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ASX Announcement

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Qube delivers solid result in the face of global pandemic
Positioned for growth with strong balance sheet

	Underlying information		Statutory Information	
	$m	**Change from pcp**	**$m**	**Change from pcp**
Revenue	1,883.6	9.0%	1,902.0	3.4%
EBITA	160.3	(11.2%)	214.7	(32.2%)
NPAT	104.2	(15.4%)	87.5	(55.5%)
NPATA	121.2	(12.9%)	104.5	(50.8%)
EPSA (cents)	7.2	(15.3%)	6.2	(52.3%)
DPS (cents)	5.2	(8.8%)*	5.2	(8.8%)*

*Note: Excluding special dividend of 1.0 cent per share declared in FY19.

Highlights for FY20 include:

- New contracts with Shell Australia (Shell) and BlueScope Steel (BlueScope) which, when fully operational, are expected to represent Qube's two largest contracts by revenue.
- Woolworths Group Limited (Woolworths) committed to Moorebank Logistics Park (MLP) with agreements to develop highly automated regional and national distribution centres.
- Rail operations commenced at IMEX terminal at MLP, development continued of several new warehouses and commencement of lease operations with new tenants for these warehouses.
- Successful $500 million entitlement offer keeping Qube conservatively leveraged and well funded for growth.
- Established $500 million in additional bank facilities creating significant additional liquidity.
- Completed the acquisition of the Chalmers business in September 2019 and moved to 100% ownership of the grain handling business Quattro Ports (Quattro) in March 2020.

Releasing the full year result, Qube Managing Director Maurice James said, “Qube is pleased to have delivered a sound financial performance in FY20 in light of the very considerable, unexpected and unprecedented challenges that affected the broader economy and Qube’s activities.”

“The events of 2020 tested the strength and resilience of the company in ways which no-one could have predicted. This result once again demonstrates the success of our diversification strategy which protected the company as markets were hit by the Coronavirus (COVID-19) pandemic.”

“We were also able to adapt rapidly as an organisation to protect the health and safety of our people, deliver on customer requirements and minimise the economic damage to the Group. We are also well positioned for growth post pandemic with conservative gearing, and a strong balance sheet with substantial funding capacity.”

Financial and Operational summary

The first half of the financial year saw weakness in several of Qube’s key markets including container volumes, vehicle imports and rural commodities. Despite these headwinds, the strong market positions and diversification enabled Qube to grow its underlying revenue and earnings compared to the prior corresponding period.

The second half of FY20 was unprecedented in terms of the number and impact of external events that affected Qube’s operations and earnings with bushfires and adverse weather events across the country impacting Qube’s business in the early part of the calendar year. Qube was still on track to deliver positive underlying full year earnings growth in FY20 despite these events, until it was significantly impacted by COVID-19 which reduced Qube’s revenue and resulted in additional costs from February.

This was partially mitigated through cost saving initiatives and the receipt of JobKeeper payments. Qube’s associate Patrick was also impacted by COVID-19 in the period through lower market volumes as well as additional costs to provide a COVID-safe workplace.

As a result of these events, underlying revenue in FY20 was approximately $1.9 billion (+9.0%), underlying earnings (EBITA) was $160.3 million (-11.2%) and underlying net profit after tax before amortisation (NPATA) was $121.2 million (-12.9%). Underlying earnings per share pre-amortisation (EPSA) was 7.2 cents, a decrease of around 15.3% on the prior corresponding period.

The resilience of Qube’s business was clearly demonstrated by its ability to generate meaningful underlying earnings and cashflow despite these circumstances. This reflects the quality and diversity of Qube’s business as well as its experienced management team and workforce who were able to rapidly and effectively respond to partly mitigate the impact of these events on its business.

The underlying financial results for the Operating Division were particularly pleasing as earnings growth was achieved over the prior comparable period despite headwinds in a number of its markets which impacted volumes and placed pressure on margins. The result benefitted from a contribution from acquisitions and new contracts in the period.

The contribution from the Infrastructure & Property Division declined mainly due to the earnings impact of lower volumes through AAT’s facilities as well as lower ancillary income and higher costs at MLP partly due to the start-up phase of some elements of the project such as the IMEX terminal operations.

