QUBE HOLDINGS LIMITED
ABN 14 149 723 053

Level 27, 45 Clarence Street
Sydney NSW 2000

T: +61 2 9080 1900
F: +61 2 9080 1999

qube.com.au

22 August 2019

ASX Announcement

Qube delivers another positive result with earnings growth across all divisions and a return to underlying EPS growth.

- Underlying NPAT attributable to Qube up 15.4% to $123.2 million ($139.2 million pre-amortisation)
- Underlying revenue growth of 4.7% to $1.73 billion
- Statutory NPAT attributable to Qube of $196.6 million ($212.6 million pre-amortisation)
- Full year dividend of 6.7 cents per share fully franked

Qube Holdings Limited (Qube) today announced another positive financial performance for the year ended 30 June 2019.

Highlights for the period include:

- Strong market positions and diversification strategy enabled Qube to continue to achieve solid earnings growth and deliver on guidance despite challenges in some parts of the business

- Sound progress with planning, construction and leasing activities at Qube's Moorebank Logistics Park (MLP)

- Patrick delivered a solid increase in earnings supported by market growth, increased market share and productivity improvements

- Acquisitions and growth capex completed or announced during the period provide further diversification and support future earnings growth

- Statutory earnings include sizeable fair value gains on Qube's investment properties (slightly below the comparable FY18 gains) which were partially offset by the impairment of Qube's investments in NSS, Prixcar and Quattro

- Leverage ratio of 32.5% is at the lower end of Qube's long term target range of 30%-40%

- Final ordinary dividend increased by 3.6% to 2.9 cents per share (fully franked) bringing the full year dividend to 6.7 cents, inclusive of the special interim dividend of 1.0 cent per share paid in April 2019.

Releasing the full year result, Qube Managing Director Maurice James said, “In the face of some strong economic headwinds, this is a pleasing result. Qube’s diversification strategy has protected the business from a slowing economy and helped deliver our continued good performance.

Throughout 2019 management focussed on growing market share, defending margins in a competitive environment while maintaining tight control of costs across the business units.

This result also reflects Qube’s significant investment over many years on equipment, facilities and technology to build scale, improve efficiency and reduce costs, thereby enabling it to provide a cost effective, reliable service to its diverse customer base.

The result also benefitted from several acquisitions that expanded Qube’s service capability, geographic and product diversification and brought additional management depth and expertise to the group,” Mr James said.

Financial Performance and Operational Review

Underlying revenue in the period was approximately $1.7 billion (+4.7%), underlying earnings (EBITA) was $180.5 million (+9.5%) and underlying net profit after tax before amortisation (NPATA) was $139.2 million (+13.4%). Underlying earnings per share pre-amortisation (EPSA) was 8.7 cents, an increase of around 13.0% on the prior corresponding period.

Statutory revenue increased by 3.9% to approximately $1.8 billion and statutory profit after tax attributable to shareholders decreased by 1.4% to $196.6 million. Statutory diluted earnings per share decreased by 1.6% 12.2 cents per share. The statutory result includes a pre-tax profit of $155.5 million (FY18 $163.2 million) on the revaluation of Qube’s investment properties, the largest component of which is Moorebank, as well as a pre-tax impairment expense of $14.0 million relating to Qube’s investments in associates NSS, Prixcar and Quattro (FY18 $9.3 million).

Operating Division

All business units in the Operating Division, Logistics, Ports and Bulk delivered growth despite operating in competitive markets, the effects of drought, declines in new car sales (and imports), a slowdown in container volume growth, tight operating margins and a decline in some commodities in the period. We continue to see further growth opportunities (through both organic growth and acquisitions) across a range of activities that fit our core strategy.

The Operating Division reported underlying revenue growth of 4.5% to $1.6 billion and underlying earnings growth (EBITA) of 6.8% to $160.6 million. This was a sound result given the continuation of a highly competitive environment and the full year impact of several contracts that ceased during the previous financial year.

The acquisition of LCR in May 2019 is expected to provide further product, service and geographical diversification for Qube and will add to the experience and breadth of Qube’s management team.

The logistics operations generated revenue of approximately $711.3 million which was marginally lower than the prior period. The result was considered to be satisfactory given the low agricultural volumes, slowing of container volumes, competitive conditions and the end of the terminal services contract with Aurizon at North Dynon (VIC) during FY18 and Acacia Ridge (QLD) in November 2018.

In April 2019, Qube acquired a 49% interest in the Intermodal Group (IMG) from Watco International who will remain the majority shareholder. IMG operates two rail terminals and a container park in the Perth area. The investment will enable Qube to further participate in the benefits of IMG's strategy of utilising rail haulage to and from ports where it can deliver cost and service efficiencies for its customers.

The ports and bulk operations generated revenue of approximately $913.3 million, representing an 8.6% increase compared to the prior period, which was mostly driven by the growth in the Bulk activities.

The bulk operations were the highlight of the division and Qube continued to secure new contracts and ramp up the earnings from contracts secured in the prior period as well as from improved equipment utilisation and procurement benefits. The result was particularly pleasing given a decline in iron ore, concentrates and mineral sands volumes. The result was also assisted by the contribution from acquisitions and investment made during the period.

Qube remains uniquely positioned to provide its customers with an end-to-end logistics solution covering bulk haulage of product, storage of product and stevedoring, and completed the construction of several new warehouses in the period to provide additional capacity for its customers.

