Media Release

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RECORD NET PROFIT AFTER TAX AND INAUGURAL DIVIDEND DECLARED

Huon Aquaculture Group Limited (ASX: HUO) has delivered a record net profit after tax of $42.2 million for the year to June 30 2017 ($3.4 million in FY2016) and declared its first dividend since listing in 2014 of 5.0 cents per share. Excellent growing conditions combined with the introduction of improved feed, underpinned a better than expected fish growth turnaround from the previous year.

Strong pricing for the year was enhanced by a reduction in operating costs in the second half which resulted in Operating EBITDA increasing 138% for the year to $62.8 million. The full impact from Huon's Controlled Growth Strategy (CGS) is expected to be reflected in substantially improved operating efficiencies which is expected to underpin further growth in profit in FY2018.

SUMMARY OF BUSINESS PERFORMANCE FOR FY2017

- Operating EBITDA increased 138% due to stronger prices, a more balanced channel mix and improving costs
- Record revenues, despite harvest tonnages being slightly down, as a result of continued stable pricing in the domestic market, supported by continuing tightness in global salmon supply
- Average harvest and fish weights improved significantly as a result of improved fish feed diets combined with ideal growing conditions, despite starting the year at low biomass levels
- New sales contracts that were commenced in FY2017 more than doubled sales into the retail segment from 10% to 22% of revenue, providing much greater pricing and production certainty
- The uplift in profit together with close management of working capital resulted in operating cash flow of $54.0m from $16.3m in FY2016
- Net debt eased and gearing fell to 15%. Capex spend reduced to $35.0m, delivering a strong cash balance of $23.0 million at year end
- Significant improvement in safety performance for the second year running

FINANCIAL SUMMARY

Year ended 30 June		FY2017	FY2016	% Change FY16 to FY17	FY2015
Tonnage	t	18,448	20,463	-10%	16,536
Revenue[1]	$M	259.5	233.7	11%	191.7
Revenue per HOG kg	$/kg	14.07	11.42	23%	11.59
EBITDA[2]	$M	82.0	24.9	229%	35.2
Operating EBITDA[3]	$M	62.8	26.4	138%	40.5
NPAT	$M	42.2	3.4	↑	16.6
Operating NPAT[4]	$M	28.8	4.4	555%	20.3
Fair value adjustment of Biological Assets	$M	19.2	(1.5)	↑	(5.3)
Biological Assets	$M	188.0	147.2	28%	151.8
Earnings per share	c	48.27	3.92	↑	20.99
Dividend per share	c	5.00	–	na	–
Operating cash flow per share	c	61.82	18.69	231%	21.89
Total gearing ratio[5]	%	14.7%	24.8%	-41%	13.3%

1 Revenue from the sale of goods.
2 EBITDA is earnings before interest, tax, depreciation and amortisation.
3 Operating EBITDA excludes the impact of the Fair Value Adjustment of Biological Assets.
4 Operating NPAT excludes the impact of the Fair Value Adjustment of Biological Assets and related tax impact.
5 Total Gearing Ratio is measured as debt (net of cash)/net assets.

RESULTS COMMENTARY

The strong recovery in Huon's profit in FY2017, whether measured as statutory net profit after tax or operating EBITDA, stands in contrast to the significant challenges the Company faced, and overcame, in FY2016. The much improved result is framed by continuous improvement in farming and feeding strategies, better feed performance combined with ideal growing conditions during a mild winter and a cooler than average summer, and continued strength in the domestic salmon price.

The 10% reduction in tonnages of fish sold in FY2017 is a reflection of the lower biomass at the start of the year as a direct result of bringing forward the harvest in FY2016. However the 11% increase in sales revenue to $259.5 million from $233.7 million in the previous corresponding period (pcp) is indicative of the strong contribution made to this result by the continued strength in salmon prices throughout the year.

Harvest performance in the first half was dominated by efforts to build up the weight of the 2015 Year Class fish that had been compromised by the combination of poor growing conditions and poor fish feed the previous summer. While the fish growth results were outstanding, with the average harvest weight increasing from 3.99kg in the second half of FY2016 to 4.84kg in the first half of FY2017, operating costs to achieve this turnaround were higher than normal.

