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ASX Announcement

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Qube delivers first half growth despite headwinds

Underlying revenue up 12.9% to $970.1 million and underlying NPATA up 5.1% to $76.3 million

	Underlying information		Statutory Information	
	$m	**Change from pcp**	**$m**	**Change from pcp**
Revenue	970.1	+12.9%	957.3	+14.4%
EBITA	95.6	+2.1%	102.8	+9.8%
NPAT	68.0	+5.3%	51.7	-15.9%
NPATA	76.3	+5.1%	60.0	-13.7%
NPATA (Adjusted for AASB 16)	76.3	+5.1%	70.3	+1.2%
EPSA (cents)	4.7	+4.4%	3.7	-14.0%
EPSA (cents) (Adjusted for AASB 16)	4.7	+4.4%	4.4	+2.3%
Interim DPS (cents)	2.9	+3.6%	2.9	+3.6%

Highlights for the period include:

- Reasonable earnings growth despite economic headwinds, reflecting Qube's diversified earnings base.

- Major contracts signed with Shell Australia and Bluescope Steel support medium term growth.

- New Target warehouse completed, Import / Export (IMEX) terminal and rail operations commenced at Moorebank Logistics Park (MLP).

- Commercial and legal negotiations are progressing with a potential major tenant for a material part of Moorebank Precinct West (MPW) and binding agreements are being finalised. It is presently expected that the counterparty's Board will consider approval of the finalised agreements in the near future.

- Commenced a monetisation / partnering process focussed on MLP that may enable Qube to realise some of the substantial value that has already been created and to reduce Qube's future funding requirements.

- Underlying earnings per share (pre-amortisation) up 4.4% to 4.7 cents per share and interim dividend increased by 3.6% to 2.9 cents per share, fully franked.

Statutory earnings (NPAT) for the period were $51.7 million which was lower than the prior corresponding period's statutory earnings and Qube's underlying earnings for the current period. This was mainly due to the impact of the new lease accounting standard (AASB 16) which applied to Qube from 1 July 2019 and which reduced Qube's statutory after-tax earnings in the period by around $10.3 million (but had no impact on Qube's underlying earnings or cashflow).

Releasing the interim result, Qube Managing Director Maurice James said: "There has been a steady performance across the Qube group demonstrating again the resilience of our earnings base across our chosen markets.

Qube was able to deliver earnings growth despite challenges in some parts of the business including declining motor vehicle and container volumes and the continued effect of the drought".

Safety

Over the past six-month period Qube has continued to see a reduction in the number of injuries and serious incidents across the business as reflected in LTIFR and TRIFR results. Qube's focus continues to be on critical risks which apply to everyone within the business, including contractors and visitors. The critical risk program is about ensuring that mitigation plans are in place across Qube's workplaces, to identify the critical controls that must be in place before and during work.

During the period, Qube was deeply saddened by the death of an employee who died in hospital after being injured loading material at a mine site in Western Australia (WA). The WA Department of Mines are investigating the matter and Qube management has been working closely with workplace health and safety investigators to help them determine the cause of the incident which related to mechanical failure of a load covering mechanism on a Qube vehicle.

Moorebank Logistics Park

Qube continued to make very good progress developing the MLP with Target's new warehouse completed and operational early in the period, and IMEX and rail operations commencing on schedule in early November 2019. The high level of activity is continuing into calendar 2020 as warehouse and rail activities begin to ramp up and precinct works progress on MPW.

Commercial and legal negotiations are progressing with a potential major tenant for a material part of MPW and binding agreements are being finalised. It is presently expected that the counterparty's Board will consider approval of the finalised agreements in the near future. The counterparty had previously signed the reservation agreement with Qube to secure an area at MLP on MPW.

Based on the current commercial terms, the area to be leased by this party will be considerably larger and in a different location to that originally contemplated by the reservation agreement and the warehouse construction is likely to commence in calendar 2021, which is earlier than previously expected.

Based on the extensive negotiations that have taken place, Qube expects that negotiations of the binding agreements will be concluded successfully but are subject to the counterparty's Board approval. The development and lease would represent a key milestone for the MLP project and confirms the significant logistics benefits that the site can offer tenants.

Major new contracts for Operating Division

In October 2019, Qube was awarded a major new contract with Shell Australia (Shell) that involves the provision of warehousing and supply base operations as well as national domestic transport and logistics operations.

One of the reasons that Qube secured this contract was its ability to leverage the capabilities across the group including its ports and logistics expertise (including the lifting capability secured through the LCR acquisition), asset base as well as information technology and safety systems.