Infrastructure and Property Division

The financial performance of the Infrastructure & Property division was above expectations, with underlying revenue and underlying EBITA increasing in FY19 by 8.8% and 18.4% to $103.8 million and $39.2 million, respectively. This was predominantly a result of higher earnings from the MLP project, driven by increased management fees and ancillary income, and increased earnings from the Minto investment property benefitting from additional leases that commenced in FY19. AAT's earnings were lower in FY19 due to the full period impact of the exit from Webb Dock West in Melbourne in December 2017 and the impact of weaker motor vehicle imports across AAT's facilities that more than offset higher project cargo and bulk volumes.

The associates in the division generated an overall NPAT loss of $1.3 million that was mainly attributable to Quattro, which continues to be impacted by the lack of export grain volumes through its facility due to the drought.

Moorebank Logistics Park

Progress at the Moorebank Logistics Park project was pleasing throughout the year. Construction of the IMEX terminal and the rail link from the Southern Sydney Freight Line was completed. A major tenant, Target Australia, has commenced operations. Progress on attracting other tenants has been excellent and in accordance with the company's expectations.

From a planning perspective, all significant approvals are in place for Moorebank Precinct East (MPE) for the IMEX terminal (250,000 TEU capacity in manual operation and automated operations to 500,000 TEU) and 300,000m^2 of warehousing. A future application will be submitted to expand capacity to 1.0 million TEU.

From a construction perspective, the 37,830m^2 new warehouse for Target Australia NSW distribution centre was completed this year.

The IMEX terminal, for manual operation mode, was also completed during the year. Qube Logistics secured the accreditation from the Office of National Rail Safety Regulator for the IMEX terminal and rail connection. Rail operations and manual operations at the IMEX terminal remain on track to commence in the September quarter 2019.

Qube signed several new agreements for lease in the period and is in various discussions with a range of potential additional tenants for the site.

Qube has finalised two Agreement for Lease (AFL) with BRW Logistics and Caesarstone for one new multi-tenant warehouse of 19,020m^2. Negotiations are well advanced for another new multi-tenant warehouse of 23,262m^2, with Qube having agreed on commercial terms with one party for part of this warehouse and progressing negotiations with another party for the remaining space. Completion of the two warehouses is expected in the March quarter 2020 and June quarter 2020, respectively.

As previously disclosed, Qube Logistics will be constructing a 51,250m^2 warehouse at MLP, and is well advanced in securing customers. Construction is expected to be undertaken during FY20 and be completed by the June quarter 2020.

The tenants that either have been secured or are expected to be secured in the near term are expected to utilise 120,100m^2 of new warehouses (14% of total warehousing capacity once fully built) and generate annual volumes through the IMEX rail terminal of around 100,000-150,000 TEUs (10%-15% of the automated IMEX capacity) on an annualised basis once the warehouses are all fully operational.

During the period, the previously disclosed commercial dispute with the Moorebank Intermodal Company (MIC) relating to land preparation works undertaken for MIC on the western side of the Moorebank Avenue was resolved to the satisfaction of both parties.

Beveridge option

In September 2018, Qube entered into an exclusive call option to acquire 1,100 hectares of land at Beveridge located around 60 kilometres north of Melbourne (Beveridge Project).

Qube believes that the Beveridge Project has the potential to be a major intermodal logistics hub in the medium term. The option arrangements provide Qube with time to progress its financial analysis, obtain planning approvals and assess suitable partnering options to enable it to determine the optimal way to proceed with this opportunity to maximise value for Qube shareholders.

Patrick

The underlying contribution from Qube's 50% interest in Patrick was $30.0 million NPAT and $38.1 million NPATA, an increase of 11.5% and 9.5%, respectively, over the prior corresponding period. This contribution is inclusive of Qube's share of interest income ($16.7 million post-tax) on the shareholder loans provided to Patrick.

Patrick continued to generate strong cashflow in the period, distributing $100 million to Qube in the period through a combination of interest, franked dividends, repayment of shareholder loans and return of capital. The statutory contribution to Qube's NPAT (being interest income on shareholder loans and share of profit after tax) was a profit of $28.4 million.

Although Patrick generated solid growth in earnings, the result was slightly lower than expectations largely because of the slowdown in container volumes in the second half of the period. Full year market volumes (TEUs) grew by around 1.9% over the 12 months to 30 June 2019, including growth of 4.4% in the first half of FY19 and negative growth of 0.7% in the second half of FY19 compared to the prior FY18 corresponding periods. Patrick achieved an above market growth in lifts of 5.8% in FY19 compared to market growth of 1.2%, reflecting gains in market share (FY19 market share of around 46% (lifts)) from the full year benefit of contracts secured in FY18 as well as FY19 service wins and a high level of customer retention.

External interest costs were lower following the successful refinancing of Patrick's debt in March 2019 which reduced the cost of Patrick's debt and provided much greater flexibility and headroom to covenants, although net interest expense was slightly higher in FY19 compared to FY18 as Patrick generated less interest income in the period.

Work has commenced at Patrick's Port Botany terminal to enhance the rail capacity and operating efficiency. During the period, pre-feasibility studies and design work have been undertaken whilst construction is expected to commence in the September quarter 2019.

Outlook

In FY20, Qube expects broadly similar overall economic and competitive conditions to FY19 with a continuation of the subdued trends in container, grain, vehicle and general cargo volumes and no significant change in conditions in Qube's other key markets including bulk commodities, forestry products and oil and gas related activities.

Qube's organic growth opportunities, combined with the earnings from its recent and future capital expenditure, are expected to support sustainable earnings growth over the medium to long term.

In FY20, subject to no material adverse change in economic or market conditions, Qube expects to report another solid increase in underlying NPAT (pre-amortisation) and continued improvement in underlying earnings per share (pre-amortisation).

Further Enquiries:

Paul White
Director – Corporate Affairs
+61 417 224 920

Paul Lewis
Chief Financial Officer
+61 2 9080 1903