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ASX Announcement

Transformational 2016 acquisitions position Qube for long term growth

Strong cashflows underpin FY 16 financial result in challenging market

- Underlying NPAT of $86.5 million ($92.8 million pre-amortisation)
- Statutory NPAT of $82.0 million ($88.3 million pre-amortisation)
- Strong cashflow generation and margins maintained through efficiencies and cost focus

Qube Holdings Limited (Qube) today announced a sound result for the year ended 30 June 2016 and achieved a number of key milestones during FY 16 that will significantly enhance its ability to deliver long term shareholder value by delivering supply chain efficiency across the import and export logistics sector.

The strategic assets secured by Qube during FY 16 complement Qube's existing assets and operations and significantly improve the overall quality of Qube's business and future earnings.

Key highlights for the period (including agreements negotiated during the period but finalised post financial year end) include:

- The acquisition of a 50% interest in the Patrick container terminals (Patrick) in conjunction with Brookfield Infrastructure Partners Limited and its partners (Brookfield) (who will own the other 50% of Patrick).

- The agreement to acquire Aurizon Holdings Limited's (Aurizon) 33% interest in the Moorebank land and related project, which will give Qube a 100% ownership interest.

- The agreement to acquire the remaining 50% of Australian Amalgamated Terminals (AAT) (subject to ACCC approval).

- Completion of a $494 million entitlement offer to existing shareholders and a $306 million placement to the Canada Pension Plan Investment Board (CPPIB) to support the investment in Patrick.

- Establishing new debt facilities within Patrick (non-recourse to Qube), and increasing Qube's debt facilities, in each case on favourable terms and pricing to support the Patrick acquisition and Qube's continued growth.

- A reorganisation of Qube's senior management team to support the above transactions, drive cost reductions and enhance Qube's long term growth.

- A reasonable financial result for FY 16 with strong cashflows and margins in spite of the continuation of the challenging operating environment and weakness in some of Qube's markets.

- Maintaining the full year dividend at 5.5 cents per share fully franked reflecting the strong cashflow generation and positive long term outlook despite lower earnings in FY 16.

Releasing the results, Qube’s Managing Director, Maurice James said, “2016 was a year of transformational achievement for Qube.”

“The agreed acquisitions of 50% of Patrick and the remaining 33% of Moorebank were key milestones in achieving our vision for the company. We also were very pleased with the strong support shown by our shareholders for the entitlement offer undertaken during the year to support the Patrick acquisition.”

“I am particularly pleased that these milestones were achieved while the two operating divisions were still able to deliver a reasonable financial performance in the face of challenging trading conditions,” Mr James said.

“Qube continued to improve its safety record with its Lost Time Injury Frequency Rate (LTIFR) decreasing by around 19% to 2.6 Lost Time Injuries (LTIs) per million hours worked,” Mr James said.

Financial Performance

Underlying revenue and EBITDA both fell by around 8% to $1.3 billion and $246.3 million respectively.

Qube’s underlying net profit after tax attributable to shareholders decreased by approximately 18% to $86.5 million and underlying earnings per share decreased by 22% to 7.6 cents. Underlying earnings per share pre-amortisation was 8.2 cents.

Statutory revenue decreased by around 9% to approximately $1.3 billion and profit after tax attributable to shareholders fell by around 5% to $82.0 million. Statutory diluted earnings per share were 7.2 cents, a 10% decline on the prior year.

The reduced earnings were largely attributable to the Ports & Bulk division with the FY 16 earnings reflecting the full year impact of the cessation or restructuring of four major contracts that occurred in the second half of FY 15.

A contributor to the decline in earnings per share was the dilutionary impact of the entitlement offer completed in April 2016 to fund the Patrick acquisition. The earnings from the Patrick acquisition will only be recognised by Qube from 18 August 2016.

If the dilutionary effect of the entitlement offer and the net financial impact of the Patrick acquisition (i.e. dividend income less net funding costs) were excluded, Qube’s underlying earnings per share for FY 16 would be 8.2 cents and 8.8 cents on a pre-amortisation basis.

Qube’s cash conversion was again strong with operating cashflow pre-tax and interest of $244.1 million, representing around 99% of underlying EBITDA.

