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ASX Announcement

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Qube delivers strong full year result despite COVID headwinds

Underlying NPATA up 31.7% to $159.6 million and full year dividend up 15.4% to 6.0 cents per share fully franked.

	Underlying Information		Statutory Information (including discontinued operations)[1]	
	FY21 ($m)	Change (from pcp)	FY21 ($m)	Change (from pcp)
Revenue	2,032.4	7.9%	2,177.4	14.5%
EBITA	182.9	14.1%	156.6	(27.1%)
NPAT	142.5	36.8%	91.6	4.7%
NPATA	159.6	31.7%	108.7	4.0%
EPSA (cents)	8.4	16.7%	5.7	(8.1%)
DPS (cents)	6.0	15.4%	6.0	15.4%

The key drivers of the earnings growth were the Operating Division and Patrick, and the result also benefitted from a lower net interest expense.

The Operating Division experienced high volumes across most parts of the business with container, grain, forestry, motor vehicles and bulk volumes particularly strong, and the result also benefitted from earnings from growth capex undertaken in the current and prior periods. From 1 July 2020, the contributions from Australian Amalgamated Terminals (AAT) and Quattro have been reported in the Operating Division whereas in prior years, they were reported in the Property Division.

Patrick benefitted from growth in market volumes and increased landside and ancillary charges, although was adversely impacted by industrial action in the period.

[1] As a result of the expected sale of the Moorebank warehousing related assets, the earnings associated with these assets were classified under discontinued operations in the FY21 financial statements. Excluding discontinued operations, FY21 revenue is $1,962.9 million and EBITA is a loss of $(42.0) million.

Highlights for FY21

- Strong financial performance with record underlying earnings (NPATA) for Qube
- Reflects growth across most of Qube's key markets and Qube's leading market positions
- Very pleasing safety, health and sustainability outcomes with improvements in most key metrics
- Effectively addressed ongoing operational and safety challenges with COVID-19 and multiple lockdowns
- Continued investment in complementary acquisitions, equipment, facilities and technology to support future earnings growth
- Significant progress on the property monetisation process with binding agreements (subject to conditions) signed for the Moorebank Logistics Park (MLP) warehousing in early July 2021 and completion of sale of Minto Properties in mid-September 2020
- Fully repaid FY21 JobKeeper payments applied for and received by Qube
- Strong balance sheet with conservative leverage and substantial liquidity
- The full year dividend has been increased by 15.4% to 6.0 cents per share (fully franked) reflecting the strong financial performance and positive outlook

Releasing the full year result, Qube's Managing Director Paul Digney said he was delighted the company had delivered a very good financial performance in FY21 with record underlying earnings growth (NPATA).

"This strong result reconfirms Qube's robust diversified logistics strategy as the driver of earnings growth even during a pandemic.

The result reflects high volumes across most of Qube's core markets, including containers, grain, forestry, energy and bulk, as well as higher container volumes and ancillary charges for Patrick.

The second half of FY21 was particularly robust as the economy recovered from the effects of COVID and Qube also benefitted from a strong grain harvest. Despite the recent resurgence in the virus, we believe the outlook for Qube in FY22 is positive.

I would also like to pay tribute to former Managing Director Maurice James who stepped down at the end of June. This good result is a fitting finale to Maurice's decade of leadership at Qube," Mr Digney said.

Health and Safety

Qube continued its strong focus on safety and zero harm with a particular emphasis in FY21 on increasing reporting, corrective action closures, incident closure rates and leadership tours. The result was an improvement in lost time injuries, however further focus needs to be placed on reducing the number of total injuries.

