

Media Release

Issued: 21 February, 2018

HUON MAINTAINS MOMENTUM, DOUBLES OPERATING NET PROFIT AFTER TAX

Huon Aquaculture Group Limited's ('Huon') (ASX: HUO) financial results for the six months ending 31 December 2017 confirm the strength of the underlying momentum in profit growth that was predicted following the completion of the Company's three year capital investment program, the Controlled Growth Strategy (CGS), in 2016.

For the half year, Huon has reported a 28% lift in revenue enabling it to build on the substantial improvement in biological and financial results achieved in FY2017. It was supported by good growing conditions delivering a record average fish weight of 5.29kg due to improved fish diets and the initiative to increase smolt size to sea.

SUMMARY OF BUSINESS PERFORMANCE FOR 1H2018

- Harvest tonnage increased by 35% compared to the previous corresponding period (pcp)
- Revenue up 28% in line with higher volumes and the continued strength in domestic salmon prices
- Good growing conditions and improved fish diets resulted in a record average fish weight of 5.29kg, +9% from 4.84kg pcp
- Shift in the channel mix, as indicated in August 2017, towards exports with 29% of production volume sold offshore as part of a targeted program to increase Huon's contracted sales into Asian markets
- Strong domestic demand saw increased sales into the Australian retail market, accounting for 21% of Huon's expanded revenue base
- The \$12.3m increase in the Fair Value Adjustment of Biological Assets was lower than pcp as a reflection of the relatively modest increase in biological assets compared to the strong recovery of fish stocks (+\$31.6m) in the six months to December 2016
- Overall gearing remains comfortable at 21% (cf 19% pcp).

FINANCIAL SUMMARY

Six months ended		31 December 2017	30 June 2017	31 December 2016	% Change Dec on Dec
Tonnage [^]	t	12,693	9,071	9,377	35%
Revenue	\$M	170.5	126.0	133.5	28%
Revenue per HOG kg	\$/kg	13.43	13.89	14.24	-6%
EBITDA*	\$M	51.5	24.1	57.9	-11%
NPAT	\$M	27.6	10.7	31.5	-12%
Operating EBITDA**	\$M	39.2	36.5	26.3	49%
Operating NPAT***	\$M	19.0	19.4	9.4	102%
Fair Value Adjustment of Biological Assets	\$M	12.3	(12.4)	31.6	-61%
Biological Assets	\$M	195.3	188.0	190.3	3%
Operating Cash Flow	\$M	23.2	33.1	20.9	11%
Net Debt	\$M	67.3	43.0	53.8	25%
Total Gearing Ratio	%	21.3	14.7	19.0	12%

[^] Revenue from the sale of goods

* EBITDA is earnings before interest, tax, depreciation and amortisation

** Operating EBITDA is statutory EBITDA excluding Fair Value Adjustment of Biological Assets

*** Operating NPAT is statutory NPAT excluding Fair Value Adjustment of Biological Assets and related tax impact

RESULTS COMMENTARY

Profitability for the half year to 31 December 2017 continued to improve, building on the strong gains made in the previous corresponding period. Production volumes increased 35%, in line with the guidance provided in August 2017.

Growing conditions were favorable until late in the half when unseasonably warm weather in November put unplanned pressure on operational resources with changes to bathing and net cleaning schedules. This has affected biological outcomes and increased fish losses. Nevertheless the harvest of the 2016 Year Class in the first half has delivered a record average weight of 5.29kg (+9% pcp) which is testament to the new feed diet and farming practices more generally.

Sales revenue increased 28% on pcp to \$170.5 million, due to the continued strength in domestic salmon pricing and increased production volumes. Tonnage sold into the domestic market was maintained, taking advantage of a stable wholesale and retail pricing environment. Improvements in channel mix combined with continuing growth in demand during the half resulted in an overall increase in the average price received.

Overall 29% of production volumes or 3,710t. went into the export channel, reflecting strong demand for the Huon brand in Asia. There was a strong focus on sales to established and contracted customers which accounted for 17% of total export volumes. In the second half new supply agreements will commence which are expected to push contracted export sales above 65%.

“The development of a sustainable, long term client base in Asia is dependent on strong relationships that have been carefully nurtured over time. These relationships open doors to opportunities that would not otherwise be available. As we expand the business I am confident that the agreements we are putting in place across Asia to lock in sales at premium price levels, will remove much of the uncertainty and volatility that is currently associated with our sales into export markets,” said Huon Managing Director and CEO, Peter Bender.