The statutory result includes an impairment of Qube's investment in Northern Stevedoring Services (NSS) of $22.8 million (inclusive of an impairment recognised by NSS itself), partly offset by the reversal of the previous impairment of Utah Point of $17.7 million and a fair value gain related to Qube's Moorebank and Minto properties of $12.8 million (Qube's share $8.7 million). The statutory result also includes costs of around $2.9 million resulting from exiting and/or restructuring certain parts of the business due to the sustained downturn and subdued outlook for the oil and gas sector.

The underlying financial information is based on the statutory information excluding certain non-recurring and non-cash items such as impairments and fair value adjustments in order to more clearly reflect the underlying earnings of the business. A reconciliation between statutory and underlying results is provided in Attachment 1.

Dividend

The final dividend of 2.8 cents per share will be fully franked maintaining the full year dividend at 5.5 cents per share. Whilst this is above Qube's target payout ratio of 50-60% of underlying earnings per share, the Board believes it is appropriate taking into account Qube's strong cashflow, positive long term outlook and the dilutionary impact that the capital raising for the Patrick acquisition had on Qube's FY 16 earnings per share.

Qube will continue to target a payout ratio of 50-60% of underlying earnings per share taking into account the cashflow generated by the businesses and other relevant considerations including Qube's earnings outlook and capital expenditure requirements.

Acquisition of Patrick

A key highlight for the period was the agreement to acquire Patrick from Asciano Limited through a 50/50 joint venture with Brookfield. This acquisition was completed on 18 August following a lengthy, complex and competitive process lasting the majority of FY 16.

Qube's view is that Patrick is the most efficient, lowest cost container terminal operator in the country as a result of its two automated terminals in Brisbane and Sydney, has superior sites nationally and an experienced management team. Qube believes that there is a positive long term growth outlook for this business given both the structural tailwinds for container volumes through Australia's ports as well as Patrick's favourable competitive market positioning.

Qube has appointed the CEO of Patrick and will work closely with the Patrick management team and Brookfield to grow Patrick's earnings by delivering a superior service to drive market share gains, and by delivering cost reductions and synergies through operational improvements and targeted capital expenditure.

In addition to the long term earnings growth from the Patrick investment, the transaction extends Qube's supply chain capability to the port. This enhances Qube's ability to provide efficient logistics solutions to its customers and is particularly important in maximising the efficiency of rail to and from the port which will be beneficial for Moorebank.

As part of the broader Asciano transaction, Qube also has the ability to acquire the 50% of Australian Amalgamated Terminals (AAT) that it does not presently own. AAT has long term port leases in NSW and Queensland used for automotive vehicle imports and is well placed to benefit from the expected increase in imported vehicles as a result of the closure of domestic vehicle manufacturing. Qube is working proactively with the ACCC to address any concerns and currently expects to complete the acquisition during FY 17.

Progress with Moorebank Development

There were a number of important developments with the Moorebank project during the financial year and subsequent to year end.

In December 2015, an early lease surrender agreement was reached with the tenant on Qube's majority owned Moorebank property. In addition to receiving a lease surrender payment, this agreement enabled Qube to commence the development of its site as well as start leasing the existing warehousing on its site to tenants that are suited to the future Moorebank project.

In August 2016, Qube reached agreement to acquire all of Aurizon's interests in the Moorebank project for $98.9 million, which will give Qube 100% ownership of the project. In addition to delivering Qube 100% of the financial return from the Moorebank project, this simplified ownership structure is expected to enhance the deliverability of the project and maximise flexibility for Qube in terms of funding and partnering options as well as Qube's ability to adopt a 'whole of company' approach covering warehousing and logistics when negotiating with prospective customers.

Qube currently expects financial close with the Commonwealth to occur shortly.

There has been strong tenant demand from national retail chains and logistics suppliers. Over 50,000m^2 of area has already been leased by Qube and Qube is in discussions with a number of parties regarding the development and leasing of new warehousing.

