



INCOME

RECOMMENDATION



GrainCorp

GNC:ASX
November 2024

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INCOME RECOMMENDATION









Graincorp Limited GNC:ASX

GrainCorp stands as a prominent Australian agribusiness and processing company, boasting an integrated supply chain that spans four continents. With a rich history extending over a century, the company has established itself as a cornerstone of the agricultural sector. GrainCorp's core operations encompass a diverse range of activities, including grain storage, handling, and marketing across East Coast Australia; international grain trading and origination; oilseed crushing and edible oils processing; animal nutrition and feeds production; and bulk liquid storage and handling. The company's expansive infrastructure network comprises more than 160 regional grain receival sites and seven bulk ports strategically located along the East Coast of Australia, all interconnected through an efficient road and rail system.

This robust infrastructure forms the backbone of GrainCorp's operations, enabling seamless grain movement and processing. Beyond its grain-focused activities, GrainCorp has solidified its position as one of Australia's largest refiners of edible fats and oils, producing a wide array of products including blended oils, infant nutrition formulas, bakery goods, and margarines.

The company's animal nutrition division further diversifies its portfolio, with GrainCorp emerging as a major producer of canola meal and a key supplier of feed supplements. In recent years, GrainCorp has actively expanded its international footprint, exemplified by ventures such as Grains Connect Canada and the establishment of a global network of offices dedicated to grain origination and marketing. This integrated business model allows GrainCorp to extract value across various points of the agricultural supply chain while simultaneously diversifying its earnings base, enhancing its resilience to market fluctuations



Our vision	Our vision is to lead sustainable and innovative agriculture through another century of growth	
Our purpose	Proudly connect with customers and rural communities to deliver value through innovation and expertise	
Strategic priorities	Strengthen the core	Targeted growth opportunities
	Lift returns 	Agri-energy 
	Drive existing assets 	Animal Nutrition 
	Leverage capabilities 	Grower Services 
		Digital and AgTech 
		Alternative Protein 

INVESTMENT CONSIDERATIONS

Leadership

Leadership

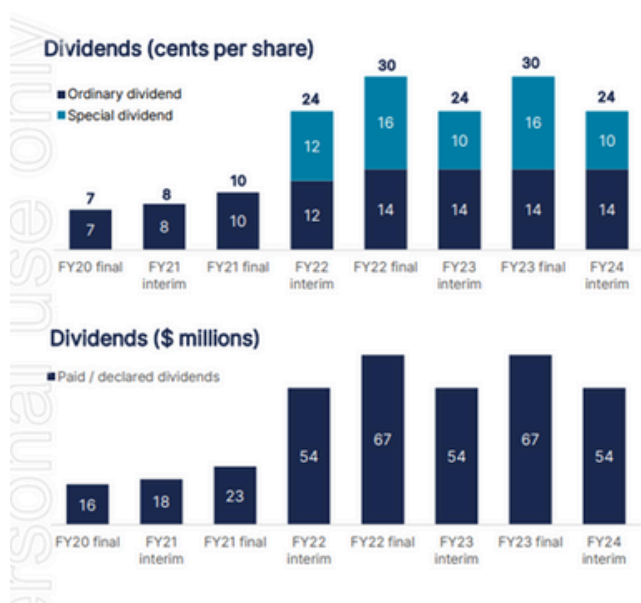
Robert Spurway, GrainCorp's CEO since 2020, brings over 25 years of experience in FMCG and agribusiness. His leadership has focused on optimizing core operations and pursuing growth opportunities. Key initiatives include expanding crush capacity, growing the agri-energy business, and investing in digital technologies and AgTech innovations. Spurway's approach emphasizes disciplined capital allocation, maintaining a strong balance sheet, and ensuring consistent shareholder returns. The management team has prioritized sustainability, implementing renewable energy projects and promoting sustainable farming practices. Operational efficiencies have improved through advanced analytics and cutting-edge technologies. The Board of Directors, led by Chairman Peter Richards, provides strategic guidance and oversight. This leadership team has successfully navigated industry challenges while positioning GrainCorp for long-term growth. Their commitment to innovation, sustainability, and operational excellence has strengthened GrainCorp's position as an agricultural sector leader. The company's ability to thrive under challenging conditions reflects the collective expertise and vision of its leadership.

