ASX/Media Release

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FY2019 RESULTS ANNOUNCEMENT

Huon Aquaculture Group Limited (ASX: HUO) has delivered a net profit after tax (NPAT) of $9.5 million for the year ended 30 June 2019 ($26.4 million FY2018). As forecast at the beginning of the year, performance was impacted by a fall in harvest volumes and higher operating costs carried over from FY2018. This was further exacerbated during the year by a jellyfish event which increased production costs and caused poor growth rates associated with the secondary health impacts of affected salmon, increasing per kilogram production costs.

SUMMARY OF BUSINESS PERFORMANCE FOR FY2019

- Revenue of $282.0 million representing an 11% decline on pcp due to an 18% reduction in harvest tonnage
- Statutory NPAT fell 64% on pcp to $9.5 million
- Operating NPAT declined 55% due to the reduced harvest and a 16% increase in production costs/kg arising from the higher operating costs from the prior year and additional costs associated with the jellyfish bloom
- Average harvest weights fell to 4.40kg compared to 4.78kg in FY2018 as fish growth was seriously impacted by gill necrosis, a disease caused by contact with jellyfish, and exacerbated by warm water temperatures which persisted until April 2019.
- The 34% decline in Operating EBITDA to $47.3 million combined with increased working capital requirements associated with rebuilding the biomass, lower production volumes and higher per kg costs, resulted in a 75% reduction in cash flow from operations to $14.5 million ($57.9 million in FY2018).
- Capex of $64.3 million during the year was largely debt funded, contributing to a $57.5 million increase in net debt to $138.8 million and a 69% increase in gearing to 44%.
- Directors have declared a final dividend of 3 cents per share, franked at 50% and payable on 17 October 2019. This represents a total dividend of 6 cents per share for the year (10 cps in FY2018).

FINANCIAL SUMMARY

	Year ended 30 June		2019	2018	% Change
	Tonnage	t	18,849	22,968	-18%
1	Revenue	$M	282.0	317.9	-11%
	Revenue per HOG kg	$/kg	14.96	13.84	8%
2	EBITDA	$M	38.2	58.9	-35%
	NPAT	$M	9.5	26.4	-64%
3	Operating EBITDA	$M	47.3	71.8	-34%
4	Operating NPAT	$M	15.9	35.4	-55%
	Fair value adjustment of Biological Assets	$M	(9.1)	(12.9)	-29%
	Biological Assets	$M	209.1	169.4	23%
	Cashflow from Operations	$M	14.5	57.9	-75%
	Net debt	$M	138.8	81.3	71%
5	Total gearing ratio	%	44.2%	26.1%	69%
	Earnings per share	cents	10.82	30.21	-64%
	Dividend per share	cents	6.00	10.00	-40%

1 Revenue from the sale of goods.
2 EBITDA is earnings before interest, tax, net depreciation and amortisation.
3 Operating EBITDA excludes the impact of the Fair Value Adjustment of Biological Assets.
4 Operating NPAT excludes the impact of the Fair Value Adjustment of Biological Assets and related tax impact.
5 Total Gearing Ratio is measured as debt (net of cash)/net assets.

RESULTS COMMENTARY

Huon faced a combination of operational challenges during the 2019 financial year which contributed to a greater reduction in production volumes than originally anticipated. FY2019 commenced with a lower biomass following difficult operating conditions in the prior year which resulted in part of the FY2018 harvest being brought forward. Then, late in the first half of FY2019, some of the pens in the Huon River and D'Entrecasteaux Channel came into contact with a moon jellyfish bloom. This resulted in increased fish mortalities both directly and indirectly over the following months due to a related outbreak of gill necrosis. For those fish that survived, growth rates were compromised until such time as water temperatures fell below 16 degrees Celsius which did not occur until April 2019. This was signaled to the market in updated guidance provided on 6 May 2019 when harvest volumes were reduced by 1,000 tonnes to 19,000 tonnes.

As a consequence of reduced production volumes, sales revenue fell 11% to $282.0 million, mitigated by the sustained strength of the salmon price locally and internationally. The majority (92%) of Huon's harvest went to the domestic market in order to maintain sales in a market labouring under supply shortages. The overall average price received during the year increased 8% to $14.96/kg on the previous corresponding period (pcp).