Operating Divisions

Qube's two operating divisions delivered reasonable results in light of the challenging operating environment. The diversified nature of Qube's activities was beneficial as strengths in certain markets helped mitigate the impact of weakness in other markets. Qube has also undertaken cost reduction initiatives to mitigate the impact of market conditions. This included a reorganisation of the senior management team with Paul Digney appointed to a newly created role of Chief Operating Officer to drive operational improvements across the entire organisation. There was also a focus on site consolidation and restructuring of activities relating to the oil and gas sector in the expectation of continued weakness in this sector.

Logistics

The full year underlying earnings (EBITDA) from the Logistics division increased by around 6.7% despite revenue being around 3.5% lower. The margin improvement reflected operational improvements and a focus on cost reductions and asset utilisation including the consolidation of activities previously undertaken at Somerton to the Vic Dock facility. The integration of the CRT acquisition was ahead of expectations and helped drive the margin improvement. Qube was successful in securing new customers in the period which helped offset the decline in volumes from its existing customer base.

Ports & Bulk

The full year result from the Ports & Bulk division largely reflected a continuation of the first half trends with the second half earnings (EBITDA) slightly lower than the first half. For the full year, underlying revenue and EBITDA were down 13.9% and 26.7% respectively on FY 15.

As noted, this decline was largely due to the full year impact in FY 16 of the cessation or restructuring of four major contracts that occurred in the second half of FY 15. Although Qube was successful in securing new contracts to partly mitigate this, these contracts only made a minimal contribution in FY 16 due to the lead time to source equipment and the initial training and induction costs. There were strong volumes from activities including automotive stevedoring, forestry marshalling and bulk stevedoring, offset by reduced oil and gas related activity. As a result of the improved prospects for the Utah Point facility, Qube has reversed the previous impairment of $17.7 million in its statutory results.

Associates

The associates had mixed results with a strong contribution from AAT (reflecting continued growth in motor vehicle imports) and Prixcar (reflecting the profit on sale of a property offsetting weaker operational performance following the loss of its major customer during the year) and a weaker result from NSS (reflecting market conditions in Townsville and Gladstone and weaker environment for new projects and contracts in its markets).

As a result of the weak medium-long term earnings outlook for NSS following the loss of several major customers and the challenging market conditions, the value of Qube's investment has been impaired by $22.8 million (inclusive of an impairment recognised by NSS itself) to $24.5 million.

Quattro commenced operations in March 2016 which was later than expected. There was no material contribution in FY 16 and an increased contribution is expected in FY 17.

TQ Holdings continues to progress planning approvals for a fuel terminal at Port Kembla.

Funding

Qube successfully completed an entitlement offer in April 2016 raising around $494 million (excluding costs) from its existing shareholder base. Post the end of the financial year, Qube completed a $306 million placement to CPPIB (excluding costs). The proceeds raised from these capital raisings were used to fund the majority of Qube's investment into Patrick, thereby ensuring that Qube retained a conservative balance sheet following completion of the acquisition.

During the period Qube, in conjunction with Brookfield, established around $1 billion in new debt facilities to assist with the funding for the acquisition of Patrick. These facilities have been provided to Patrick and are non-recourse to Qube and Brookfield. The terms and pricing of the new facilities reflect the quality of the Patrick business and associated cashflows it generates.

Additionally Qube increased its available debt facilities through the establishment of several new bi-lateral facilities totalling around $290 million to support further growth, all of which were undrawn at 30 June 2016. Additionally, Qube has a short term $150 million bridge facility, maturing in September 2016 that was used to partially fund the acquisition of the Asciano shares. Other than this facility Qube has no near term debt maturities under its bank facilities and retains substantial headroom under its covenants.

Qube's leverage ratio (net debt/net debt plus equity) decreased from approximately 27% at 30 June 2015 to around 24% at 30 June 2016 which remains below the bottom end of Qube's target leverage range of 30-40%.

At 30 June 2016, Qube had net debt (being bank loans and finance lease liabilities less cash on hand) of approximately $601 million (2015: $519 million). Qube had available cash and undrawn debt facilities of around $615 million (2015: $260 million) providing Qube with substantial funding capacity to pursue further investment.

Post completion of the Patrick acquisition, the purchase of Aurizon's Moorebank interest and repayment of the $150 million bridge facility, Qube will have cash and available facilities of around $260 million.

Qube is presently considering the issue of an ASX listed subordinated note in FY 17 as part of its medium term funding initiatives to provide additional liquidity and extend the term of its funding.