In FY21, Qube improved its sustainability performance, including achieving the following outcomes:

- Consistent with the goal of Zero Harm, Qube achieved zero fatalities in FY21 and, along with a further reduction in the lost time injury frequency rate from 0.9 to 0.8 per million hours worked.
- Critical Incident Frequency Rate has decreased from 1.5 to 0.3, driven by the leading-edge Fleet Monitoring Centre which has successfully avoided truck rollovers, as well as improvement in Qube's critical risk verification/inspections.
- Completed 1,900 critical risk verifications compared to 1,620 in FY20. This programme continued to be strong in terms of verifications and business implementation at all levels.
- Qube's ongoing growth has pleasingly resulted in its overall Workers Compensation Premium Rate remaining stable. The Group has experienced a reduction in the overall average claim cost which is attributed to a continued focus from supervisors and managers on early intervention for all injuries and illnesses.

- Net emissions were steady compared to FY20 while underlying revenue increased, resulting in Qube's carbon intensity (tCO2 per $M) further decreasing by around 8.6%.
- A consultant was engaged to investigate the options available for achieving a Low Carbon Future. Following on from the findings from their report, Qube will investigate the options to understand and define the financial and operational implications. Understanding these impacts will enable Qube to adopt a longer-term carbon goal and a sustainable strategy to address a Low Carbon Future.
- Implemented a Modern Slavery framework by developing a Supplier Code of Conduct and questionnaire, complemented by an internal Modern Slavery training package for managers, supervisors and procurement teams.
- Increased the focus on improving Qube's sustainability reporting systems, in particular data collection and verification processes across the business. This supports reporting against the Sustainable Development Goals (SDG's).
- Implemented initiatives to reduce emissions with additional expansion of the Euro 5, 6 truck fleet and the expansion of renewable energy installation. Work will continue into FY22 to further increase the installation of renewable energy across existing sites.
- The support of charitable and community related causes is another important part of Qube's philosophy. A new initiative was introduced to provide additional special paid leave to employees who are supporting charitable causes.

COVID-19 Response

Qube responded to the global crisis with the health and safety of its people, customers and communities as the number one priority throughout the pandemic.

Quickly adapting and introducing measures to stop the spread of the virus and positioning the business for the subsequent economic impacts has required focused efforts with strong leadership, governance controls and clear communications. At Qube, strong foundations have supported its response, and included:

- A strong safety and leadership culture and engaged workforce
- Effective crisis management and governance controls
- Health and wellbeing initiatives including onboarding of a new Employee Assistance Program (EAP) provider to provide employees and their immediate family members with access to enhanced assistance programs with qualified psychologists, social workers as well as personal and professional coaching and counselling services.

Operating Division

The Operating Division reported underlying revenue growth of around 12.5% to $2.0 billion and underlying earnings growth (EBITA) of 29.5% to around $212.0 million.

Qube remained highly diversified by customer, product, service and geography. In FY21, the top 10 customers across the division represented approximately 19% of the Operating Division's total revenue and included mining companies, energy companies, shipping lines, retailers and manufacturers. No single customer represented more than 2.5% of the total divisional revenue.

<u>Logistics</u>

The majority of the earnings growth in the Operating Division was attributable to the Logistics activities which benefitted from a much larger contribution from grain related activities comprising bulk and containerised haulage, grain storage and loading (benefitting from the Quattro acquisition in the prior year as well as a stronger grain harvest generally) and container volumes across Australia including new contract wins.

The strongest areas of growth in Logistics were New South Wales (grain and container volumes) and Queensland (Brisbane container activities).

Victoria was the weakest region due to the impact of multiple lockdowns and temporary closures of some of Qube's manufacturing customers' operations in the first half of the year.

Western and South Australian operations provided another solid performance across all of their capital city and regional operations.

The rail activities continued to achieve revenue growth during the period with additional revenue from its grain, nickel and cement customers that also complemented other logistics activities within the Operating Division.

The acquisition of two Agrigrain properties in regional New South Wales (Coonamble and Narromine sites) with storage and handling equipment assets further expanded Qube's capabilities in grain storage and handling during the period. This acquisition had a nine-month contribution to FY21 earnings.

AAT

A very pleasing contribution from AAT was due to higher machinery general and project cargo volumes throughout the entire year, with motor vehicle volumes trending back to pre COVID-19 levels in the second half of the year.

