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ASX Release

Nufarm trading update

ANZ business

Nufarm today announces that the current extended dry weather conditions in Australia have significantly impacted the ANZ business, with the FY18 EBIT contribution from ANZ now anticipated to be between AUD$5M-$10M (LY $51.6M).

Australia has experienced one of the driest autumns since records began more than 100 years ago, leading to an extremely poor winter crop season, and the Australian crop protection market is down substantially as a result. The limited demand for crop protection products across the country has led to increased competition and high inventory levels in the channel, resulting in significant margin pressure. These seasonal conditions have also impacted the mix of products sold, with growers purchasing lower margin foundational products over higher margin differentiated products. Nufarm's expected FY18 ANZ result also includes the impact of the previously communicated manufacturing plant upgrade works at Laverton North.

It is not unusual to experience dry conditions in early autumn, with a normal winter crop possible if a rain break arrives by mid-June, with July being the very latest that growers are able to plant. Feedback from channel partners was that the post-emergent market was expected to be stronger year on year because knockdown products were not used on millions of hectares of crops that were dry-sown due to the seasonal conditions. It is now clear that continued dry conditions into July are contributing to one of the driest seasons on record in many crop regions. By the end of Friday 20 July, following feedback from Nufarm teams in the regions who had been communicating with growers and channel partners, and with reference to weather and crop forecasts, it was determined that the market had reached a turning point, and it was now considered unlikely that a viable crop season would occur in many parts of the country and the expected demand for post emergent products would not eventuate. The Australian business' sales are weighted to the second half, and in a late season such as this year this is further exacerbated, with sales concentrated in the June and July months.

Anticipation of a normal winter crop season led to a high level of imports in the Australian crop protection market; however, the poor season has resulted in inventory levels across the sector that are substantially higher than anticipated. Given poor demand in FY18 there will be a substantial overhang of inventory in the channel. Grower demand will depend on a return to normal summer conditions in FY19, however it should be noted that the Australian Bureau of Meteorology (BOM) is currently forecasting a dry spring and has issued an El Nino watch alert. Anticipated low levels of demand, coupled with the current over-supply, is expected to constrain sales and margin into FY19.

Given the weak result for the ANZ business in FY18, and the anticipated flow-on impact to FY19, Nufarm is currently reviewing the impairment implications for the Australian business. Nufarm remains committed to the current strategy for the ANZ business. Over recent years the company has delivered extensive productivity improvements and strengthened competitiveness, consolidating six manufacturing plants into three and merging two main customer brands into a single Nufarm brand. Despite the drought conditions Nufarm remains confident it has retained market share in Australia, in line with the long term strategic objective. Nufarm will continue to execute against the group strategy, delivering the previously announced transformation projects and embedding a culture of continuous improvement across the business.

Net Working Capital

Nufarm also expects Net Working Capital (NWC) for the Group at 31 July to be A$200M-$300M higher than last year. This reflects the high inventories in the Australian business due to the difficult seasonal conditions, and the higher receivables in the Northern Hemisphere countries resulting from the delayed seasons in those markets (long and relatively cold winter seasons). Average NWC to sales will remain at approximately 38%. The higher NWC at 31 July will adversely impact net debt and cash flow for the Group.

French derogation for Imidacloprid (Nuprid 600)

On 29 May 2018, the European Commission published Directive 2019/783 restricting European use of three categories of neonicotinoids to greenhouse use only. Nufarm had submitted a derogation application to the French Government in December 2017 and following the publication of the EC Directive subsequently submitted an application under French Biodiversity Law for approval for use of the company's Imidacloprid-based seed treatment product, Nuprid 600, in cereal crops for a prolonged European autumn sowing period (120 additional days). Nufarm had already received derogation for use of Nuprid 600 in the cereal growing countries of Romania and Hungary for the European autumn 2018 planting season.

Nufarm had hoped to receive a decision by the Government by the end of last week, allowing for Nufarm's participation in the grower application window in the balance of July 2018. However, as of the date of this announcement, the French Government is yet to make a decision on our derogation application. As a result Nufarm is likely to miss the grower application window for the season, resulting in an approximately A$12m earnings shortfall in the FY18 result.

Group FY18 result

Nufarm now expects the Group FY18 underlying EBIT result to be in the range of A$255-$270M.

Note: Nufarm's financial year runs 1 August to 31 July

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