24 February 2022

ASX Announcement

QUBE HOLDINGS LIMITED
ABN 14 149 723 053

Level 27, 45 Clarence Street
Sydney NSW 2000

T: +61 2 9080 1900
F: +61 2 9080 1999

qube.com.au

Resilient Qube powers to a strong first half result

Underlying NPATA up around 17% off the back of surging revenue

Half year dividend up 20% to 3.0 cents (fully franked)

Earnings outlook positive despite COVID impacts to economy

	Underlying Information		Statutory Information (including discontinued operations*)	
	$m	Change (from pcp)	$m	Change (from pcp)
Revenue	1,216.0	27.6%	1,190.4	26.7%
EBITA	110.9	18.9%	95.1	0.7%
NPAT	88.3	18.8%	56.3	(2.6%)
NPATA	96.8	16.9%	64.8	(2.3%)
EPSA (cents)	5.1	15.9%	3.4	(2.9%)
DPS (cents)	3.0	20.0%	3.0	20.0%

*Note: As a result of the completion of the monetisation of the property related components of the MLP (MLP Property Assets), the earnings associated with these assets were classified under discontinued operations in the H1 FY22 financial statements. Excluding discontinued operations, H1 FY22 Statutory revenue is $1,181.6 million and EBITA is $112.3 million.

Highlights

- Record underlying earnings (NPATA) achieved in the period despite ongoing impacts from COVID, global supply chain disruptions and some industrial relations challenges
- Reflects strong financial performance from the Operating Division from organic growth, the contribution from acquisitions and growth capex and the ability to effectively mitigate cost pressures
- Solid growth in earnings from Patrick despite vessel scheduling issues and industrial disputes
- Successful completion of Moorebank Logistics Park (MLP) monetisation on 15 December 2021 realising substantial value for shareholders
- Strong balance sheet supports capital management initiatives of up to $400 million expected to commence in H2 FY22
- Currently expecting to deliver strong underlying earnings (NPATA) and earnings per share (EPSA) growth (subject to market conditions and ongoing impact of COVID-19).

In the first half FY22, Qube's Operating Division, particularly Logistics and Infrastructure, delivered high volumes across most parts of the business including:

- Container related activities including transport and empty container parks
- Grain which benefitted Qube's transport and terminal operations
- Machinery, steel and general cargo, which was partly offset by relatively flat vehicle import volumes and much lower project cargo volumes
- Partial period's contribution from the acquisitions of Newcastle Agri-Terminal (NAT) and AST Logistics assets (AST) in September 2021
- Iron ore and other bulk commodities including copper, nickel, zinc and lithium.

Announcing the first half result Qube Managing Director Paul Digney said, "This is a very strong result in the face of COVID uncertainty and the global supply chain disruptions. It demonstrates once again the robust and resilient nature of Qube's diversification strategy."

"For more than a decade we have been building Qube to ensure diversification by asset, location and customer nationwide.

"For example, the top 10 Logistics & Infrastructure customers represented around 10.6% of the Operating Division's total revenue and included retailers, manufacturers, food processors, grain traders and shipping lines.

"And the top 10 Ports & Bulk customers represent around 19.0% of the Operating Division's total revenue and include mining, energy and resources companies.

"Crucially this has meant Qube has weathered the economic impacts of COVID and emerged with a positive earnings outlook in all sectors of the business.

"Qube is also well placed to manage any emerging inflationary pressures including through contractual protections, ongoing productivity initiatives to increase efficiency and reduce costs, and pro-active engagement with customers to review their broader logistics supply chain requirements" Mr Digney said.

Moorebank Monetisation

On 15 December 2021, Qube completed the monetisation of the property related components of the Moorebank Logistics Park (MLP), receiving total proceeds (pre-tax) of around $1.36 billion with an additional $0.3 billion in deferred payments expected to be received in the future contingent on the satisfaction of certain future events or conditions and completion adjustments.

This transaction marks the conclusion of a very successful project for Qube that delivered substantial value for shareholders. Qube will continue to remain involved in and benefit over the medium to long term from the MLP development through its ownership and operational role in the MLP IMEX Terminal and MLP Interstate Terminal, and through Qube's warehouse and logistics operations at MLP.

Capital Management

As a result of the completion of the Moorebank monetisation, Qube is in an extremely strong financial position with gearing well below the lower end of Qube's target range.

This has enabled the Board to approve capital management initiatives of up to $400 million to deliver further shareholder value, while still maintaining a conservative balance sheet that enables further investment.

The precise nature and timing of these initiatives is dependent upon market conditions and any necessary approvals, but is expected to commence in H2 FY22.

Dividend Policy and Interim Dividend

Following the completion of the monetisation process, Qube's remaining businesses are highly cash generative. The Board believes that the dividend policy should provide a balance between distributing the core earnings and cashflow to shareholders as fully franked dividends and retaining some cashflow to fund growth investment to drive continued earnings growth.

Accordingly, going forward, Qube will target a full year dividend payout ratio of 50-60% of underlying earnings per share (pre-amortisation including Qube's share of Patrick's amortisation) (EPSA), taking into account the cashflow generated by the businesses and other relevant considerations including Qube's earnings outlook and capital expenditure. The objective is for the annual dividend to progressively increase aligned to underlying annual EPSA growth.

