



# Media Release

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## HUON ON TRACK FOR STRONG PROFIT RECOVERY IN FY17

Huon Aquaculture Group Limited's ('Huon') (ASX: HUO) financial results for the six months ending 31 December 2016 reflect the substantial improvement in operating performance foreshadowed in August 2016 and at the Company's Annual General Meeting in November.

For the half year Huon has reported a net profit after tax (NPAT) of \$31.5m, compared with a loss of \$1.3m for the previous corresponding half. This strong earnings result follows a return to more normal weather patterns during the half, better feed performance and continued strength in the domestic salmon price. Sales to the Australian retail market doubled during the half, reducing Huon's reliance on export markets and providing a more balanced and profitable channel mix.

### SUMMARY OF BUSINESS PERFORMANCE FOR 1H17

- Harvest tonnage down 24% compared to the previous corresponding period (pcp) which was abnormally high due to the decision to bring forward the harvest in anticipation of forecast El Niño conditions
- Revenue up 2% due to strength in salmon prices reflecting significant supply constraints globally
- Ideal growing conditions and improved feeds resulted in a 21% increase in average fish weight from 3.99kg in the prior period to 4.84kg
- Improved channel mix with 21% of production sold to major Australian retailers, 75% to the wholesale market and minimal export sales due to strong domestic demand
- Significant increase in the Fair Value Adjustment of Biological Assets (+\$31.56m) as a result of increased biomass levels, improved pricing and better channel mix
- Operating cash flow increased 22% on pcp for the half
- Net debt increased 15% (on pcp) to \$54m however gearing remains unchanged at a comfortable 19%

### FINANCIAL SUMMARY

Six months ended		31 December 2016	30 June 2016	31 December 2015	% Change Dec on Dec
Tonnage	t	9,377	8,175	12,288	-24%
Revenue <sup>^</sup>	\$M	133.34	102.64	131.10	2%
Revenue per HOG kg	\$/kg	14.24	12.56	10.67	33%
EBITDA*	\$M	57.93	16.78	8.17	609%
Operating EBITDA**	\$M	26.37	10.69	15.76	67%
NPAT	\$M	31.46	4.75	(1.32)	n.a
Operating NPAT***	\$M	9.36	0.49	3.99	135%
Fair value adjustment of Biological Assets	\$M	31.56	6.09	(7.59)	n.a
Net debt	\$M	53.79	62.07	47.06	14%
Biological Assets	\$M	190.30	147.22	135.46	40%
Operating Cash Flow per share	c	23.97	(1.03)	19.72	22%
Total gearing ratio	%	19.0%	24.8%	19.1%	-1%

<sup>^</sup> 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

Performance for the half year to 31 December 2016 was in strong contrast to the previous corresponding period (pcp) which was heavily influenced by the decision to bring forward the harvest to mitigate the impact of the severe 2015-16 El Niño. As a result, volumes for the first half of FY17 show a decline of 24%, despite a strong recovery in the underlying performance of the business.

A warm winter and cool start to summer supported ideal growing conditions during the half resulting in a strong improvement in performance with the average fish harvest weight increasing from 3.99kg in the previous half to 4.84kg (+21%).

In addition, Huon changed feed suppliers following significant issues with feed quality during FY16. The new high energy fish feed diets provided added impetus to the recovery in fish weight.

Sales revenue increased 2% on pcp to \$133.54 million, despite the lower volumes, due to the strength in domestic salmon prices owing to a shortage of supply from major growing regions. Huon recorded an average price \$14.23/kg during the half compared with \$10.67/kg in the pcp, an increase of 33%.

A key development during the half was the execution of new sales agreements resulting in 21% of production volume being directed into the retail market, delivering a better balance to Huon's sales channel mix.

"This has been a longstanding objective for Huon as such contracts lock in sales and provide a level of certainty in planning future production," said Huon Managing Director, Peter Bender.

Strong domestic demand meant that exports during the half were limited (4% of sales) with the majority of production (75%) continuing to be sold into the Australian wholesale market.

The \$31.6 million increase in the Fair Value Adjustment of Huon's Biological Assets reflects increasing biomass levels from the recovery in fish weight and improved pricing conditions. The higher market valuation was due to the overall price increase and improved sales channel mix, resulting in an increased average sale price.

"It is particularly gratifying after the challenges experienced in FY16 to report such a strong result for the first half of FY17. We are now firmly back on track and able to focus our energies on continuing to build a resilient and sustainable business," Mr Bender said.

## RISK MANAGEMENT

Environmental performance is vital to sustainable improvements in earnings in the aquaculture business. During the past six months there has been an increased focus on environmental conditions in Macquarie Harbour and what is a sustainable level of production for the long term.