Qube’s share of net profit after tax from Patrick also declined on lower overall market volumes although Patrick maintained a high national market share based on the four terminals at which it operates.

Statutory revenue increased by 3.4% to approximately $1.9 billion and statutory profit after tax attributable (NPAT) to shareholders decreased by 55.5% to $87.5 million. The decrease in statutory earnings is largely attributable to the fair value gain on revaluation of Qube’s investment properties in the prior period of $155.5 million while the equivalent current period fair value gain on revaluation is $45.1 million (mainly relating to Minto Properties). The FY20 statutory earnings are also the first period of the new lease accounting standard, AASB 16, which has reduced statutory net profit after tax by around $26.0 million (inclusive of the impact of AASB 16 on Qube’s share of Patrick’s statutory net profit after tax). Statutory diluted earnings per share decreased by 56.7% to 5.2 cents per share.

COVID-19 financial impact

The onset of the COVID-19 pandemic started impacting Qube's operations towards the end of February 2020 and continued for the remainder of the financial year. The vast majority of the impact was within the Operating Division although Qube's associate Patrick was also significantly impacted, with lower market volumes.

Fortunately, most of Qube's operations were defined as essential services and therefore were able to continue to operate throughout the period albeit on lower overall volumes. The impact of COVID-19 on Qube's activities varied significantly with minimal impact on Qube's bulk export operations, a modest impact on its New Zealand forestry stevedoring and marshalling operations (mainly due to the closure of forestry activities for three weeks) and a more significant impact on container, import break bulk cargo, and automotive volumes.

In anticipation of a prolonged and severe impact on economic activity and the consequential potential impact on Qube's operations, management initiated a proactive and focussed plan in early March to mitigate the impact on Qube's earnings and minimise the need for any employee stand-downs or job losses.

It is estimated that lower volumes and higher costs due to COVID-19 reduced Qube's FY20 underlying earnings (NPAT) by over $21 million overall of which around $10.5 million are non-cash expenses. This estimate excludes the impact from lower volumes due to COVID-19 on Patrick's earnings which cannot be reliably estimated.

Qube's COVID-19 earnings impact comprised an estimated revenue decline of around $135 million which was mainly within activities in the Operating Division. This included several regional and automotive ports, including Darwin, Port Kembla, Newcastle, Melbourne and Northern Tasmania that were severely impacted by reduced volumes during the period from April to June 2020.

Qube also incurred additional COVID-19 related costs of around $7.5 million associated with revised work practices at operating locations, as well as increased cleaning and equipment costs to ensure that Qube effectively addressed the health risks associated with the COVID-19 pandemic.

These negative outcomes were partly mitigated by around $10.5 million of cost savings through initiatives including temporary reductions in fixed remuneration and Board fees, reduced travel expenditure, reduced property and equipment costs as well as lower variable operating costs.

In addition to proactive cost cutting measures, Qube received around $13.5 million in JobKeeper payments to assist in ensuring that the regional and automotive ports remained operational and job losses were minimised.

Qube undertook a review of the recoverability of its trade debtors' provision and asset base as part of the finalisation of its year-end accounts to determine if any adjustments were required as a result of the actual and expected impact of COVID-19 on activity levels across parts of Qube's business and the volumes of its customer base. As a result of this review, the FY20 underlying earnings impact noted above includes approximately $10.5 million (NPAT) in non-cash expenses.

This comprises an increase in the loss allowance relating to Qube's trade debtors of around $6.0 million (pre-tax) to recognise the potential impact that COVID-19 may have on the economic environment and the consequential impact on Qube's customer base, as well as the write-down of certain assets in the Operating Division to reflect lower expected activity levels in a small number of locations.

Qube's high variability in its cost base, scale, strong market positions and balance sheet mean Qube is well placed to quickly take advantage of any improvement in volumes when the impact of COVID-19 eventually subsides and economic growth resumes.

