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ASX Announcement

Qube delivers revenue and earnings growth while completing strategic acquisitions for the future

Both operating divisions up and Moorebank on track with Target Australia lease

- Underlying NPAT up 18.2% to $102.2 million ($115.9 million pre-amortisation)
- Underlying revenue growth of around 14.7% to $1.5 billion
- Statutory NPAT of $77.3 million ($91.0 million pre amortisation)
- Full year dividend of 5.5 cps fully franked

Qube Holdings Limited (Qube) today announced an improved financial performance for the year ended 30 June 2017 which included both organic growth and earnings growth from acquisitions.

The FY17 financial year saw the completion of several major acquisitions which have substantially enhanced the quality of Qube's asset base and long term earnings. Qube also significantly strengthened its balance sheet underpinned by an increased and diversified funding capacity.

Highlights for the period include:

- The completion in August 2016 of the acquisition of a 50% interest in Patrick in conjunction with Brookfield Infrastructure Partners Limited and its partners (Brookfield) (who own the other 50%).

- The completion in November 2016 of the acquisition of an additional 50% interest in AAT giving Qube a 100% ownership interest.

- The completion in December 2016 of the acquisition of Aurizon Holdings Limited's (Aurizon) 33% interest in the Moorebank land and related project, giving Qube a 100% ownership interest.

- The achievement in January 2017 of financial close with the Moorebank Intermodal Company (MIC), effectively being day 1 of the Moorebank project.

- Good revenue and earnings growth from both Logistics and Ports & Bulk divisions which were brought together under a Chief Operating Officer for the first time.

- Successful completion of a range of funding initiatives to ensure that Qube has the funding capacity and structure to support continued growth in the business over the long term.

- Continued focus on safety with a further 8% improvement in lost time injuries and recordable injuries.

Releasing the annual result, Qube Managing Director Maurice James said, “The 2017 financial year was a year of completion and implementation at Qube. The company successfully faced the challenge of integrating major acquisitions while staying focussed on the core businesses.

Delivering revenue and earnings growth in a challenging and increasingly competitive environment is testament to the hard work of all Qube employees.

The transformational Moorebank project remains on track and will be further enhanced by today’s announcement that Target Australia will be a major tenant at Australia’s largest intermodal precinct.

We have further diversified funding arrangements and strengthened our balance sheet to give the company greater flexibility to fund growth in the years ahead.”

Financial Performance

Underlying revenue growth of around 14.7% to $1.5 billion and underlying earnings (EBITA) growth of 3.5% to $159.1 million. Qube’s underlying net profit after tax (NPAT) increased by 18.2% to $102.2 million and underlying net profit after tax before amortisation (including Qube’s share of Patrick’s amortisation) (NPATA) increased by 24.9% to $115.9 million.

Qube’s underlying earnings per share pre-amortisation (including Qube’s share of Patrick’s amortisation) (EPSA) was 8.0 cents, a decrease of around 1.2% on the prior corresponding period mainly reflecting the dilution impact of the capital raisings completed during the second half of FY16 and in FY17.

Qube’s statutory NPAT decreased by 5.7% to $77.3 million and NPATA increased by 3.1% to $91.0 million. Statutory diluted earnings per share was 5.3 cents or 6.3 cents pre-amortisation. The statutory results are lower than the underlying results mainly due to significant transaction and other non-recurring costs associated with the Patrick and AAT acquisitions that have been excluded from the calculation of the underlying results, as well as two impairments which were largely offset by fair value gains on Qube’s investment properties.

The financial results reflect organic growth in earnings from both operating divisions. Pleasingly, the creation of a new position of Chief Operating Officer in the prior year to oversee and coordinate these divisions has enabled Qube to achieve further synergies and secure new business leveraging the respective expertise and assets of each division.

The full year results also benefitted from the acquisition of the other 50% of Australian Amalgamated Terminals (AAT) on 30 November 2016, the initial earnings from Qube’s 50% ownership of Patrick container terminals (Patrick) following the completion of the acquisition in August 2016 and a significant contribution from Qube’s Asciano shareholding that was realised in the period as part of the completion of the Patrick acquisition.

The underlying financial information is based on the statutory information and excludes certain non-recurring and non-cash items 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 Board has determined to declare a final dividend of 2.8 cents per share fully franked, thereby maintaining the full year dividend at 5.5 cents per share as in the prior year. The Board believes this quantum of dividend is appropriate taking into account the increased earnings from the operating divisions, the stability of Qube's EPSA compared to the prior year, the unrealised value creation at Moorebank and Qube's positive long term outlook.

Increased Funding Capacity and Strengthened Balance Sheet

Qube undertook several funding initiatives during the year including:

- The completion in August 2016 of the $306 million placement to the Canada Pension Plan Investment Board (CPPIB) to support the investment in Patrick.