Ports and Bulk

New Zealand forestry activities experienced high volumes and revenue benefiting from current and prior year's acquisitions, however, earnings were slightly impacted by additional training, travel and subcontractor costs due to labour shortages in some regions caused by COVID-19 impacts. The forestry contribution would have been stronger if not for the trade sanctions from China resulting in lower log exports from Australian forestry customers.

Several forestry acquisitions occurred during the year with the purchase of two New Zealand softwood logistics companies (WWL and PHL which are located on the East Coast of the North Island) and the purchase of two Australian woodchip logistics businesses (Bluewood located in the Albany catchment area of Western Australia and Les Walkden forestry business located in the Portland catchment area of Victoria). These acquisitions only made a partial contribution to the FY21 result, and are expected to make a more meaningful earnings contribution to Qube in FY22.

Qube's energy activities generated a higher contribution due to increased activities from Qube's supply base operations. This result offset COVID-19 related delays to renewable energy, oil and gas projects.

East coast general stevedoring activities were strong with higher bulk and break bulk volumes (mainly steel imports and grain exports) than the previous year with car volumes rebounding in the second half of the year.

The bulk export activities (predominantly Western Australia) continued to generate attractive returns for Qube, benefitting from its breadth of activities and quality customer base. Qube continued to be highly diversified by product type with higher contributions from bulk logistics and export port loading activities relating to iron ore, lithium and other base metals including nickel and copper in Western Australia, more than offsetting a reduction of some products including coal, lime and bulk scrap exports across Western Australia and Queensland.

Property Division

Since 1 July 2020, the Property Division has comprised MLP, Minto Properties, Qube's option to acquire land at Beveridge and Qube's equity investment in TQ Holdings. In mid-September 2020, Qube completed the sale of Minto Properties. Accordingly, the majority of the FY21 financial result for the Property Division comprises the MLP project.

The Property Division delivered underlying revenue of $23.7 million and a breakeven underlying EBITA, compared to an underlying revenue and EBITA in FY20 of $98.0 million and $20.2 million respectively. As the prior corresponding period result included a full period contribution from Minto

Properties, and also included contributions from AAT and Quattro, it is not directly comparable to the FY21 underlying result.

In FY21, the underlying revenue delivered from MLP was around $20.9 million, an increase on the $15.9 million in the prior corresponding period. This reflects a sizeable increase in rental income from new warehouse tenants which was partly offset by lower management fee income on works undertaken on behalf of the Moorebank Intermodal Company (MIC).

Monetisation Process

Qube continued to progress the monetisation process with the LOGOS consortium during the period. On 25 February 2021, Qube entered into a non-binding commercial term sheet with LOGOS for the sale of 100% of its interest in the warehousing and property components of the MLP project (MLP Property Assets). In July, the company announced binding terms had been agreed and completion is expected in the fourth quarter of calendar 2021, subject to certain conditions including regulatory (FIRB) and Commonwealth approvals including resolution of all outstanding matters with the MIC.

Given the strategic importance of the MLP to Qube, the transaction will only proceed if those approvals and the satisfaction of those conditions are deemed by the Board to be in the best interest of Qube shareholders.

The LOGOS consortium comprises funds managed by Australian Super, NSW Treasury Corporation, Ivanhoé Cambridge and AXA IM Altis, in addition to LOGOS.

On completion, LOGOS will acquire 100% of Qube's freehold land in MLP, 100% of Warehouse Trust (leasehold interest in MLP warehouses) and Qube's 34% interest in Land Trust (leasehold interest in MLP land). Qube will retain ownership of the intermodal rail terminals.

The transaction with LOGOS allows Qube to realise a strong value for the MLP Property Assets, de-risks delivering the leasing and development of future warehouses and significantly reduces Qube’s ongoing capex requirements.