The \$12.3 million gain in the Fair Value Adjustment of Huon’s Biological Assets reflects the moderate increase in biomass levels since June 2017 (+3%) following the major recovery experienced in FY2017. This combined with the overall easing in the average sale price due to the increased weighting to lower priced exports, has reduced the gain relative to that recorded the previous corresponding half (\$31.6 million).

RISK MANAGEMENT

Biosecurity

The unseasonably warm weather during November has continued through the summer months, resulting in an increase in Amoebic Gill Disease (AGD) which resulted in Huon increasing freshwater bathing operations to treat affected salmon. The increase in bathing, which began in November 2017, and associated mortalities has brought with it operational challenges to meet demand. The warm weather also brought disease challenges and all of this has led to lower than expected fish performance as we move into the second half, resulting in reduced volume availability. This further highlights the need for increased well boat capacity, which will be provided by “Ronja Storm”, and to continue our focus on improved biosecurity practices across the whole salmon industry.

Macquarie Harbour

Macquarie Harbour continues to be an important growing region for Huon, where we grow both salmon and ocean trout. Huon remains concerned about the ongoing and cumulative impacts of overstocking of the region in recent years and anticipates a prolonged period of remediation and recovery will be required.

Huon has pursued legal action to safeguard the long term sustainability of Macquarie Harbour.

“Huon’s production from Macquarie Harbour continues to account for approximately 10% of our annual harvest,” said Mr Bender. “We will be reducing overall production levels in the region during 2018 and expect that total production volumes will continue to decrease in the Harbour until the area stabilises and returns to more normal environmental conditions.”

Yellowtail Kingfish Trial

Over the past two years Huon has been undertaking a research program in conjunction with NSW Department of Primary Industries into the viability of farming Yellowtail Kingfish. In 2017 a pilot trial was established involving the stocking of three fortress pens in Providence Bay, 7 kms off the coast at Port Stephens. The trial will run for five years.

In January, following a period of severe weather conditions, it was discovered that fish, with an estimated value of \$1.0 million, had escaped from one of the fortress pens. The cause of the loss was not due to the design or integrity of the fortress pens but operational shortcomings which have since been addressed. The loss has delayed plans for the first harvest until late March but otherwise the trial is continuing as planned.

CAPITAL MANAGEMENT

Following the significant investment in upgrading Huon’s infrastructure and processing capabilities via the CGS, in FY2018 the Company has committed to a \$85m capital investment program that will expand production. This includes the construction of a \$45m grow out facility at Whale Point and putting in new fortress pens at one of its lease sites at Storm Bay. This expansion was funded during the half with \$33m in cash and a \$10m drawdown from its debt facility. The balance of the funding in the second half will be largely sourced from debt.

Consistent with the Company’s strong performance in the first half, the Board has declared a dividend of 5.0 cents per share, franked to 50%. As previously noted annual dividends will target a payout ratio of no more than 35% of operating net profit after tax with payment biased towards the final dividend.

OUTLOOK

Demand for salmon from Australian consumers continues to grow at around 10% per annum with wholesale and retail prices remaining firm. While global supply of salmon has increased, the market continues to remain constrained due to the rate at which demand continues to grow, and is forecast to grow, in 2018 and 2019.

Huon has continued the development of contracted sales into its key markets, including exports into the Asian market. This will shield the Company’s earnings from the volatility inherent in spot markets for salmon and ensure it receives an appropriate premium for the quality of its product.

“The resilience of domestic salmon prices over the past six months is expected to continue through calendar 2018 due to lower than expected volumes. This is a direct outcome of some of the challenges experienced during the summer period and has resulted in us announcing an increase in prices in order to protect continuity of supply for the remainder of 2018,” said Mr Bender.

“We remain confident that there are further production efficiencies to be gained, however the unseasonal warm weather during November will have a negative impact on our cost reduction program. We will continue to focus on efficiency projects to improve productivity in the short term and look to capitalise on reductions in cost through the strategic investment in the Whale Point grow out facility.”

“We expect that volumes from the harvest in FY2018 to be close to 24,000 tonnes and anticipate a modest increase in Operating EBITDA (on pcp) in the second half, in part due to the particularly strong operating performance in the second half of FY2017. Contracted sales into the export channel are expected to increase above 65% in 2H2018, and as a result, we expect the average price/HOG kg across all channels for FY2018 to be around \$13.75-13.85, against \$13.43 in the first half,” Mr Bender concluded.

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