As a result of Qube's strong financial performance and positive outlook, the Board has increased the interim dividend by 20% to 3.0 cents per share (fully franked). The dividend reinvestment plan will not apply for the interim dividend.

Safety, Health and Sustainability (SHS)

In H1 FY22, Qube improved its SHS performance, including achieving the following outcomes:

- Consistent with the goal of Zero Harm, Qube's Total Recordable Injury Frequency Rate (TRIFR) remained low at 8.8.
- Critical Incident Frequency Rate (CIFR) was also low at 0.3, demonstrating the effectiveness of Qube's robust critical risk systems and processes.
- Rolled out a new Health and Wellbeing program – Thrive. It is about taking a proactive approach in managing health risks, reducing workplace injury and illness, caring for employees and creating a healthy culture focusing on the "Stuff that matters".

Qube will continue to focus on adopting a longer-term goal and a sustainable strategy to address a Low Carbon Future. Qube is currently undertaking a Task Force on Climate-Related Financial Disclosures (TCFD) assessment to assist with this process.

<u>COVID-19 Response</u>

Qube has 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.

From a financial perspective, COVID-19 has impacted Qube directly through higher operating costs, labour shortages and lower volumes in some locations including due to lockdowns. However, the strength and diversity of Qube's operations, and the substantial effort of Qube's workforce enabled the business to overcome these challenges to continue to deliver quality services to its customer base and achieve a pleasing financial outcome.

Operating Division

The Operating Division was the largest driver of the strong H1 FY22 result, generating underlying EBITA of around $126.4 million (+19.4%).

The Logistics & Infrastructure activities contributed underlying EBITA of around $69.9 million (+36.8%), Ports & Bulk activities contributed underlying EBITA of around $70.4 million (+4.3%) and divisional corporate overheads were an EBITA loss of $(13.9) million (9.4% higher than the prior corresponding period).

<u>Logistics and Infrastructure</u>

The Logistics and Infrastructure result benefitted from high levels of container volumes across transport and container park operations. Additionally, the contribution from agricultural activities increased substantially due to high grain volumes which benefitted Qube's transport and stevedoring operations, as well as Qube's grain terminals including Quattro and a partial period's contribution from the Newcastle Agri Terminal (NAT) which was acquired in September 2021.

The other infrastructure related activities were solid with AAT benefitting from high volumes of machinery, steel and general cargo compared to the prior corresponding period, which offset relatively flat vehicle volumes and much lower project cargo volumes.

<u>Ports and Bulk</u>

The Ports & Bulk activities generated reasonable earnings growth given the challenges impacting parts of this business.

Revenue growth was achieved in all regions with Western Australia and Northern Territory achieving the strongest growth. This reflects the contribution from new contracts secured in the current and prior periods, partly offset by lower volumes due to labour shortages as a result of border closures.

The period saw higher revenue across almost all products with particularly positive volumes across grain, steel, clinker, machinery and motor vehicles, as well as energy due to increased activities across production and exploration activities for key customers. Australian forestry operations were also higher on increased woodchip volumes (including contributions from prior year acquisitions).

Bulk volumes and activity levels were generally solid across most commodities including iron ore, mineral sands, lithium and other base metals (i.e.copper, zinc and nickel).

These positives were offset by a much weaker than expected contribution from New Zealand forestry operations which were impacted initially by COVID lockdowns and then by weaker demand for logs out of China, resulting in lower export volumes. The demand weakness is expected to continue until Q4 FY22 when the impact on construction activity (being a key driver of log demand) of the Chinese New Year and the Winter Olympics should reduce. Earnings continued to be impacted by labour shortages due to the border restrictions in Western Australia and delays in some renewable's projects.

Patrick

The underlying contribution from Qube's 50% interest in Patrick was $23.5 million NPAT and $28.9 million NPATA, an increase of 12.4% and 14.7%, respectively, over the prior corresponding period. This contribution is inclusive of Qube's share of interest income ($6.1 million post-tax) on the shareholder loans provided to Patrick.

The statutory contribution to Qube's NPAT (being interest income on shareholder loans and share of profit after tax) was a profit of $16.4 million (compared to $13.6 million in H1 FY21). Variances to underlying results are largely driven by the impact of the leasing standard (AASB 16).

Patrick's continued high cash generation enabled it to pay cash distributions to Qube in the period of $40.0 million with an additional $20 million paid post year-end to each shareholder.

Market growth (lifts) were around 2% in the period with growth subdued post the initial strong volume recovery from the COVID-19 pandemic in FY21. Overall, Patrick's volumes were relatively flat compared to the prior corresponding period resulting in a small market share decline from around 44% for the rolling 3 months to June 21 to around 42% for the comparable period to December 21. This was mainly attributable to the impact of industrial action undertaken across October, vessel scheduling issues and a service secured by a competitor.

During the period, Patrick renewed two contracts (including its largest service) thereby supporting Patrick's future volumes and revenue. These extensions add to agreements already in place with Patrick's two largest customers that run to December 2023.