The transaction is expected to deliver Qube total consideration of around $1.67 billion before tax, transaction costs and other adjustments. Approximately $1.36 billion is payable on financial close and around $312 million is deferred, subject to several completion adjustments including working capital and for warehouse and precinct infrastructure capital expenditure spent compared to the forecast capex to 30 June 2021 and such further capital expenditure until financial close.

Qube believes that the purchase price reflects the full strategic value of MLP and its ability to deliver premium rents. Importantly, the transaction avoids the need for Qube to deploy substantial capital to develop future warehousing with the proceeds it will receive being able to be redeployed into higher returning logistics opportunities as well as debt reduction and potentially capital management initiatives.

Qube, and the MLP project, will benefit from LOGOS' strong tenant relationships and specialist development expertise, with Qube retaining upside potential through exposure to long-term growth in container volume at MLP through terminal and logistics activities.

Patrick

Patrick again delivered a strong contribution to the Qube full year result. Patrick continued to generate strong cashflow, with total distributions to Qube in the period of $120 million compared to $20 million in FY20.

The underlying contribution from Qube’s 50% interest in Patrick was $41.3 million NPAT and $50.8 million NPATA, an increase of 58.8% and 47.2%, respectively, over the prior corresponding period.

This contribution is inclusive of Qube's share of interest income ($14.9 million post-tax) on the shareholder loans provided to Patrick.

The increased distributions were driven by Patrick's strong operating cashflow during the period and were also partly funded from a $100 million increase in Patrick's debt facilities in the period. During the period, Patrick completed the extension of $555 million of debt facilities by 2 to 5 years to new maturity dates ranging from March 2024 to March 2027.

The FY21 results benefitted from high market growth (lifts) of around 8.8% with Patrick's volumes (lifts) increasing by around 3.3%. During the period, Patrick secured several new services and also extended a number of its existing contracts.

Although it declined from the FY20 levels, Patrick continued to maintain a high overall market share of around 44% across its four terminals.

Importantly, Patrick's market share is now more balanced across its four terminals with market shares at Fisherman Island and East Swanson Dock increasing, offset by a decline in market share in Fremantle following the rationalisation of services and in Port Botany as a result of the impact of protected industrial action in September 2020 and loss of a service during the period.

During the period, crane productivity improved in East Swanson Dock and Fisherman Island, despite of industrial action related disruptions.

Two Liebherr cranes were successfully delivered in Port Botany and Fisherman Island, currently in commissioning and endurance testing phase.

Phase 1 of the Port Botany Rail Development was completed in December 2020 on time and budget. Following a period of commissioning and testing, the automated rail terminal commenced operations at the end of June with all trains now being serviced by the automated rail terminal and the manual operations ceasing. The Phase 2 civil construction works have now commenced, and when fully complete in mid FY23 these works will provide a significant increase to rail windows and rail efficiencies at Port Botany.

Dividend

As a result of Qube's strong performance in the period, positive earnings outlook and strong financial position, the Board has determined to pay a final dividend of 3.5 cents per share, bringing the full-year dividend to 6.0 cents per share fully franked, a 15.4% increase on the prior corresponding period.

Summary and Outlook

Qube expects to deliver solid underlying earnings growth in both NPATA and EPSA in FY22 compared to FY21. This assumes no material adverse change to current conditions in Qube's markets or domestic or global economic conditions, including any deterioration due to COVID-19 that impacts Qube's customers, markets or operations. This guidance is based on an assumed completion of the monetisation process by 31 December 2021 with the proceeds assumed to be used to pay down debt.

Subject to the completion of the monetisation process, the Board will assess the appropriate use of the monetisation proceeds which is expected to include debt reduction, investment in accretive growth opportunities and potential capital management initiatives.

Post completion of the Moorebank monetisation process, Qube will be in an even stronger financial and operating position to generate meaningful cashflow and earnings growth.

Qube will emerge with a more predictable earnings profile from its attractive, highly diversified, and strong cash generative logistics operations.

Authorised for release by:

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