Responsibility for environmental control and management of the salmonid industry was transferred under delegation on 1 July 2016 from the Tasmanian Department of Primary Industries to the Director of the Environment Protection Authority (EPA) Tasmania. The first assessment of monitoring data for Macquarie Harbour, under the new arrangements, were released by the EPA Director in November 2016. The report showed that the low levels of dissolved oxygen in the deeper parts of the Harbour had continued for much of the year and in some areas had dropped to very low levels, often reaching zero.

Huon's Macquarie Harbour leases performed well with only minor non-compliance reported at one site in very challenging environmental conditions. Management actions required to return the lease to compliance are ongoing.

In November 2016, the EPA also released a draft determination indicating its intention to reduce the biomass to 'around 14,000 tonnes'. The revised limit of 14,000 tonnes was confirmed in the final

determination in January 2017. It is Huon's strong view that this cap is too high given that production levels have effectively already been reduced to this level and are continuing to place stress on the ecosystem. The Company's view is based on independent scientific research conducted by respected organisations such as the University of Tasmania's Institute for Marine and Antarctic Studies (IMAS), which indicates the biomass should be less than 10,000 tonnes given the deteriorating environmental conditions experienced at approximately 10,500 tonnes in September 2016.

As a consequence, on 6 February 2017, Huon announced it had launched legal action through the Federal Court and the Supreme Court of Tasmania. The Federal Court action is against; the Secretary of Tasmania's Department of Primary Industries, Parks, Water and the Environment, the Federal Environment Minister and the Director of the EPA, seeking orders to enforce conditions imposed by the Federal Environment Minister in 2012. The conditions were intended to ensure fish farming expansion in the harbour did not lead to impacts on the habitat of threatened species or the World Heritage Area which borders the marine farming area. Huon will also ask the Federal Court to determine whether those conditions are effective and enforceable.

The Tasmanian Supreme Court action seeks a review of the January 2017 biomass determination on the grounds that it fails to set a safe biomass limit for sustainable salmonid farming for Macquarie Harbour.

Huon has taken strong action in recent years to mitigate environmental and agricultural risk in Macquarie Harbour including; commissioning extensive research into environmental and fish welfare conditions, reduction of stocking levels by 23% over the last two years, installation of oxygenation systems in pens, and sophisticated husbandry practices including extended fallowing periods of lease sites and use of specialised feeds.

"Huon's production from Macquarie Harbour now accounts for approximately 10% of our annual harvest," said Mr Bender.

"This will decrease further as all our efforts are focused on building up our higher energy leases offshore in the southern region. The Fortress Pen rollout has enabled stocking densities to be reduced at all sites, giving the fish a better environment in which to grow. The pens have also significantly lessened wildlife interactions, thereby reducing a major contributor to mortality risk," he said.

## **CAPITAL MANAGEMENT**

Huon's ongoing concerns with Macquarie Harbour environmental performance have meant continued conservatism in our approach to sustainable fish farming in the region. The environmental conditions appear to indicate that the region cannot currently expand to the extent first thought and as a result this has impacted our growth projections. As a consequence Huon is looking to advance the expansion of Huon's Storm Bay growing region to accommodate the potential growth opportunities lost at Macquarie Harbour. This will result in increased capital spend for FY17 and is likely to impact the capital program out to FY19.

As a consequence, while the significant improvement in the operating environment since mid-2016 and completion of expenditure associated with the Controlled Growth Strategy (CGS) have resulted in a substantial turnaround in the performance of the business, the Board has determined at this stage to retain funds within the business. Therefore, a dividend has not been declared for the half, however the Board intends to review its position on the payment of an inaugural dividend at the full year.

## **OUTLOOK**

Demand for salmon from Australian consumers is expected to continue growing at about 10% per annum and supply constraints in offshore markets have substantially reduced the threat from imports.

While Huon's primary focus will continue to be growth of the wholesale business, the new retail supply agreements will double Huon's presence in the Australian retail market in FY17. The Company has long regarded an increased exposure to the fresh component of the retail sector as an important strategic goal.

"The strength in international and domestic salmon prices is expected to continue through calendar 2017 and, together with the expected efficiencies arising from the investment in the CGS, will underpin Huon's ongoing recovery and increase its profitability in the short to medium term. The effects of the difficult growing conditions experienced in the second half of FY16 will nonetheless continue to affect the business in FY17 in the form of higher production costs than previously budgeted," said Mr Bender.

"We continue to expect that volumes from the harvest in FY17 will be broadly in line with FY16 but have revised our expectations for earnings following the strong performance in the first half with stable salmon prices and favourable growing conditions. Operating EBITDA for the full year is now forecast to be \$56-60 million, an increase of 111-126% on FY16," Mr Bender concluded.

The full impact of the CGS investment in the form of substantially improved operating efficiencies will deliver further growth in FY18 and FY19.

## **ENDS**

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