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22 February 2018

ASX and Media Announcement

Qube delivers another solid financial performance

Further progress on Moorebank Project with strong tenant interest

- Underlying NPAT of $53.7 million ($61.6 million NPATA)
- Statutory NPAT of $45.2 million ($53.1 million NPATA)
- Generated strong operating cashflow of $123.9 million
- Finalised major tenant agreements for Moorebank in the period
- Interim dividend maintained at 2.7 cents per share, fully franked

Qube Holdings Limited (Qube) today announced a pleasing financial performance for the six months to 31 December 2017 with solid contributions from all divisions.

Volumes were robust in most areas of Qube's operations including container volumes, vehicle imports, forestry products, bulk commodities and there was also some improvement in oil and gas related activities. Grain volumes were the only significant area of weakness due to adverse weather conditions in New South Wales (NSW) and southern Queensland.

Qube's strong market positions, scale from past investment in infrastructure, property, equipment and technology has enabled Qube to achieve this pleasing overall financial result in the face of ongoing rate pressures and a competitive operating environment.

Releasing the results, Qube's Managing Director, Maurice James said, "This is a solid first half result. Qube's ability to achieve revenue growth in all divisions and a good overall earnings performance despite the competitive challenges reflects the quality of Qube's business and the benefits of the scale and diversification that Qube has been developing".

<u>Financial Performance</u>

Qube reported underlying revenue of $811.9 million (+7.1%), underlying earnings (EBITDA) of $134.3 million (-2.5%) and underlying net profit after tax before amortisation (NPATA) of $61.6 million (-9.0%).

The overall decline in earnings compared to the prior corresponding period, despite the solid operating and financial performance from all of Qube's divisions, reflects the benefit of a $22.2 million pre-tax contribution from Qube's Asciano shareholding that was realised in the prior corresponding period as part of the completion of the Patrick acquisition.

Adjusting for the Asciano contribution in the prior corresponding period, underlying EBITDA increased by 16.2% and underlying NPATA increased by 18.0%.

Underlying earnings per share pre-amortisation (EPSA) was 3.8 cents, a decline of around 24% on the prior corresponding period. The decline in EPSA was due to the lower NPATA as well as the increased weighted average number of shares in the period compared to the prior corresponding period. This was partly a result of the $350 million capital raising completed in June 2017 to fund Qube's Moorebank project and other growth opportunities which are in the development phase and therefore not yet generating their target returns.

The Moorebank project is expected to deliver significant long term earnings for Qube once the development is completed and the operations and warehousing have achieved sufficient scale. However, during the development and early growth phase, the earnings contribution is expected to be modest and not reflective of the substantial value that has been created. This approach reflects Qube's focus on sustainable value creation rather than short term earnings.

Statutory revenue increased by 5.6% to approximately $797.2 million and statutory profit after tax attributable to shareholders decreased by around 5.4% to $45.2 million. Statutory diluted earnings per share decreased by around 20.0% to 2.8 cents per share.

The interim dividend has been maintained at 2.7 cents per share, fully franked, reflecting Qube's strong cashflow generated in the period and positive outlook.

The underlying financial information is based on the statutory information excluding 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.

Safety

During the period Qube's Lost Time Injury Frequency Rate (LTIFR) improved by over 37% to 1.5 Lost Time Injuries (LTIs) per million hours worked reflecting Qube's ongoing focus and commitment to ensuring a safe workplace.

Moorebank Project Milestones Achieved

In addition to the solid financial and safety performance, significant progress was made with the Moorebank Logistics Park (MLP) project.

In August 2017, Qube announced that it had secured commitments for its first tenants for Moorebank being Target Australia (Target) and Qube Logistics, representing a total warehouse commitment of approximately 80,000m^2 or just under 10% of the total warehousing capacity which was consistent with Qube's internal business case assumptions.

Target signed a 10 year warehouse agreement for lease (with options to extend), and also signed a 5 year logistics contract (also with options to extend) with Qube Logistics for the transport of Target's containers from Port Botany to Moorebank. Qube believes that this provides further validation of the Moorebank strategy and particularly the substantial cost and efficiency benefits for customers that choose Moorebank for their warehouse location based on a consideration of the entire logistics supply chain.

