

NAMOI COTTON LIMITED (ASX: NAM)
HALF YEAR FINANCIAL RESULTS FY2023

The Company's half year EBITDA more than doubled to \$20.9 million in H1FY23 compared to H1FY22. Earnings from ginning operations were impacted by challenging weather and industry conditions, delaying ginning and increasing operating costs. However, improved performance from co-products and the joint venture businesses supported earnings.

Forecast return to profitability for FY2023 with a forecast full year EBITDA of \$19-21 million with a ginning volume of 1.2 million bales in the 2022 season from above average cotton production.

RESULTS SUMMARY

Provided below are the results for the consolidated entity Namoi Cotton Limited ('Namoi' or 'Namoi Cotton' or 'Company') and its controlled entities for the half year period, 31 August 2022 ('H1FY23') and the previous corresponding half year period, 31 August 2021 ('H1FY22').

Key financial results and items from continuing operations are included in the following table. For full details refer to the FY2023 Interim financial report for the half year ended 31 August 2022.

FOR HALF YEARS ENDED 31 AUGUST		H1FY23	H1FY22	MOVEMENT		
Production						
Australian cotton production (season) ¹	000' bales	5,626	2,678	2,947	110%	↑
Volumes						
Cotton ginned	000' bales	953	456	496	109%	↑
Cottonseed outloaded	000' tonnes	134	68	66	97%	↑
Earnings						
Net Revenue ²	\$m	74.8	36.0	38.8	108%	↑
EBITDA ³	\$m	20.9	9.0	11.9	133%	↑
Profit after tax ⁴	\$m	12.4	4.8	7.6	158%	↑
Balance Sheet						
Net Assets	\$m	128.0	121.9	6.1	5%	↑
Net Debt ⁵	\$m	61.1	35.1	26.1	74%	↑
Cottonseed inventory	\$m	29.7	10.9	18.8	173%	
Core Debt ⁶	\$m	31.4	24.2	7.3	30%	↑
Metrics						
Gearing ratio ⁷	%	32%	22%	10%	45%	↑
Diluted earnings per share ⁸	cents	7.2	2.9	4.3	148%	↑
Net tangible asset value per share	cents	74.4	71.0	3.4	5%	↑

Namoi will not declare any dividend in respect of the half year ended 31 August 2022 (H1FY22: nil).

ABOUT NAMOI COTTON

Our Vision and Mission is to be the leading Australian cotton agribusiness by independently linking growers to global markets.

Namoi Cotton's cotton business spans fibre, feed, supply chain and marketing with ginning being at its core. Our network of 10 gins at 9 locations in NSW and southern QLD serving over 200 growers, is supported by warehousing and packing, connected by rail and road to container ports.

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HALF YEAR RESULTS

Operations

The 2022 cotton season saw the return to above average cotton production after three below average seasons. The Company ginned 0.95 million bales as at 31 August 2022 [H1FY22: 0.46 million bales]. Forecast 2022 season ginning volume for FY2023 is around 1.2 million bales, representing an estimated 21% share of Australian cotton production [FY2022: 0.5 million bales and 18% share].

The Company operated all gins up to 24 hours a day⁹ to deliver a premium service. This was managed by our committed and qualified team, supported by 14 overseas ginners and up to 370 local and overseas casuals, across our ginning network and supply chain operations¹⁰.

The Company managed a ginning operation in challenging weather and industry conditions where:

- Wet weather delayed ginning 6-8 weeks, pushing cashflow and earnings into the second half. Around 80% of forecast cotton production was ginned [H1FY22: ~95%] and around 40% of sold cottonseed was outloaded in the first half of this year [H1FY22: ~50%].
- Cost inflation pressure on ginning margin, with processing and distribution costs increasing 18% (\$4.53 per bale)¹¹ in H1FY23 compared to H1FY22. This included operational pressures from a shortage in regional labour and several supply chain disruptions arising from flood events.

To maintain margin, the Company pursued complimentary earnings from co-products and joint ventures that included:

- Increased contribution from cottonseed marketing with increased volume and inventory, requiring additional working capital, and
- Increased earnings from the logistics and cotton lint marketing joint ventures¹² with higher volumes whilst managing volatility.

Earnings

Namoi generated an EBITDA² of \$20.9m [H1FY22: \$9.0m] and Profit after Tax of \$12.4m [H1FY22: \$4.8m]. The \$11.9m increase in EBITDA and \$7.6m increase in Profit after Tax from the half years H1FY22 to H1FY23 was achieved from above average volumes and restructure of the joint ventures¹³.

The Company is forecasting an EBITDA of \$19-21m for the full year FY2023 [FY2022: \$1.6m] supported by earnings from ginning and co-product sales which have been delayed into the second half of this financial year due to weather.

Balance Sheet and Cashflow

Namoi has strong asset backing with Net Assets of \$128m equating to \$0.74 per share at H1FY23.

The Company's Net Debt¹⁴ increased by \$26.1m to \$61.1m [H1FY22: \$35.1m] and Cashflow from Operating Activities reduced by \$14.1m to \$(8.99)m [H1FY22: \$5.6m] from the half years H1FY22 to H1FY23.