Financial Performance

Delivering strong returns



Consistent dividend profile through-the-cycle; disciplined capital management



- 1H24 ordinary interim dividend of 14cps declared
- Special dividend of 10cps reflecting strength of our balance sheet
- Dividends are in addition to previously announced on-market share buy-back of up to \$50 million, expected to commence shortly
- Capital management will continue to be assessed against growth opportunities

INVESTMENT CONSIDERATIONS

Valuation

From a valuation perspective, GrainCorp currently presents an attractive investment opportunity, trading at a notable discount relative to its global agribusiness peers. The stock is priced at approximately 11.5 times forward earnings, a significant discount compared to the 13-15 times multiple typically seen among comparable companies in the sector. This valuation gap offers a compelling entry point for investors as GrainCorp continues to execute on its strategic initiatives and demonstrates more consistent earnings throughout market cycles.

The company has recently revised its average through-the-cycle EBITDA target upwards to \$320 million, reflecting the positive impact of recent acquisitions and ongoing operational improvements. This increased earnings target underscores the company's growing earnings power and potential for value creation.

GrainCorp's strong balance sheet, bolstered by \$495 million in core cash, provides substantial financial flexibility to fund growth investments while maintaining its commitment to shareholder returns. The company has consistently upheld its dividend policy and has further enhanced shareholder value through special dividends and share buybacks.

GrainCorp's integrated business model and strategic assets in key agricultural regions support the case for a premium valuation over time. As the company continues to expand its higher-margin businesses, such as oilseed crushing and renewable fuels, there is potential for multiple expansion as the market recognizes the enhanced earnings quality and growth prospects.

Sociological Factors

GrainCorp is a pivotal player in Australia's agricultural sector, providing essential grain storage and handling infrastructure across East Coast Australia. The company supports rural economic development, job creation, and food security. In recent years, GrainCorp has focused on sustainability initiatives, implementing renewable energy projects and promoting sustainable farming practices. Through its venture capital arm, GrainCorp Ventures, the company invests in AgTech startups, fostering innovation in critical areas of agriculture.

GrainCorp's expanding presence in renewable fuels feedstocks contributes to global decarbonization efforts, while its animal nutrition products support the broader agricultural value chain. As a major exporter, the company plays a significant role in connecting Australian agriculture to global markets, enhancing the country's position in international trade. GrainCorp's multifaceted role makes it an integral part of Australia's agricultural landscape, contributing to both economic prosperity and sustainable development in the sector.

RISKS

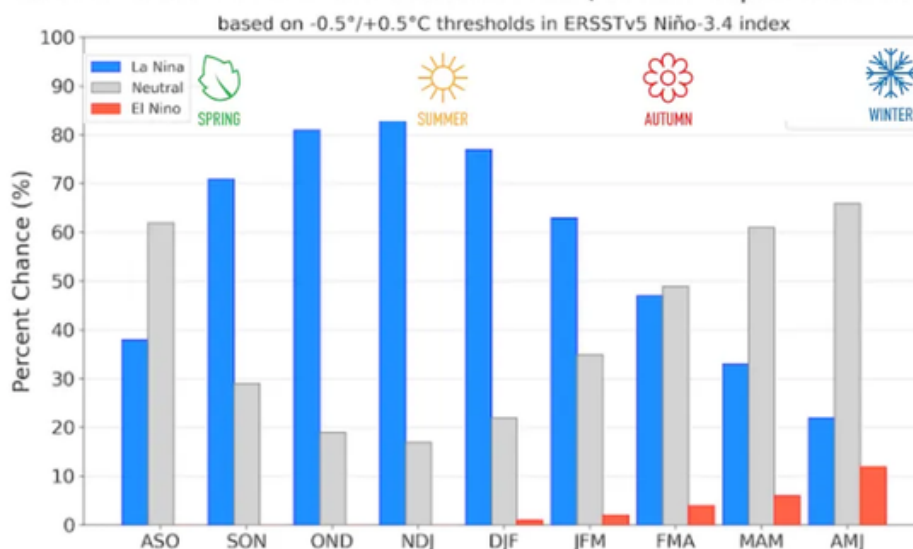
Risks

The agricultural commodities market is characterized by price volatility, which presents both opportunities and challenges for GrainCorp, potentially impacting margins across various business segments.