In February 2018, Qube reached in-principle agreement (currently being documented) with a prospective tenant to reserve 150,000m^2 of land at Moorebank for up to 7 years for the future construction of a major warehouse.

This arrangement would provide the counterparty with the certainty of site security at Moorebank whilst both parties work together in the planning of the longer term operational requirements. The counterparty has significant import volumes thereby making them an ideal prospective tenant for Moorebank.

Under the terms that have been agreed, Qube will receive an annual payment for so long as the formal agreement remains on foot or until a lease agreement has been entered into. Both parties will continue to work closely to develop commercial terms of an agreement for lease by 2022.

"We are delighted with this arrangement with what we expect will be a long term client of the Moorebank Logistics Park", Mr James said. "This agreement highlights the substantial flexibility that Qube has to structure arrangements with prospective tenants that meet their particular requirements without adversely impacting the commercial returns from the project."

Qube continues to receive strong interest from a range of prospective tenants for the Moorebank site. However, to maximise the long term value from the project for the benefit of Qube's shareholders, Qube will continue to be selective in its choice of tenants and will focus on securing tenants that directly or indirectly drive significant volumes of containerised freight. These types of tenants will derive maximum value from the substantial cost savings and service improvements that being located at Moorebank can offer due to the highly efficient logistics supply chain for freight moving between Port Botany and Moorebank.

The construction of the precinct infrastructure and stage 1 of the import-export (IMEX) rail terminal is well underway and the timetable remains on track for operations to commence in the first quarter of calendar 2019. Planning approval was received in late January 2018 for Moorebank Precinct East – Stage 2 which was a key requirement to enable the timely construction of the initial warehouses. The rail access works to connect the dedicated Southern Sydney Freight Line (SSFL) to the MLP site is also well progressed. Qube is managing the procurement of contractors for this activity on behalf of the Moorebank Intermodal Company (MIC) for which it is receiving a fee.

There is significant ongoing complexity in the NSW planning process, particularly given the involvement of MIC and multiple State agencies in securing the required approvals. Despite this complexity and some delays, the approvals received to date reflect Qube's extensive management focus on ensuring the project remains on track and within the target timeframes.

<u>Funding</u>

Qube also completed several funding initiatives during the period consistent with its strategy of diversifying its funding sources, extending the tenor of its debt and ensuring that it maintains adequate liquidity to fund suitable growth opportunities. This included establishing new five year bilateral debt facilities to replace its existing bilateral and syndicated debt facilities and the issuance of US$150 million in the US Private Placement (USPP) market across 7, 10 and 12 year maturities. The collective outcome of these initiatives was to open a new funding market for Qube and to extend the average maturity of Qube's borrowing facilities from 2.9 years at the start of FY18 to 5.4 years at 31 December 2017.

Qube retained its conservative approach to its balance sheet, finishing the period with a leverage ratio (being net debt / net debt plus equity) of around 22.6% being below the bottom end of Qube's target leverage ratio of 30%-40%.

<u>Logistics Division</u>

The Logistics division reported underlying revenue growth of 11.0% to $365.0 million but a slight decline in underlying earnings (EBITA) of 1.9% to $36.0 million. The earnings decline reflected the cost inefficiencies associated with the exit in April 2017 from the Sydney Haulage rail site at Port Botany in NSW and the need to relocate the remaining business across multiple sites (consistent with previous guidance). Earnings were also impacted by the very low grain volumes hauled as a result of the drought in NSW and southern Queensland which impacted bulk rail volumes hauled by Qube Rail as well as volumes of containerised grain exports.

Revenue and earnings across the other parts of the business were generally in line with expectations and the division was successful in securing new business.

The acquisition of Maritime Container Services Pty Ltd (MCS), which was completed on 27 December 2017, provides Qube with a larger site with a rail terminal and empty container park operations to replace the Sydney Haulage site and improve efficiency. Qube has given an undertaking to the ACCC that it will not integrate the MCS operation with its existing business until 15 March 2018 by which time the ACCC is expected to have completed its review of the acquisition.

