# ASX/Media Release

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**FIRST HALF FY2020 RESULTS ANNOUNCEMENT**

**Huon Aquaculture Group Limited (ASX: HUO) has delivered a net profit after tax (NPAT) of $22.0 million for the six months ended 31 December 2019 ($26.4 million pcp). Performance in this half reflects the lower selling price achieved in the international market. Following two consecutive years of challenging operating conditions, the investment in rebuilding the biomass has resulted in the harvest increasing 48% to 13,300 tonnes, consistent with our forecast of at least 25,000 tonnes for the year. There is a significant increase of biomass in the water which will underpin increased production in FY2021 and FY2022.**

**SUMMARY OF BUSINESS PERFORMANCE FOR 1H2020**

- Revenue of $178.1 million (+ 31% on pcp), supported by a 48% increase in harvest tonnage
- Statutory NPAT of $22.0 million ($26.4 million pcp)
- Operating NPAT declined to $3.7m due to a change in channel mix which resulted in a 12% fall in average price. In addition interest expense and depreciation charges were higher due to the largely debt funded increase in capital expenditure over the past two years
- The average harvest weight increased to 5.07kg from 4.10kg in 2H2019 as fish growth responded to the improved operating environment
- Cashflow from operations ($19.3m) recovered from the previous corresponding period (-$1.6m) due to the increased weighting of sales to exports – higher collection rates resulted in increased cash in 1H2020
- Increased working capital requirements during the half resulted in an 8% increase in net debt to $139.7 million (pre AASB 16) and a similar rise in gearing on pcp to 42%
- Capital expenditure for the half is well down ($12.5m) following the completion of the expansion programme in FY2019
- Due to the ongoing focus on building biomass and continued high debt levels, Directors have suspended the dividend for FY2020.

**FINANCIAL SUMMARY**

| Six months ending 31 December | | Post AASB 16 2019 | Pre AASB 16 2019 | Pre AASB 16 2018 | Pre AASB 16 % Change |
|---|---|---|---|---|---|
| Tonnage | t | 13,321 | 13,321 | 9,019 | 48% |
| Revenue | $M | 178.1 | 178.1 | 136.3 | 31% |
| Revenue per HOG kg | $/kg | 13.37 | 13.37 | 15.11 | -12% |
| EBITDA | $M | 49.2 | 46.6 | 46.6 | 0% |
| NPAT | $M | 22.0 | 22.6 | 26.4 | -14% |
| Operating EBITDA | $M | 23.0 | 20.4 | 21.6 | -6% |
| Operating NPAT | $M | 3.7 | 4.3 | 8.9 | -52% |
| Fair value adjustment of Biological Assets | $M | 26.2 | 26.2 | 25.0 | 5% |
| Biological Assets | $M | 252.1 | 251.6 | 228.5 | 10% |
| Cashflow from Operations | $M | 19.3 | 14.2 | (1.6) | na |
| Net debt | $M | 234.4 | 139.7 | 129.4 | 8% |
| Total gearing ratio | % | 72.0% | 41.8% | 38.8% | 8% |
| Earnings per share | cents | 25.19 | 25.83 | 30.17 | -14% |
| Dividend per share | cents | nil | nil | 3.00 | na |

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.

## PERFORMANCE OVERVIEW

By the end of the first half Huon was on target to achieve its objective of making up the ground lost due to the setbacks in production from biological and weather events in FY2018 and FY2019. The loss in momentum resulted in Huon falling behind its annual growth target for production of 10% pa so a major focus has been to return the biomass levels back to where they would have been, had these setbacks not occurred. The performance of the 2019 year class, particularly in the second quarter, has been exceptionally strong, predominantly as a result the structural improvements that have been made over the past two years.

The successful completion of the investment program has meant that Huon is now in a position to increase salmon supply into a growing domestic and international market. Huon can, in effect, focus on its core strategy of growing the market, growing production and enhancing operational efficiency, and doing so both safely and sustainably.

A major part of the investment program was the construction of the Whale Point Nursery, the outcomes from which have to date been in line with expectations. In its first year it has enabled us to grow smolt to a larger size before putting them to sea – the 2019 Year Class average size when released was 20% higher at 282 grams compared to the 2018 Year Class. Feed rates and feed conversion have continued to improve as a result of executing various feeding strategies. A key contributor to that has been the use of monitoring equipment installed in the pens, controlled remotely from Hobart, which continue to enhance feed efficiencies.

Huon began FY2020 with low harvest weights and growth in the first quarter which was slow to recover from the effects of summer 2018/19 and jellyfish and gill necrosis issues. This resulted in low sales volumes in the first three months as the business had predominantly only small fish to sell which reduced its competiveness in the wholesale market. It also meant export sales were difficult, particularly in the China market where there is a preference for larger fish.

Growth rates were slow to pick up, however there was a noticeable improvement in spring and early summer. With fish size now more competitive in the wholesale market, and more acceptable for export markets, harvest rates were increased through the second quarter.

The rebuild of the biomass, even with a late start to growth, has created a significant amount of fish to sell with the planned harvest for FY2020 totalling at least 25,000 tonnes. Even with wholesale sales responding to a more acceptable fish size, the increased growth resulted in higher tonnages into the export market.

As expected retail volumes eased with the completion of the MAP contract at the end of FY2019. In line with Huon's long term strategy to grow its retail channel, we increased our supply into retail segments outside existing contractual requirements. Over 2,000 tonnes was sold through the retail channel in 1H2020, compared to around 2,500 tonnes sold on average each half with the MAP contract. This was an encouraging sign that the retail market recognises Huon's reputation for quality and that there is unmet demand for its product.