While GrainCorp's business model and market position offer significant strengths, investors must also be cognizant of the risks inherent in the agricultural sector and specific to the company's operations.

A primary concern is the impact of weather and climate variability on crop production, particularly in GrainCorp's core East Coast Australia region. Prolonged drought conditions or extreme weather events could significantly reduce grain volumes, adversely affecting the company's earnings.

Official NOAA CPC ENSO Probabilities (issued September 2024)



the predicted absence of El Niño until 2027 bodes well for both summer and winter crops, ensuring stable and profitable growing seasons.

Regulatory changes, particularly those related to renewable fuel policies, could significantly impact the outlook for GrainCorp's emerging agri-energy segment.

The company's substantial fixed cost base in storage and handling assets creates earnings volatility in low production years, although this risk is partially mitigated by the Crop Production Contract. Currency fluctuations, particularly in the Australian dollar, may affect the competitiveness of Australian grain exports in international markets.

Looking ahead, long-term climate change trends pose both physical and transition risks to GrainCorp's operations and grower base, necessitating ongoing adaptation strategies and investments in resilience

WHY HOLD THE COMPANY?

Why hold the Company?

GrainCorp presents a compelling investment opportunity, leveraging its strong market position and diversified earnings base. The company's leading infrastructure network in East Coast Australia provides a sustainable competitive advantage in grain handling and marketing. GrainCorp's integrated business model, spanning storage, processing, and marketing, enhances profitability and resilience across the agricultural supply chain.







Recent strategic initiatives and risk management tools have improved earnings stability, addressing historical volatility concerns. Growth potential in oilseed crushing and renewable fuels offers significant upside, supported by positive long-term demand trends in food and energy markets.

GrainCorp's strong balance sheet and consistent cash generation provide financial flexibility for growth opportunities while maintaining shareholder returns. The current valuation discount to global peers presents an attractive entry point, with potential for multiple expansion as the company executes its strategy.

Exposure to long-term growth trends in global agriculture and food demand positions GrainCorp well to benefit from increasing global population and changing dietary patterns. For investors seeking agricultural sector exposure, GrainCorp offers a well-managed company with a strong market position and clear growth trajectory.

GrainCorp Ventures

Continuing to expand our portfolio of Digital and AgTech investments

Our portfolio	About
	Developed antimicrobial peptides for livestock, as an alternative to antibiotics. Peptides seek to prevent disease and support growth, providing a humane, sustainable and productive alternate to antibiotics in feed rations
	Last mile connectivity solution for vehicles, machinery and businesses, leveraging multi carrier capabilities through hardware backed solutions to provide connectivity in rural and remote areas
	Leverages spectroscopy technology and machine learning algorithms to test traits of both solids and liquids through a handheld device such as grains, oilseeds, oils and dry matter
	Developed microbial technology to capture and store carbon in agricultural soils, with a specific focus on broadacre cropping products across Australia, US and LATAM
	Solution for testing, inspection and certification of agricultural commodities, combining computer vision, machine learning and IoT to assess varietal purity and conduct physical quality determination of grains and oilseeds
	Established by CSIRO, FutureFeed holds the global IP for the use of Asparagopsis seaweed in animal feed formulations to reduce methane emissions in livestock

Investment in Peptobiotics



- In April 24 GrainCorp Ventures invested in Singapore based startup Peptobiotics Series A funding round
- Hatch Blue led the oversubscribed round with participation from Singapore's Seeds Capital, Seventure Partners, and Farmabase

Disclaimer



Our Commitment

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