- The issuance of $305 million in 7 year ASX listed subordinated notes in October 2016 which was heavily oversubscribed. The issue further diversified Qube's funding sources and extending the average tenor of its debt.

- The completion of a $350 million equity raising in June 2017 to support Qube's growth.

- The finalisation of a $150 million 7 year bilateral term facility with the Clean Energy Finance Corporation in late June 2017.

- Post the end of the financial year, Qube's priced its inaugural capital markets issue securing commitments of USD$150 million in the US Private Placement market across 7, 10 and 12 year tenors in an oversubscribed tender process. The funds received from this issue will be used to pay down existing debt.

At 30 June 2017, Qube had net debt (being bank loans (pre-deduction of capitalised establishment costs) and finance lease liabilities less cash on hand) of approximately $621 million (2016: $601 million). Qube's leverage ratio (net debt / net debt plus equity) was 19% and Qube had available undrawn debt facilities (adjusted for bank guarantees) and cash of around $890 million.

Divisional Summary

Logistics Division

The full year underlying revenue and earnings (EBITA) from the Logistics division increased by around 11.4% and 7.1% over the prior corresponding period to $662.0 million and $66.1 million respectively. The increase in revenue reflects the success in growing Qube's customer base across a range of sectors including agricultural, retail and resources as well as growth within the existing customer base. The decline in margin was largely attributable to costs arising from the illegal industrial dispute at Patrick's Port Botany facility in May-June which impacted Qube's rail operations and reduced underlying earnings by an estimated $2.2 million, as well as ongoing pressure on rates as a result of the competitive environment.

Ports & Bulk Division

The Ports & Bulk division had a very successful year with pleasing volumes across most areas of the business, high levels of customer retention and success in winning new contracts in both bulk and ports activities. The full year underlying revenue and earnings (EBITA) from the Ports & Bulk division increased by around 9.9% and 17.2% to $742.9 million and $73.5 million respectively on the prior corresponding period.

Key highlights in the period include successful entry into Esperance Port with multiple customers contracted, expansion of logistics services into supply chain management and Government services, along with growth in volumes handled and/or stevedored by Qube across a range of products including fertiliser, forestry products, grains, scrap metal, bulk commodities and motor vehicles. Activity in Qube's oil and gas related areas remained weak and is not expected to improve in the short to medium term. Accordingly, Qube impaired the carrying value of its Dampier Transfer Facility and barge by $8.1 million as these assets predominantly service oil and gas production related activities.

Strategic Assets Division

Underlying revenue and earnings (EBITA) from the Strategic Assets division were $55.0 million and $15.2 million respectively, an increase in revenue of 34.5% and decrease in EBITA of 54.6% over the prior corresponding period.

The increase in revenue in the period was due to the consolidation of AAT from 1 December 2016 (Qube's 50% equity accounted interest being previously recognised in the Ports & Bulk segment). AAT has generated strong revenue, earnings and cashflow in the period post acquisition on the back of high volumes of roll on roll off vehicles, bulk and general cargoes through its facilities.

The decline in earnings for the division is due to the reduction in property rental income from Qube's Moorebank property as the prior year included almost six months rental income plus a significant lease termination payment in respect of Qube's 83 hectare Moorebank property. The early exit of the tenant from Qube's property in the prior year was necessary for the broader Moorebank development (to be known as Moorebank Logistics Park) to commence. This development is expected to create significant long term value and earnings for Qube.

Post year end, Qube also announced that it had reached agreement on a 10 year lease (plus options) with Target Australia for a new warehouse at Moorebank. Qube Logistics also reached agreement on a new 5 year (plus options) logistics contract with Target Australia covering the transport of freight by rail from Port Botany to Moorebank.

Qube's wholly owned properties at Minto also contributed rental income for the period from leases to Prixcar and Ceva Logistics although the current year income was reduced due to Prixcar exiting part of the site in December 2016. Qube has recently finalised a new 10 year lease agreement with Mazda Australia which will add to Qube's earnings once the lease commences which is expected to be in July 2018 after the required capex on a vehicle storage and processing facility has been completed. The statutory results include fair value gains on the value of Qube's Moorebank and Minto investment properties of $22.4 million. This has been excluded from Qube's underlying results given they are non-cash, unrealised gains.

Corporate

The Corporate division continued to provide key support to the other divisions across a range of areas including senior operational and strategic leadership (Managing Director and Chief Operating Officer), finance, treasury, tax, insurance, legal and safety.

In FY17, the Corporate division generated EBIT of $4.3 million compared to an EBIT loss in the prior year of $4.2 million. The improved result benefitted from a $22.2 million net cash contribution in relation to Qube's Asciano shareholding that was sold as part of the Patrick transaction. The prior corresponding period included an $8.0 million fully franked dividend received on Qube's Asciano shareholding that was acquired as part of the Patrick transaction.