With the volume split across the year expected to be even, Huon is on target to meet 25,000 tonnes for FY2020.

Production costs have risen over the last two financial years as a direct outcome of the challenges experienced and these have carried through into FY2020 with the 2018 Year Class. With a high proportion of feed being imported Huon has also suffered from higher feed costs as the Australian dollar continued to fall. The higher fish cost will continue until the 2019 Year Class harvest commences in the final three months of FY2020.

A major shift in industry dynamics for feed is underway as feed supply has progressively been changing with BioMar and Ridley both building new feed mills in Tasmania over the past year. Huon now has the choice of feed sourced from three plants in the state which will provide both logistical and efficiency advantages for Huon commencing in the final quarter of FY2020.

A major milestone was passed in 2019 when Huon secured the East of Yellow Bluff lease in Storm Bay. This represented the final piece of the biosecurity puzzle that needed to be put in place for Huon to position its farming operations in line with the industry biosecurity plan. Having fish in the right farming areas at the right time minimises the biological risk and at the same time provides efficiencies in the management of the biological stock. In combination with Huon's hatcheries and grow out facility it also maximises throughput options and takes salmon growing capacity towards 40,000 tonnes.

This year the industry also implemented a trial vaccine for pilchard orthomyxo virus (POMV). Over the past eight years POMV has become more prevalent, increasing the level of mortalities and reducing growth outcomes for affected fish. The vaccine, developed with support from the Government and industry, has proved extremely beneficial with mortalities during the smolt input phase (when fish are most at risk) significantly reduced. All smolt going to sea in CY2020 will be vaccinated with the new vaccine.

With the higher number of fish projected to be required to meet Huon's growth in production, Huon has invested $2.5m into the industry breeding program. This takes its share of the biological output from the program from 21% to 50%. With larger populations going to sea this move ensures that Huon will maintain its ability to receive maximum benefit from the breeding program which is aimed at developing fish suited to the Tasmanian environment and to combat amoebic gill disease (AGD). It is one of the key components in Huon's strategy to protect the business from the impacts of climate change. Recent technological advances introduced should see step change improvements in the future biological output from the program.

During February the well boat Ronja Storm arrived in Tasmania. Currently the most advanced fish bathing and transportation vessel in the world, the Ronja Storm is the last major part of the Huon growth strategy's investment in infrastructure. The vessel is designed to enable it to achieve increased production capacity and do it more efficiently. It includes technical advancements including on board fresh water production and higher capacity water quality systems and oxygen generation. The large size is designed to facilitate one cycle bathing of Huon's existing 240m pens to ensure fresh water bathing is efficient and low stress on fish. This bathing cycle is expected to reduce the number of baths each pen will require over the fish lifecycle. An on board grader will allow progressive harvesting in the latter stages of the fish lifecycle. By progressively harvesting a specific fish size, more fish per pen are expected to be grown without impacting Huon's existing low stocking density.

As a result of the ongoing focus in 1H2020 on building biomass and good spring and early summer growing conditions, together with the completion of all major infrastructure projects in FY2019, debt levels have remained high. As a result the company has negotiated with its banking partners to provide greater headroom to the key banking covenant, the leverage ratio, which has been increased for FY2020 from 3.0 to 3.5 times. Scheduled debt repayments in Q4 of $5m have also been postponed. Profit in the half was not within business expectations so the focus has been clearly set on managing cash flow to support the biomass rebuild. As a result, the Directors have decided to suspend the dividend in FY2020.

**OUTLOOK**

Predominantly as a result of the structural improvements that have been made over the past two years and the successful completion of the investment program, the performance of the 19Year Class to date is the best ever. Fish are the biggest they have ever been at this time of year, survival rates the highest and with improved feed conversion rates.

The benefits of the improved 19Year Class won't be realised until FY2021 and the increase in working capital it has driven has resulted in high debt levels being maintained.

Huon's forecast of production volumes for FY2020 of at least 25,000 tonnes, provided in its trading update at the AGM of 23 October 2019, is unchanged. There are currently fish in production that will support at least 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.

While we remain focused on driving operating efficiencies through the business, the residual impact of the fish losses and poor growth from the 2018 Year Class have slowed the rate at which the cost of production can come down. Nevertheless we expect cost of production (including freight) in the second half to be similar to that in the first half at c. $11.80/HOG kg as the 2019 Year Class commence being harvested in the final months of FY2020.

Huon has experienced a challenging trading environment in the first half of FY2020. This was in part due to a better than expected season in other growing regions that lifted supply, and made our first half more challenging than first thought due to us exporting more fish this half than the prior corresponding period. Despite the pricing volatility experienced in the first half, market demand continues to exceed supply with international pricing forecast for CY2020 to be 17% above those seen in Q4 of CY2019.

Domestic demand continues to grow at around 10% pa whilst the supply dynamics both domestically and globally continue to be tight, underpinning long term revenue growth.

The building blocks are now in place for Huon to deliver the expansion in production that was envisaged at the time its Controlled Growth Strategy was launched in 2014. We have record biomass in the water and are confident that the completion of our second major efficiency and expansion programme will deliver a sustainable reduction in costs beyond FY2020. There is good reason to be optimistic that both operating and statutory earnings will recover strongly this year on those reported in FY2019.

**ENDS**

For further information, contact:

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