Achievements

There were a number of significant achievements during the period that are not or only partly reflected in Qube's FY20 underlying financial results but which are expected to support Qube's long-term earnings growth. These achievements included securing new contracts with Shell and BlueScope which, when fully operational, are expected to represent Qube's two largest contracts by revenue. The Shell contract commenced in December 2019 and the BlueScope contract is expected to commence in January 2022.

Additionally, Qube completed the development of several new warehouses and commenced lease operations with new tenants for these warehouses at MLP. In mid-June 2020, Qube also entered development management agreements and long-term lease agreements with Woolworths for two highly automated warehouses to be developed at MLP. This is expected to be the catalyst for increased tenant interest at MLP and reinforces the substantial value of this unique site.

In March 2020, Qube reached agreement with the other unitholders in Quattro to acquire their interests, thereby increasing Qube's ownership to 100%. This transaction is expected to better position Quattro to deliver more sustainable long-term cashflow and earnings. As part of this agreement, the two exiting unitholders have prepaid for booking slots for future use of the grain terminal. The use by these parties of these booking slots will generate additional throughput revenue and earnings for Qube.

Qube also established an additional $500 million in debt facilities and completed a $500 million entitlement offer to substantially increase liquidity and place the company in a strong financial position to take advantage of suitable growth opportunities that are expected to arise.

At 30 June 2020, Qube had cash and available undrawn debt facilities of $1,016.5 million, and the weighted average maturity of Qube's debt facilities was 3.6 years.

Following the capital raising Qube is conservatively leveraged with a leverage ratio (net debt / net debt + equity) of around 26.0%, being below its target leverage range of 30% to 40%, and significant headroom to Qube's financial covenants.

Qube continued to progress the monetisation and partnering process with respect to Minto Properties and MLP. On 15 July 2020, Qube announced that it had exchanged contracts for the sale of Minto Properties with entities managed by Charter Hall for a price, before tax, transaction costs and adjustments, of around $207 million. This transaction is expected to be completed in September 2020 following FIRB approval.

The MLP monetisation process is also ongoing with continuing strong interest from a range of quality counterparties. As previously indicated, Qube will only proceed with a transaction if it is able to realise appropriate value from its investment in the MLP in a manner that supports the strategic objectives of, and continued growth in this high-quality asset.

Dividend

Qube's dividend policy is to determine the appropriate dividend to pay after taking into consideration items such as Qube's underlying earnings, cashflow, outlook and expected capital expenditure. In light of the continued uncertain economic environment, Qube's continued significant investment pipeline across the Group, as well as the recent capital raising, the Board has determined to reduce the final dividend to 2.3 cents per share, fully franked.

The Board has determined that this is an appropriate balance between the above considerations and the reasonable financial results and cashflow generation in the period.

This brings the full-year dividend to 5.2 cents per share fully franked compared to 5.7 cents per share fully franked in the prior corresponding period (excluding the 1.0 cent per share special dividend paid in FY19).

In order to maintain its liquidity and maximise Qube's ability to take advantage of suitable investment opportunities whilst delivering fully franked dividends to shareholders, the Board has determined that the dividend reinvestment plan for the FY20 final dividend should be fully underwritten.

Operating Division

The Operating Division reported underlying revenue growth of 9.9% to $1.8 billion and underlying earnings growth (EBITA) of 1.9% to $163.7 million. The revenue growth comprised a 15.7% increase in revenue from the logistics activities to $823.2 million, and a 5.4% increase in revenue from the ports and bulk activities to $962.2 million.

This was a sound result given the challenging conditions noted above during the period. It reflects the benefits of Qube's strong market positions and diversified activities. This was particularly important during the second half of the period during which Qube's bulk operations continued largely unaffected by COVID-19. This contrasted with other markets such as automotive, containers and project cargo which experienced meaningful reductions in volumes. The revenue growth also includes a sizeable increase in pass through items such as infrastructure charges and road tolls for which no margin is generated, as well as low margin activities, predominantly related to supply base operations.

The result from the division was supported by a full year's contribution from the LCR acquisition that was completed in the prior period, a partial period contribution from the Chalmers acquisition completed in September 2019 which was highly synergistic with Qube's transport and container park operations in Brisbane and Melbourne as well as the NFA forestry acquisition that was completed in January 2020, and which provides log marshalling capabilities in the South Island of New Zealand. Several contracts secured in the current and prior periods, including the BHP Nickel West contract, the Shell contract, as well as contracts with Boral, SIMEC and Oz Minerals also supported the result.