Patrick

The Qube / Brookfield led consortium completed the acquisition of Patrick in August 2016 with Qube taking a 50% interest. Qube invested a total of around $1.0 billion structured as approximately $358.5 million in interest bearing shareholder loans to Patrick, $10.5 million in non-interest bearing shareholder loans to Patrick and around $656.2 million as equity. Qube's share of Patrick's statutory profit after tax includes around $31.6 million of non-recurring costs relating to the acquisition including stamp duty, transaction costs and restructure costs. These have been excluded from Qube's underlying results.

Qube continues to view Patrick as the most efficient, lowest average cost national container terminal operator (as a result of its two automated terminals in Brisbane and Sydney), with superior sites nationally and an experienced management team and Board. Patrick's short term earnings are likely to be affected by the additional capacity created by third entrants in Brisbane, Sydney and more recently Melbourne and competitive conditions which have impacted rates across the industry. However Qube believes that the long term outlook is positive given both the structural tailwinds for container volumes through Australia's ports, limited capacity to create additional port berths, as well as Patrick's favourable competitive market positioning.

Pleasingly, towards the end of the period, Patrick successfully extended contracts with several of its major customers representing around 85% of its volumes.

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

Qube's underlying post-tax earnings from Patrick in the 10.5 months of ownership in the period was $21.2 million comprising interest income on the shareholder loans of around $22.1 million ($15.5 million post-tax) and share of profit after tax of around $5.7 million.

Patrick's pre-tax profit in the period has been reduced by around $17.1 million ($19.6 million on a full year basis) by a non-cash amortisation charge as a result of the acquisition accounting that is required to be recognised under the accounting standards. This non-cash expense does not reflect Patrick's trading performance during the period. Patrick's total underlying after-tax contribution to Qube excluding Qube's share of Patrick's amortisation was $27.1 million.

Associates

Qube's associates (excluding Patrick) contributed approximately $3.3 million to Qube's underlying NPAT which is a reduction of around 76.6% on the prior corresponding period. A key reason for the decline is that AAT became a subsidiary on 30 November 2016 when Qube acquired the remaining 50% and therefore ceased to be an associate of Qube. In FY16, Qube's 50 % interest in AAT contributed $8.8 million to Qube's NPAT. In addition, PEL recorded a net loss of $1.3 million in FY 17 while NSS and Prixcar made lower contributions than the previous year, with the other associates making a modest overall contribution.

Qube recognised an impairment of $18.3 million in the carrying value of its investment in Prixcar. This reflects Prixcar's poor financial performance in recent years and weaker outlook compared to prior years. Although Prixcar's financial performance is expected to improve in FY18 onwards, the expected growth in cashflows are insufficient to support the carrying value of Qube's investment.

Safety

Qube maintains an ongoing focus on providing safe workplace, through its Zero Harm programs.

During the period, Qube continued to improve its injury statistics, with an 8% improvement in lost time injuries and total recordable injuries.

Qube has also focused more on critical risks and significant incidents rather than aggregate injury statistics and accordingly has developed a key safety metric to effectively measure significant injuries and significant potential incidents.

Qube has also implemented a Fitness for Work program which is an important element of a safe work environment and incorporates a number of key areas including drugs and alcohol, fatigue, mental health, and general wellness.

Another measure undertaken in the period to improve safety include the installation of innovative telematics technology in the cab of trucks to give real-time information on driver and vehicle performance, as well as the ability to proactively monitor fatigue, speed and braking events (as well as reducing the risk of rollovers).

The non-intrusive, in-cab solution alerts operators the instant that they stop paying sufficient attention to vehicle operation. Real-time event data is then transmitted to a specialist 24-hour facility where trained personnel can implement best practice risk mitigation processes.

The Board and senior management continue to focus on Qube's value of Zero Harm, undertaking leadership walks by Board, executive and senior managers at various facilities to assess critical risks and behaviours to mitigate these risks.

Summary and Outlook

The 2017 financial year was a pleasing year for Qube with solid financial performances from the two operating divisions and the completion of several strategic acquisitions and investments providing a sound platform for long term growth.

Qube completed a number of equity and debt initiatives in the period that place it in a very strong position to continue to fund suitable growth opportunities whilst maintaining its prudent approach to leverage and risk.

In FY18 Qube expects overall market conditions to remain similar to FY17 with pressure on rates from the ongoing competitive dynamics in Qube's key markets. However, Qube will continue to seek to deliver growth and maintain its strong market positions through its innovative and reliable logistics solutions and strong cost focus. Qube will also maintain its focus on investing in and utilising technology across its operations to drive increased safety outcomes, improve service reliability for its customers and deliver further productivity improvements throughout its business.