This enables Qube to provide Shell with a reliable, cost-effective integrated logistics solution with supply chain visibility, a total solution that no other single organisation could offer. Initial revenue and earnings contribution from this contract commenced in early December, with the contribution expected to progressively ramp up.

Towards the end of the period, Qube entered into a binding agreement with Bluescope Steel Limited to provide interstate steel train services and the provision of intermodal terminal operations at Qube's North Dynon facility in Melbourne.

This is expected to become Qube's largest individual contract and customer (by revenue) once fully operational, with operations scheduled to commence in January 2022.

Qube presently expects to spend around $73 million on new rolling stock and infrastructure to support this contract, supplemented with additional leased equipment.

These two contracts provide further validation of the increasing recognition amongst large customers of Qube's unique logistics capabilities and the benefit of Qube's past and ongoing investment to support its customers and operations.

Patrick

The earnings from Qube's 50% interest in Patrick were strong, contributing $17.9 million underlying NPAT and $22.0 million underlying NPATA, an increase of 19.3% and 15.2% respectively over the prior corresponding period. This contribution is inclusive of Qube's share of interest income ($7.7 million post-tax) on the shareholder loans provided to Patrick.

Qube received $5.0 million in cash distributions from Patrick in the period, with an additional $15.0 million distributed to Qube in February 2020, balancing Patrick's high cashflow generation and ongoing capex requirements.

The strong financial performance was achieved despite continued rate pressures and weakness in overall market volumes, with market growth (lifts) declining by 4.4% in the six months to 31 December 2019 and 2.8% for the twelve month period to 31 December 2019.

Patrick was able to partly mitigate this through its increase in market share over the period to 47% (from 45% in the prior corresponding period) resulting in Patrick's volumes (lifts) decreasing by only 0.9% in the six month period to 31 December 2019. This was considerably lower than the overall market decline.

This outcome was achieved during a period that saw an unprecedented number of shipping line service changes with considerable consortium restructuring and some service cancellations late in the period. This resulted in Patrick's market share declining slightly towards the end of the period.

The result also reflects the inclusion for a full period of the increased infrastructure surcharges and ancillary charges introduced in March 2019 well as interest savings from the March 2019 debt refinancing.

Property Asset Monetisation / Partnering Process

During the period, Qube progressed its assessment of potential monetisation or partnering options for MLP and two other smaller property assets (Minto Properties and Beveridge). As previously disclosed, the objective of this process is to determine if Qube can realise some of the substantial value that has already been created at MLP through the development process progress to date and to reduce Qube's future funding requirements given the sizeable capital expenditure likely to be required to fund new warehousing across the MLP site.

The parties invited to participate in this process are experienced industry participants that Qube believes have the ability to understand and appropriately value the MLP. Importantly, these parties also have the ability to bring additional strategic value to the project. Qube is pleased with the level of interest which it has received in the initial stages of the process from these parties.

Qube and its advisers intend to undertake a detailed process to ensure that if Qube undertakes a transaction with respect to the MLP project, it does not adversely impact the ongoing development and leasing activities on site and will further enhance the significant momentum that has already been achieved at MLP.

Therefore, the process is expected to take several months before Qube is in a position to make a decision as to whether or not to proceed with a transaction. Qube will only undertake a transaction where the Board determines that it is in the best interests of the project and shareholders to do so, having regards to the unique attributes of the MLP and the substantial future value expected to be created as the project progresses. There is no certainty that any transaction will proceed.

Outlook and FY20 Guidance

Qube has been assessing the potential impact on its FY20 full year results from recent events including the bushfires, adverse weather events across the country in early calendar 2020, as well as the coronavirus.

These events have the potential to impact Qube directly, through their immediate impact on activity levels of Qube's customers, and indirectly, through their impact on domestic and global economic growth which could impact the overall levels of Australia's imports and exports.

Although these events have not had a material impact on Qube's first half results, Qube currently expects some weakness in its second half underlying earnings as a result of the above factors that is likely to result in the level of underlying earnings growth in FY20 being lower than previously forecast.

The uncertainty of these events, in terms of the quantum of their impact on Qube's earnings and their likely duration, makes forecasting near term earnings inherently uncertain.

Qube's ability to deliver underlying earnings growth in FY20 will depend on the impact of the above factors on Qube's markets and customers' volumes over the remainder of the financial year.

Qube believes it is well placed to continue to deliver sustainable, long-term earnings growth from its strategic assets and strong market positions.

Authorised for release by:

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