The increase in debt and reduced cashflow reflected funding a record \$29.7m cottonseed inventory for marketing. This inventory was funded from Namoi's operating cash and working capital facilities with \$10m in debt headroom available at the end of H1FY23. Most of the cottonseed inventory is expected to be executed by the end of FY2023, releasing unrealised earnings and cash to reduce debt.

4PP Strategy

The 4PP Strategy is targeting to increase through the cycle EBITDA by \$5 million¹⁵ by 2026 from initiatives to reduce cost and access new revenue sources. This will be supported by an investment of \$21 million in growth projects to create value for growers and returns to shareholders through:

- 1) Leading service and cost position – partner growers with our superior ginning network.
- 2) Innovative solutions – empower growers with differentiated products.
- 3) Broaden revenue base – geographically diversify our network and grow the core.
- 4) Great place to work – attract and retain talented staff.

4PP projects completed in 2022 include the Merah North gin upgrade and new Boggabri cottonseed shed, delivering additional margin from FY2023. The 4PP projects planned for 2023 season include the Trangie gin update and Boggabri gin mote recovery from cotton trash.

The Company is also pursuing network growth and diversification by processing expanding cotton production in northern Australia, that is expected to increase by over 5-fold¹⁶:

- Kimberley, WA: Namoi is a 20% shareholder in Kimberley Cotton Company (KCC)¹⁷ and will build and operate their new gin at Kununurra. Equipment procurement and construction to commence soon with gin expected to be operational from 2025.
- North Queensland: Long term project to assess the optimal location for a new joint venture gin(s) with local growers, working with local councils and QLD Government.

2023 Season Outlook

The outlook for cotton production for the 2023 season and beyond is good with continued La Nina conditions¹⁸ and good water availability as indicated by the current regional dam water storage levels in our catchment areas being at a 10-year high of 98%¹⁹.

Above average cotton production is forecast for the 2023 season, subject to suitable weather conditions for planting. ABARES is forecasting cotton production of 5.0 million bales²⁰ and Cotton Compass is forecasting cotton production of 5.5 million bales²¹.

Based on the above forecast range in cotton production we are expecting a ginning volume of 1.1 to 1.3 million bales in the 2023 season (FY2024).

This announcement was approved by the Board of Namoi Cotton.

For further information, please contact:

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¹ ABARES - Australian Bureau of Agricultural and Resource Economics and Sciences (September 2022).

² Revenue plus Trading margin gains plus Other revenue.

³ EBITDA is a non-IFRS and unaudited measure defined as earnings before interest, tax, depreciation, and amortisation including share of profit from associates and joint ventures and excluding impairment charges

⁴ Profit attributable to the members of Namoi Cotton Limited.

⁵ Net Debt - Interest bearing liabilities less cash and cash equivalents.

⁶ Core Debt – Net Debt less seasonal cottonseed inventory at market value held for marketing. (More relevant metric given the marketable and liquid characteristics of traded cottonseed)

⁷ Gearing ratio – Net Debt divided by Net Debt plus Total Equity.

⁸ Residual capital stock unconverted has not been included in the calculation because they are antidilutive.

⁹ Except North Bourke gin that operated 12 hour shifts.

¹⁰ Supply chain is managed by NCA (Namoi has 51% share).

¹¹ Processing and distribution costs divided by ginned cotton bale volume for H1FY23 vs H1FY22

¹² NCA, NC Packing Services Pty Ltd and NCMA joint ventures with Louis Dreyfus Corporation

¹³ Namoi Cotton Alliance ('NCA') restructure involved realigning our supply chain and trading activities with our joint venture partner, Louis Dreyfus Corporation. NCA managing supply chain activities (Namoi has 51% share) and a new joint venture, Namoi Cotton Marketing Alliance ('NCMA') to manage cotton trading activities (Namoi has 15% share) where our exposure to trading losses (and profits) is capped at \$1.5m p.a. with our joint venture partner responsible for debt funding.

¹⁴ Net Debt - Interest bearing liabilities less cash and cash equivalents.

¹⁵ Through the cycle target EBITDA of \$5 million excludes northern Australia growth projects and the potential positive or negative impact on earnings in the normal course of business.

¹⁶ Kimberley Cotton Company estimates and North QLD Cotton Gin Assessment and Feasibility Study (MITEZ 2021).

¹⁷ For more detail, refer to the market announcement on 13 September 2022 where Namoi announced that it entered into various agreements with KCC Kimberley Cotton Company Limited for the investment, construction and operation of a new gin to service the Ord River Irrigation Area.

¹⁸ Climate Update Driver - Bureau of Meteorology BOM 11 October 2022: "La Niña and negative Indian Ocean Dipole continue".

¹⁹ Bureau of Meteorology (BOM) – weighted average water capacity in rural system public dams in Namoi catchment valleys (BOM rural systems of Border Rivers, Macintyre, Gwydir, Namoi, Macquarie, Lachlan) at end September 2022.

²⁰ ABARES - Australian Bureau of Agricultural and Resource Economics and Sciences (September 2022).

²¹ Cotton Compass (17 October 2022).