Lower production volumes however also resulted in higher per kg operating costs given the high fixed cost nature of Huon's business. This, together with additional expenditure associated with fish mortalities and managing the jellyfish bloom, reduced Operating EBITDA by 34% to $47.3 million.

"The various challenges that we have been dealing with during the past year are significant in terms of their impact on the financial performance for FY2019 but they need to be placed in context. These events come with the territory when working with nature so we have to manage through them and move on. We are already well on the way to a strong recovery in FY2020 demonstrating that our capital investment program over the past five years has strengthened Huon's capacity and its resilience, ensuring the impact of these difficult periods is short-lived."

In FY2019 construction of the Whale Point Salmon Nursery was completed with first production commencing in February 2019. The nursery allows Huon to significantly increase its production capacity, which has required continual innovation to support that capacity. This year a 600 tonne feed barge, the Huon Hogan, was moored at Storm Bay and a second generation well-boat, the Ronja Storm, is due for delivery at the end of 2019. At Storm Bay, two of the four leases were brought into operation and in May 2019 Huon was granted a new lease in the area known as East of Yellow Bluff. This lease will increase the available capacity of Storm Bay to 20,000 tonnes as well as deliver improved biosecurity by including further separation of year classes of fish.

"FY2020 will be the first year since 2014 when Huon is not implementing significant change in some part of its business. It will be an important period of consolidation, focused on driving the efficiency benefits that come with scale investment and leveraging technology," said Mr Bender.

RISK MANAGEMENT

The experience of a moon jellyfish bloom in the Huon River and D'Entrecasteaux Channel in the closing months of 2018, was dealt with efficiently and effectively. However it is the impact of such events on the health of those fish that survive the initial contact that can cause the most damage. By February it became clear that the warmer waters being experienced over the summer were fostering the development of gill necrosis, a secondary impact from the jellyfish encounter. This impacted the survival rates of those fish affected, which persisted through to April when the water temperature started to fall below 16 degrees. At this temperature gill health recovers naturally.

CAPITAL MANAGEMENT

During the year Huon spent $64.3 million in the second of a two year $150 million capital expenditure programme concentrated on developing the infrastructure to support a significant expansion in production over the next 3-5 years. The majority of funds came from recently renegotiated debt facilities, resulting in net debt increasing 69% on pcp to $138.8 million and gearing rising to 44%.

Adjusted Cash Flow from Operations (Cash Flow from Operations plus interest and tax paid) fell during the year from $57.0 million (pcp) to $24.9 million as a result of the reduced production volumes, higher costs per kilo and the increased cash requirement associated with rebuilding the biomass by 23% to $209.1 million.

Directors have declared a final dividend of 3.0 cents per share, franked at 50% and payable on 17 October 2019. In total 6.0 cents per share will have been paid for FY2019 (10.0 cents per share in FY2018), representing an annual payout ratio of 33% of net operating profit after tax.

OUTLOOK

Huon's forecast of production volumes for FY2020 of at least 25,000 tonnes, provided in its trading update of 6 May 2019, is based on its substantial investment in rebuilding the biomass over 2019. Huon currently has fish in production that will support a 30,000 tonne production in FY2021 which is where the business would have been if it had maintained its planned growth profile of 10% pa, prior to the setback experienced in FY2019.

The strong pricing environment throughout FY2019 is expected to continue in FY2020, delivering pricing at levels up to $14.50/HOG kg.

FY2020 will also be the first year since 2014 in which Huon is not investing aggressively in the business, providing the opportunity for a period in which the recent expansion in capacity can be fully consolidated. The high operating cost per kg that has been built into the 18 Year Class fish over the 2018/19 summer will continue, therefore we are expecting cost of production (including freight) to be above $11.50/HOG kg.

Despite this, there is good reason to be optimistic that both operating and statutory earnings will recover strongly this year on those reported in FY2019, assuming there are no abnormal weather or biological events. Importantly, the completion of the second of two major efficiency and expansion programs has put in place a platform that will deliver a sustainable reduction in costs beyond FY2020*.*

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For further information, contact:

INVESTOR CONTACT
Philip Wiese
Huon Aquaculture Deputy CEO
0428 311 739
pwiese@huonaqua.com.au