2019 season.

The reduction in ginning volumes caused significant decreases in Namoi's major revenue streams in H1 FY20, although revenue declines were less than the underlying ginning volume decrease. This was achieved on the back of increases in ginning price per bale and higher prices per metric tonne on cotton seed sales.

Given the scale of the revenue decline that it was confronted with, and its significant fixed cost base, Namoi was unable to reduce its costs sufficiently in H1 FY20 to maintain profit levels. That said, 50% to 60% cost reductions were achieved in casual labour costs, electricity charges, 'hessian, ties and tags' charges, maintenance costs and depreciation expense. The latter arose as a result of Namoi's 'units of production' depreciation methodology.

In addition, the result was adversely impacted by the following one-off, non-cash items:

- a $3.65 million post-tax impairment charge against the carrying value of ginning assets. This was driven primarily by impairment of the Ashley ginning site to a nil book value given a change in its service potential. This was in turn partially offset by the repositioning of bales to other sites and accordingly Namoi has booked a post-tax $1.99 million revaluation increment direct to the asset revaluation reserve. Accordingly, the revaluation of the book value of ginning assets as at 31 August 2019 was a net post-tax decrease of $1.66 million;

- a $2.09 million post-tax impairment charge against the carrying value of the Company's investment in Namoi Cotton Alliance ('NCA'). This latest impairment sees Namoi value its NCA investment at its share of NCA's tangible net assets.

The following table reconciles the reported H1 FY20 net loss after tax of $4.02 million to the normalised H1 FY20 net profit after tax of $1.72 million:

	H1 FY20 $'000	H1 FY19 $'000
Net (loss)/profit after tax - reported	(4,015)	14,293
Add back:		
Post tax non-cash impairment of ginning assets	3,653	-
Post tax non-cash impairment of NCA investment	2,085	-
Net profit after tax – normalised	1,723	14,293

Normalised H1 FY20 net profit after tax of $1.72 million, was $12.57 million or 88% below pcp.

As previously foreshadowed, Namoi's NCA Joint Venture has recognised $6.34 million (Namoi share $3.23 million) of unrealised contract losses on certain exposures caused by increasing incidence of shipment delays and contract renegotiations on forward sales contracts.

In H1 FY20 Namoi generated net cash outflows from operating activities of $11.50 million. This represented an adverse movement of $31.46 million compared to pcp. The key earnings variances also applied to cash flows from operating activities, however the latter were further adversely impacted by a timing variance in relation to cotton seed procurement and trading. Namoi expects to generate positive cash flows from operations in H2 FY20 as a result of contracted cotton seed debtor realisations. Namoi's target FY20 net cash flows from operating activities remains in the range of -$2.5 million to +$2.5 million.

In light of the continuing drought conditions, the Directors have not declared an interim dividend and Namoi is unlikely to pay a dividend for the full financial year.

Finance Facilities

Namoi is also pleased to announce amendment of its finance facilities with Commonwealth Bank of Australia ("CBA"). CBA has agreed to extend the maturity date of the Working Capital Facility to 31 October 2020 and amend certain covenant definitions and thresholds.

As at 31 August 2019 Namoi remained in compliance with its financial covenants and is forecasting to remain in compliance for the next 12 months to 31 October 2020.

Chief Executive Officer's Commentary

Namoi Chief Executive Officer Michael Renehan said: "Clearly today's results are disappointing at face value, however the business has reacted quickly to the downturn in cotton availability through strong cash management and tight internal controls. A number of internal initiatives are already in place to ensure that we scale our organisation to the current economic conditions.

On a positive note, our seed business has been well placed to supply into the feedlot and livestock market at improved margins with additional revenue coming from our other by-products.

A positive EBITDA for the first half indicates that our business fundamentals are in place but the shortfall in profit has been impacted by prudent recognition of the headwinds within the cotton industry."

FY20 Priorities

Mr Renehan said: "Our key priorities for the remainder of FY20 are:

- continuing to improve our safety culture and performance;
- ensuring our business is right-sized and ready for the anticipated reduced 2020 crop size;
- taking further costs out of the business while retaining core skills and capability;
- undertaking a strategic review of our asset and investment base and determining the appropriate risk profile for the company;
- resolving the commercial dispute with Cargill in relation to the COA/CPL joint venture."

FY21 Outlook

The 2020 Australian cotton crop has now entered the planting phase, however with limited water availability for irrigation from public water storages and next to no water in on-farm storages, the crop will heavily rely on bore water availability and the possibility of a dryland crop if significant rain occurs up to the end of November 2019.

Current estimates for the 2020 Australian cotton crop range from 600,000 to 1.1 million bales. As time passes without significant rain, the likely outcome is for a crop in the bottom half of this range. Consistent with this, Namoi is now forecasting a FY21 ginning volume of between 125,000 to 175,000 bales. The midpoint of this range represents a further 66% decline in volume over Namoi's already disappointing 2019 ginning volume (ginned in H1 FY20).

Directors do not believe it is appropriate to provide a FY21 financial forecast, however it is clear that profitability and cash flows from operating activities will be materially adverse to the pcp.

Chairman's Commentary

Namoi Chairman Tim Watson said: "The current drought affecting Eastern Australia, and subsequently our growers, is now recognised as unprecedented and surpasses the recent Millennium drought in severity. This has a significant financial impact on not only Namoi but all regional NSW and Queensland rural support businesses. Shareholders can be assured that Namoi is using this period to streamline and strengthen its business. We are also very mindful that the drought has put our growers and staff under significant financial and emotional strain. I would like to acknowledge our staff for their commitment and resilience through these difficult times."

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