Summary and Outlook

The 2016 financial year was a transformational year for Qube with the transactions negotiated or completed during the financial year significantly enhancing the quality of Qube's business and long term earnings.

The acquisition of Patrick and the agreement for Qube to increase its ownership of the Moorebank project to 100% provides Qube with ownership of high quality infrastructure assets that complement Qube's existing operations.

Qube's existing businesses demonstrated the benefits of Qube's diversified activities, strong market positions and strategic locations by delivering reasonable financial results and strong cashflow despite challenging economic conditions.

In FY 17, Qube expects earnings growth in both its operating divisions although the extent of growth will be dependent on the broader economic conditions and activity levels and commodity pricing in Qube's key markets.

Qube's earnings will also benefit from the realisation of Qube's pre-bid Asciano shareholding and its share of Patrick's earnings which will be included from 18 August 2016.

The contribution from the Strategic Assets division is expected to reduce significantly in FY 17 following the negotiated lease surrender with the tenant at Moorebank in December 2015 which was necessary to facilitate the development of the broader Moorebank project.

Although Qube will earn rental income from leasing the existing warehousing on its site and from management fees for managing works on behalf of MIC in FY 17, this is expected to be much lower than the rental income earned in FY 16 and will be partly offset by expenses associated with the planning and development of the broader Moorebank project.

The earnings from Moorebank are expected to progressively increase over the medium term as the new warehousing is leased and the rail terminals become operational.

Overall, Qube presently expects to report increased underlying earnings in FY 17 and does not expect any change to the challenging market conditions in FY 17.

Further Enquiries:

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Attachment 1

Reconciliation of Statutory Results to Underlying Results

There were a small number of non-recurring and non-cash items included in the statutory results for the year ended 30 June 2016 that do not reflect the underlying financial performance of Qube.

A reconciliation of the statutory results to the underlying results for the year ended 30 June 2016 and the prior comparable period is presented below:

	FY 2016 $'m	**FY 2015 $'m**
Revenue from external customers	**1,332.5**	**1,459.3**
Fair value underlying adjustments	(12.8)	(27.1)
Other underlying adjustments	-	(0.2)
Underlying revenue	**1,319.7**	**1,432.0**
Net profit before income tax	**128.1**	**127.5**
Share of profit of associates	(12.6)	(10.4)
Net finance cost	32.1	25.2
Depreciation & amortisation	101.5	103.5
EBITDA	**249.1**	**245.8**
Impairment losses on investments in associates	21.3	-
Impairment on loan receivable from associate	-	2.5
Impairment of property, plant and equipment	-	42.4
Impairment reversal, property, plant and equipment	(17.6)	-
Cost of legacy incentive schemes	-	2.2
Non-recurring restructure costs	2.9	-
Fair value gains (net)	(12.8)	(27.1)
FY 15 Moorebank STI	0.3	1.7
Other	3.1	-
Underlying EBITDA	**246.3**	**267.5**
Depreciation	(92.6)	(95.1)
Underlying EBITA	**153.7**	**172.4**
Amortisation	(8.9)	(8.4)
Underlying EBIT	**144.8**	**164.0**
Underlying Interest expense (net)	(32.1)	(22.7)
Underlying share of profit of associates	14.1	10.4
Underlying net profit before income tax	**126.8**	**151.7**
Underlying Income tax expense	(33.8)	(42.4)
Underlying net profit for the year	**93.0**	**109.3**
Underlying non-controlling interests	(6.5)	(4.1)
Underlying net profit after tax attributable to members	**86.5**	**105.2**
Underlying diluted earnings per share (cents per share)	7.6	9.8

The table above has been extracted from note 2 of the financial statements but is un-audited.

Underlying information is determined as follows:

Underlying revenues and expenses are statutory revenues and expenses adjusted to exclude certain non-cash and non-recurring items such as fair value adjustments on investment properties, cost of legacy incentive schemes and impairments to reflect core earnings. Income tax expense is based on a prima-facie 30% tax charge on profit before tax and associates.

References to 'underlying' information are to non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 (Disclosing non-IFRS financial information) issued in December 2011. Non-IFRS financial information has not been subject to audit or review.