<u>Ports & Bulk Division</u>

The Ports & Bulk division delivered a very strong financial performance with underlying revenue growth of 9.9% to $399.6 million and underlying earnings (EBITA) increasing by 20.0% to $42.0 million. The period saw continued strength in volumes across most areas of the business including vehicles, forestry products, cement, steel, most bulk commodities as well as an improvement in oil and gas related activity. Although it continued to experience high throughput and generate acceptable returns on investment, the total volume handled by Qube at Utah Point declined from around 12.7 million tonnes in H1-FY17 to approximately 10.4 million tonnes in the period to 31 December 2017 as a result of the closure of one of the mines of a major customer.

The business remains well diversified by product and customer and continues to focus on securing additional business through its unrivalled network of locations and established track record of delivering innovative, cost effective and reliable logistics solutions.

The associates in the division had mixed results with an overall NPAT loss of $0.2 million as continued losses by Prixcar offset Qube's share of profit from NSS. In the prior corresponding period, Qube reported a $2.3 million profit from the divisional associates although this included a $3.2 million NPAT contribution from Qube's investment in Australian Amalgamated Terminals (AAT). On 30 November 2016, Qube acquired the other 50% of AAT and has reported its consolidated results in the Strategic Assets division thereafter.

As a result of the ongoing weak financial performance and outlook for Prixcar, Qube has further impaired its investment in Prixcar by $6.0 million.

Strategic Assets Division

The six months to 31 December 2017 was a very busy period for this division with substantial progress having been made in respect of both the development activities and securing key tenants for the Moorebank site. The financial performance in the period also exceeded internal expectations largely due to a very strong contribution from AAT.

Underlying revenue and underlying EBITA have increased significantly to $47.2 million and $15.0 million respectively. The large increase is attributable to the contribution from AAT for a full six months compared to only one month in the prior corresponding period, as well as high volumes of motor vehicles and mining related vehicles across its facilities. The result also benefitted from higher income from MIC funded works at Moorebank although these were offset by higher costs as internal resources were increased to ensure the effective delivery of the project as it continues to ramp up.

As previously advised, earnings from Minto Properties were lower compared to the prior period as the capex is being undertaken on the site in preparation for the commencement of a new lease with Mazda and earnings are expected to increase from FY19.

The divisional associates, Quattro Grain and TQ Holdings generated an overall NPAT loss for Qube of $1.1 million compared to a profit of $0.1 million in the prior corresponding period. The loss was mainly due to Qube's investment in Quattro Grain which was adversely impacted by very low grain volumes through its facility as a result of the drought in NSW and southern Queensland.

As noted above, significant progress was made in relation to planning approvals, construction and development activities for Moorebank during this period. The recent in-principle agreement to reserve substantial land within the development for a prospective tenant further demonstrates the early traction that Qube is having in securing anchor tenants.

Patrick

The operational and financial performance of Patrick during the period was broadly consistent with Qube's expectations. Qube's 50% interest in Patrick contributed a total of approximately $13.0 million underlying NPAT ($16.6 million NPATA) to Qube's earnings for the period, an increase of 1.6% and 8.5% respectively on the prior corresponding period which only included 4.5 months of Qube's ownership of Patrick. This comprised $8.7 million in interest income (net of tax) and the balance being Qube's share of Patrick's profit after tax. The statutory contribution to Qube's NPAT (being interest income and share of profit after tax) was a profit of $13.0 million.

Market growth was strong with an increase in lifts of around 7% for the 6 months to December 2017 compared to the prior corresponding period. Patrick's volumes benefitted from several factors including market growth, organic growth within its customer base, a new customer win in the period and subcontracted volumes from other stevedores which collectively helped to mitigate the full period impact of the loss in October 2016 of the sizeable A3 contract.

Despite the positive volume trend, rates remained under pressure with the market remaining highly competitive as a result of surplus terminal capacity due to three stevedores in Sydney, Melbourne and Brisbane, and ongoing shipping line consolidation. Qube believes that this is a short term issue and over the medium term, if market volumes continue to grow at or above its expected long term target of at least 3-4% pa (i.e. slightly above GDP growth), then customers will again prioritise service levels and efficiency.