The Logistics and Ports & Bulk divisions are both expected to deliver underlying organic revenue and earnings growth.

The extent of growth in earnings in the Ports & Bulk division will be influenced by conditions across commodity markets, new passenger vehicle sales as well as any improvement in activity levels in the oil and gas sector.

The earnings from the Logistics division's Sydney operations will be impacted in FY18 by additional interim operational costs as the business waits for the Moorebank Logistics Park's facilities to be developed over the next two years. It is anticipated that the Sydney operations will commence consolidating some of its existing activities at Moorebank from FY19. As a result only modest organic earnings growth is currently expected from the Logistics division in FY18.

The earnings from the Strategic Assets division are expected to benefit from a full period contribution from AAT (albeit with reduced earnings from AAT's Melbourne operations as it exits its lease at the end of 2017) and increased management fees for MIC funded works at Moorebank. Modest warehouse rental income is expected from the existing warehouses at Moorebank. The earnings from the Minto properties are expected to be lower in FY18 while the capex for the new Mazda lease is undertaken with earnings then increasing from FY19 onwards. The capex from this division is expected to increase significantly in FY18 as the Moorebank development ramps up.

The contribution from Patrick will depend on several factors, most importantly market sector growth and Patrick's market share (including Patrick's success in securing any available new business) during the period. Management is also focussing on cost reductions and the achievement of the target synergies / cost efficiencies to mitigate the impact of the ongoing rate pressures. At this stage, Patrick is expected to contribute a modest increase in underlying earnings to Qube in FY18 compared to FY17 (being interest income and share of profit after tax). FY18 earnings will reflect a full 12 months of ownership of Patrick, introduction of the infrastructure levy, full year impact of FY17 rate reductions, A3 contract loss, higher labour costs and increased rental costs.

The Corporate division is expected to report an EBIT loss of around $18 million reflecting the growth in the company requiring additional resources, and the absence in FY18 of the significant contribution from the Asciano shareholding that benefitted the division's results in both FY17 and FY16.

In FY17, through the acquisitions of 50% of Patrick, Aurizon's Moorebank interests and the other 50% of AAT, Qube has assembled a unique portfolio of high quality and strategic infrastructure assets that will drive efficiencies across the logistics supply chain. In the shorter term, while Qube is undertaking the investment to develop some of these assets, its earnings will not reflect the substantial value that is being created.

In FY18, despite its significant investment and ongoing competitive market conditions, Qube expects to report an increase in underlying NPATA.

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 2017 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 2017 and the prior comparable period is presented below:

	FY 2017 $'m	FY 2016 $'m
Revenue from external customers	**1,512.8**	**1,332.5**
Intercompany transactions	23.3	-
Fair value adjustments	(22.4)	(12.8)
Underlying revenue	**1,513.7**	**1,319.7**
Statutory net profit /(loss) before income tax	**104.7**	**128.1**
Share of loss/(profit) of equity accounted investments	22.6	(12.6)
Finance (income) / cost	12.6	32.1
Depreciation & amortisation	113.4	101.5
EBITDA	**253.3**	**249.1**
Impairment losses on investments in associates	18.3	21.3
Impairment of property, plant and equipment	8.1	-
Impairment reversal, property, plant and equipment	-	(17.6)
Non-recurring restructure costs	-	2.9
Fair value gains	(22.4)	(12.8)
Stamp duty	1.9	-
Other	2.3	3.3
Underlying EBITDA	**261.5**	**246.3**
Depreciation	(102.4)	(92.6)
Underlying EBITA	**159.1**	**153.7**
Amortisation	(11.0)	(8.9)
Underlying EBIT	**148.1**	**144.8**
Underlying Interest income / (expense)	(15.0)	(32.1)
Share of (loss)/profit of equity accounted investments	(22.6)	14.1
Underlying adjustments to equity accounted investments:		
Stamp duty	26.0	-
Other non-recurring transaction & restructure costs	9.2	-
Tax expense on above items	(3.6)	-
Underlying share of profit/(loss) of equity accounted investments	**9.0**	**14.1**
Underlying net profit before income tax	**142.1**	**126.8**
Underlying Income tax expense	(39.9)	(33.8)
Underlying net profit for the year	**102.2**	**93.0**
Underlying non-controlling interests	-	(6.5)
Underlying net profit after tax attributable to members	**102.2**	**86.5**
Underlying net profit after income tax attributable to members pre-amortisation [2]	**115.9**	**92.8**
Underlying diluted earnings per share (cps)	7.0	7.6 [1]
Underlying diluted earnings per share pre-amortisation (cps)	8.0	8.1 [1]

[1] Adjusted for entitlement offer completed in June 2017.

[2] Underlying net profit/(loss) after tax pre-amortisation, includes an adjustment for Qube's proportionate share of Patrick amortisation expense net of tax.

The previous table 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.