In addition to the impact of the bushfires, floods and COVID-19 on volumes as outlined above, the divisional result reflects continued competitive conditions across Qube's key markets and particularly the logistics activities which have affected pricing and margins. It also includes some start-up losses associated with the IMEX and rail operations at MLP.

Infrastructure & Property Division

The earnings of the Infrastructure & Property Division declined, with underlying revenue and underlying EBITA decreasing in FY20 by 5.6% and 48.5% to $98.0 million and $20.2 million, respectively.

This was mainly attributable to a decline in AAT's revenue of approximately 8.0% as a result of low volumes of vehicles, Ro-Ro, general and project cargo. This translated into a much larger percentage decline in AAT's earnings given the high fixed cost nature of this business. The revenue and earnings from Moorebank related activities were also lower than in FY19 due to reduced management fee and ancillary income as well as higher operating costs mainly related to the existing warehousing, partly offset by higher warehousing income associated with the new warehouses completed during the period. The contribution from Minto Properties was slightly above the prior corresponding period.

Quattro has been consolidated in the Infrastructure and Property Division from 31 March 2020 and contributed a small loss (EBIT) in the last quarter of FY20. Quattro's FY20 result benefitted from a contract with the Manildra Group which resulted in the Quattro facility handling imported grain helping to mitigate the absence of export grain volumes due to the drought.

From July 1 2020, AAT and Quattro will be reported in the Operating Division. The Infrastructure & Property Division will also be renamed the Property Division. This is in line with the organisational restructure done to better reflect strategic and operational responsibilities.

Moorebank Logistics Park

The IMEX rail terminal commenced operations in November 2019 in manual mode whilst the development of the automated terminal is progressing. The first automated crane components were delivered on site in January 2020 and assembly and phased commissioning have progressed during the second half of FY20.

In November 2019, Qube received planning approval for Moorebank Precinct West (MPW) Stage 2 which enables Qube to construct the interstate rail terminal and an additional 215,000 sqm of warehousing on MPW.

The construction of Warehouses 3 and 4 was also completed and the initial tenants for the majority of each of these warehouses, being Caesarstone (Warehouse 3) and ATS Building Products (Warehouse 4) commenced operations towards the end of the period. Both these new tenants have signed agreements with Qube Logistics for the transport of freight between Port Botany and the MLP. Qube is involved in negotiations with a range of parties to occupy the balance of these facilities.

A major milestone in the period was the announcement in June 2020 that Qube has exchanged two agreements for lease and development management agreements with Woolworths to develop new major warehouses across 26 hectares at MLP. Both leases, comprising a 40,700 sqm national distribution centre (NDC) and a 34,600 sqm regional distribution centre (RDC) are on initial 20-year terms with 6 x 5-year options. This will enable Woolworths to consolidate operations into unique purpose-built high bay facilities, leveraging world-leading advancements in retail, supply chain and semi-automated and automated technology.

Subject to NSW Government planning approvals, the NDC is expected to commence operations in 2023 with the RDC opening in 2024, with the facilities anticipated to reach full capacity from 2025.

Quattro

Another highlight for the division in the period was the transaction that resulted in Quattro becoming a wholly-owned subsidiary of Qube, effective 31 March 2020, following the completion of the buyout of the unitholdings of Cofco and Cargill. Qube received net cash from this transaction which included the transfer of ownership interests to Qube, termination of existing take-or-pay agreements, and prepayment of booking fees for future use of the grain terminal.

Patrick

The underlying contribution from Qube's 50% interest in Patrick was $26.0 million NPAT and $34.5 million NPATA, a decrease of 13.3% and 9.4%, respectively, over the prior corresponding period. This contribution is inclusive of Qube's share of interest income ($15.3 million post-tax) on the shareholder loans provided to Patrick. Despite the decline in earnings, Patrick continued to generate strong cashflow in the period, although only distributed $20.0 million to Qube using the majority of its operating cashflow to fund its capex programme which included the purchase of various new cranes as well as rail capacity growth capex at Port Botany.