Patrick undertook total capex in the period of around $23.8 million comprising growth capex of around $6.7 million and maintenance capex of around $17.1 million. The growth capex predominantly relates to Port Botany rail and additional straddles in Port Botany and Fisherman Island.

The Port Botany Rail Development (Automated Rail Terminal) commenced full operations in June 2021 and has been performing strongly, with the Automated Rail Mounted Gantry (ARMG) productivity levels already meeting the business case.

Post period end on 7 February 2022, Patrick reached an in-principle agreement with the Maritime Union of Australia (MUA) for a new four-year enterprise agreement effective from 1 January 2022. The new agreement will achieve the removal of restrictive recruitment conditions and also deliver other much-needed flexibilities for the Patrick operations across all four terminals. The parties are progressing the process towards putting the agreement to an employee vote.

Also, on 6 January 2022, Patrick announced its increases to its landside and ancillary charges that will apply from 7 March 2022. These increases will assist Patrick to generate reasonable returns on its significant investment in infrastructure and equipment to improve the overall efficiency of the supply chain through its terminals.

Associates (ex-Patrick)

The Associates (ex-Patrick) contributed an overall underlying NPAT loss of $1.8 million compared to a small profit of $0.2 million in the prior corresponding period.

Property Division

The Property Division delivered underlying revenue of $8.9 million and a breakeven underlying EBITA in line with expectations.

The key focus during the period was on completing the MLP monetisation process with the LOGOS consortium which successfully completed on 15 December 2021.

Qube received total up-front proceeds of around $1.36 billion with another $0.3 billion deferred consideration expected to be received contingent on the satisfaction of certain future events or conditions and completion adjustments. Part of the deferred amount will be paid as construction of Stage 1 of the MLP Interstate Terminal is delivered and the balance is payable upon receipt of certain planning approvals for the remainder of the warehousing development. Qube is well positioned to prudently manage the risks associated with the deferred consideration and other transaction obligations.

Qube will retain full ownership of the MLP IMEX Terminal and majority ownership of the future MLP Interstate Terminal.

Beveridge

Qube also continued with the planning approval process for the future development of the Beveridge site. Qube and MIC have reached a conditional agreement regarding Qube's option to acquire land at Beveridge, Victoria.

Capital Expenditure

Qube spent approximately $440.4 million of gross capital expenditure in the period. The majority of the capex (around $327.2 million) was spent in the Operating Division and the balance in the Property Division.

Key items of expenditure included the NAT and AST acquisitions, completion of the equipment procurement for the BlueScope contract, equipment for other new contracts and maintenance capex.

The Property division capex will be largely reimbursed by the LOGOS Consortium as part of the monetisation proceeds (net of other adjustments).

Funding

Qube finished the period in a very strong financial position with cash and available undrawn debt facilities of around $1.8 billion at 31 December 2021. At 31 December 2021, the weighted average maturity of Qube's debt facilities was 2.6 years.

As a result of the receipt of the monetisation proceeds, Qube is very conservatively leveraged with net debt of around $388 million, a leverage ratio (net debt / net debt + equity) of around 10.3%, being well below the lower end of its target leverage range of 30% to 40%, and significant headroom to Qube's financial covenants.

In conjunction with the capital management initiatives, Qube intends to review its funding requirements and required facilities to ensure that it maintains an efficient balance sheet that supports growth, and is well placed to manage future debt maturities.

Outlook

In FY22, Qube expects to deliver strong underlying earnings growth from the Operating Division from continued strength in container and agri activities, as well as the recent commencement of the BlueScope contract which is expected to contribute meaningfully to earnings from March 2022. Solid volumes are expected to continue across most ports' activities and bulk commodities. This will be partly offset by continuing COVID related costs and ongoing weakness in NZ forestry exports.

Qube expects a strong underlying earnings contribution from Patrick (comprising interest income on shareholder loans and underlying share of profit) although this outcome will depend on a range of factors including the impact of vessel scheduling issues over the remainder of the period, COVID-19 related labour shortages and the successful conclusion of the in-principle industrial relations agreement.

Qube is presently forecasting H2 FY22 capex to be around $300 million to $400 million. Major capex items expected to be undertaken in the second half of the period include the MLP IMEX Terminal automation, the commencement of the development of the MLP Interstate Terminal, the acquisition of grain wagons to provide further capacity for Qube's agri activities, further bolt-on acquisitions in the Operating Division, as well as maintenance capex.

The actual level of capital expenditure in FY22 could vary materially (up or down) from this estimate and will depend on finding suitable opportunities that meet Qube's key investment criteria. This guidance does not take into account any deferred consideration relating to the MLP monetisation process that may be received in the period.

Overall, Qube expects to deliver strong 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.

Authorised for release by:

The Board of Directors, Qube Holdings Limited

Further enquiries:

Media:
Paul White
Director, Corporate Affairs
paul.white@qube.com.au
+61 417 224 920

Analysts/Investors:
Paul Lewis
Chief Financial Officer
paul.lewis@qube.com.au
+61 2 9080 1903