Patrick will continue to focus on improving its operational performance and productivity in order to reduce its costs and maintain the delivery of its superior service to its customers. Management is on track to deliver the cost savings / synergies identified as part of the acquisition case analysis and has also set targets to improve crane productivity over the short to medium term. Planning is continuing for the development of an automated rail terminal at Patrick's Port Botany facility which would significantly reduce costs and improve the efficiency of moving containers from vessels to rail.

During the period, Patrick implemented a new or increased infrastructure levy in response to increasing property and property related costs and past investment in infrastructure to improve the capacity and performance at the terminal's landside interface operations. Post period end, Patrick announced that the infrastructure levy will increase from March 2018.

Summary and Outlook

Qube delivered solid results in the six months to 31 December 2017 with pleasing contributions from all divisions despite ongoing competitive pressures. The financial performance reflects Qube's strong market positions, diversified operations and the benefits of past investment to build scale and operational capacity and capabilities.

In addition to the solid financial performance, Qube continued to strengthen its funding position ensuring it retained adequate liquidity by tapping into new funding markets and extending the tenor of its facilities whilst maintaining a conservative level of leverage to pursue further investment in growth opportunities.

Qube's Moorebank Logistics Park project continued to achieve key milestones with substantial progress on the construction of the precinct infrastructure, additional planning approvals were secured and agreements entered into with prospective tenants for the Moorebank site.

The continued achievement of key milestones required for the project to be operational in Q1-2019 will require satisfaction of the necessary NSW planning approval conditions and receipt of required approvals from the Commonwealth's Moorebank Intermodal Company.

Qube currently expects the economic and operating environment for the remainder of FY18 to be similar to the first half with relatively stable volumes and limited capacity to secure rate increases. Qube will aim to maximise its margins through its ongoing cost focus and by leveraging its past investment in facilities, equipment and technology to drive scale, operational efficiencies and by delivering a superior customer service.

Overall, subject to no material adverse change to economic or operating conditions, Qube continues to expect to deliver an increased underlying net profit after tax (pre-amortisation) in FY18.

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 half year ended 31 December 2017 that do not reflect the underlying financial performance of Qube.

A reconciliation of the statutory results to the underlying results for the half year ended 31 December 2017 and the prior comparable period is presented below:

	Dec 2017	Dec 2016
	$m	$m
Revenue from external customers	**797.2**	**755.0**
Other adjustments	14.7	2.8
Underlying revenue	**811.9**	**757.8**
Net profit before income tax	**66.8**	**55.4**
Share of loss/(profit) of equity accounted investments	(3.0)	22.7
Net finance cost	8.0	4.5
Depreciation and amortisation	56.6	54.5
EBITDA	**128.4**	**137.1**
Fair value gain on investment property	(5.8)	-
Impairment of investment in associate	6.0	-
Other adjustments (net)	5.7	0.7
Underlying EBITDA	**134.3**	**137.8**
Depreciation	(50.5)	(50.0)
Underlying EBITA	**83.8**	**87.8**
Amortisation	(6.1)	(4.5)
Underlying EBIT	**77.7**	**83.3**
Underlying net finance cost	(5.2)	(6.8)
Share of (loss)/profit of equity accounted investments	3.0	(22.7)
Underlying adjustments to equity accounted investments:		
Stamp duty	-	26.0
One-off transaction costs	-	4.4
Other non-recurring restructure costs	-	0.8
Underlying share of profit/(loss) of equity accounted investments	3.0	8.5
Underlying net profit before income tax	**75.5**	**85.0**
Underlying income tax expense	(21.8)	(22.9)
Underlying net profit for the half year	**53.7**	**62.1**
Underlying net profit after income tax attributable to members	**53.7**	**62.1**
Underlying net profit after income tax attributable to members pre-amortisation [1]	**61.6**	**67.7**
	Cents	**Cents**
Underlying diluted earnings per share	3.4	4.6[2]
Underlying diluted earnings per share pre-amortisation	3.8	5.0[2]

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

[2] Earnings per share metrics have been restated to include the dilutive impact of the discount element of the entitlement offer

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 in order to more accurately reflect the underlying performance of Qube. 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.