The statutory contribution to Qube's NPAT (being interest income on shareholder loans and share of profit after tax) was a profit of $7.5 million (compared to $28.4 million in FY19) largely driven by the impact of the new leasing standard (AASB 16).

In the twelve-month period to June 2020, Patrick was able to maintain its high national market share across its four terminals of around 45% (lifts). This was achieved through an increased market share at Port Botany and Fisherman Island which offset a reduced market share in Melbourne and Fremantle. Patrick's overall volumes (lifts) declined by 4.9% which was in line with the decline in full year market volumes (lifts) in the 12 months to 30 June 2020. Patrick's full-year market share was achieved through a pleasing retention of overall volumes given the contraction in market volumes, the extensive contract changes resulting from an unprecedented number of shipping line service changes and service cancellations during the period.

Work has progressed at Patrick's Port Botany terminal to enhance rail capacity and operating efficiency, with Stage 1 expected to be completed by the end of CY20, on time and on budget.

Patrick has successfully implemented the Terminal Operating System replacement project at two terminals which is also expected to be rolled out nationally by the end of CY20 delivering efficiencies and workforce synergies.

Three new cranes were delivered and commissioned across Patrick's East Swanson Dock (ESD) and Fremantle terminals during the period.

The Fremantle lease is currently expected to be finalised by the end of CY20.

During the period, discussions have progressed with relevant parties in relation to on-dock rail and a lease extension at ESD.

Capital Expenditure

Qube spent approximately $516 million of capital expenditure in the period. This expenditure included the Chalmers and NFA forestry acquisitions, capex for contracts including the Shell contract to provide supply base management and other logistics services, initial capex relating to the BlueScope contract to provide East Coast interstate steel train services and intermodal terminal operations, and the BHP Nickel West contract involving the construction and maintenance of a haul road and provision of nickel ore haulage services. Other significant capex items included the development of new warehouses, precinct infrastructure works and the IMEX rail terminal at MLP, as well as maintenance capex.

During the period, Qube sold the freehold land acquired as part of the Chalmers acquisition for around $65 million (pre-transaction costs). The sale proceeds were in excess of the total consideration paid to acquire the company and was treated as part of the acquisition accounting given the proximity of the sale to the completion of the acquisition and therefore no gain was recognised in Qube's underlying or statutory earnings. This sale was made possible through the effective integration of the Chalmers business into Qube's existing facilities in Melbourne, thereby enabling Qube to generate the target earnings from the acquisition without requiring this valuable parcel of land.

Summary and Outlook

The FY20 financial year was unprecedented in terms of the unexpected challenges and headwinds that impacted the Australian and global economies and the consequential impact on Qube's markets and customers.

Qube's ability to continue to generate robust earnings and cashflow in those circumstances clearly demonstrates the benefit of Qube's focussed long-term strategy of diversification within import and export supply chains, establishing strong positions in markets with attractive growth outlooks and/or defensive characteristics, and maintaining a high degree of variability in its cost base.

At present, there is very limited visibility regarding near-term volumes in Qube's key markets. Qube presently expects that the generally weaker conditions it experienced in the second half of FY20 will continue in FY21 until the impact of COVID-19 subsides. As a result, Qube expects volumes in a number of its markets to decline in FY21 relative to FY20.

Qube's underlying earnings in FY21 will therefore depend largely on the severity and duration of the impact of COVID-19 on the economy and Qube's markets, and Qube's ability to mitigate the impact through further cost initiatives, new revenue opportunities and accretive acquisitions and investment, as well as the timing of a general economic recovery.

Qube will continue to invest to support long-term earnings growth with total capital expenditure in FY21 currently expected to be around $500 million (excluding any potential acquisitions). The major capex items include locomotives and wagons for the BlueScope contract, precinct infrastructure, IMEX rail terminal and additional warehousing at MLP, as well as investment in new facilities and equipment across the Group.

Qube remains well positioned for a strong earnings recovery when volumes return to more normal levels and to deliver long-term earnings growth from its highly strategic assets.

Authorised for release by:

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