As the 2015 Year Class was replaced by the 2016 Year Class in the second half, the legacy higher cost issues of the previous year dropped away. While revenue in the second half increased 23% on pcp, operating EBITDA rose from $10.7 million (2H2016) to $36.5 million reflecting a tripling in margins from 10% to 29%.

Operating cashflow for FY2017 also increased strongly to $54.0 million, compared with $16.3 million in the pcp, part of which was used to pay down debt. The conversion of EBITDA to cash averaged a healthy 92% compared to 57% the previous year.

The $19.2 million increase in the Fair Value Adjustment of Huon's Biological Assets reflected the increased biomass levels from the recovery in fish weight and an overall improved pricing environment.

Balancing Huon's channel mix has been a strategic objective for the business for some time. The wholesale and export markets have been the primary channels through which the majority of our production has always been sold. However, a key development during the year was the execution of new retail sales agreements resulting in 22% of revenue being generated by the retail market. This delivers a better balance to Huon's sales channel mix and also provides a level of certainty in planning future production.

Huon CEO and Managing Director Peter Bender said that it was particularly gratifying that the business had recovered so strongly from the various challenges it faced during the previous year.

"We have emerged stronger than ever which I believe is in no small part due to the significant investment that has been made in the business over the past three years. The Controlled Growth Strategy was designed to not only provide a platform for future growth but to also ensure we built a resilient and sustainable business" Mr Bender said.

PEOPLE AND SAFETY

Safety and management of our workforce is vital to sustainable improvements in earnings. Huon achieved a 55% reduction in its Lost Time Injury Frequency Rate (LTIFR) in FY2017, from 7 to 3.

Building our people's capability through workforce planning and targeted development is playing a critical role in Huon delivering its business strategy. Recruiting and retaining high calibre employees is a core people strategy and succession planning is also a high priority.

PROTECTING MACQUARIE HARBOUR

Early in 2017 Huon commenced proceedings in the Supreme Court of Tasmania and in the Federal Court of Australia seeking declarations that the Tasmanian Government and the Tasmanian Environmental Protection Authority are failing in their duty to protect World Heritage listed Macquarie Harbour (and the endangered Maugean skate) by permitting fish stocking and biomass levels in the Harbour to remain at unsustainable levels.

Undertaking legal proceedings was not our preferred approach and has only come after years of engaging with government and exhausting all other avenues at our disposal. In the end we felt it was the only way to draw attention to, and hopefully remedy, an issue that has the potential to seriously damage the reputation of our industry and the long-term security of the waterway for salmonid farming. The first part of the hearing of these actions is expected to be heard in the Federal Court in November 2017.

DIVIDEND POLICY

In light of the significant turnaround in Huon's earnings performance in FY2017 and following consideration of the capital needs of the business, Directors have declared an inaugural dividend of 5.0 cents per share for 2017. This final dividend, which is 50% franked, will be paid on 12 October 2017 to shareholders on the record as at 22 September 2017.

It is the Board's intention to maintain an annual dividend payout ratio of up to 35% of net operating profit after tax, subject to the financing and capital expenditure requirements of the Company. Huon's ability to pay dividends and the extent to which they are franked, will depend on a number of external factors that are difficult to control, such as extreme climatic conditions and issues relating to environmental and biological challenges.

OUTLOOK

FY2018 has started well with favourable growing conditions and fish responding well to improved fish feed diets and the fortress pens. While we still have the higher risk growing cycle of summer ahead of us, current estimates have our FY2018 harvest volume around 24,500 tonnes.

Demand for salmon from Australian consumers is expected to continue growing at around 10% per annum and international demand is expected to continue to exceed supply.

While market pricing levels are expected to be similar to FY2017, we are forecasting higher export sales during FY2018 as a result of the significant increase in production tonnes. This is expected to result in overall lower average prices than in FY2017.

The full impact of the CGS investment is expected to be reflected in substantially improved operating efficiencies in FY2018. As a result we are confident that FY2018 will continue to provide improved profitability.

ENDS

For further information contact:

INVESTOR CONTACT

Philip Wiese
Huon Aquaculture Deputy CEO
0428 311 739
pwiese@huonaqua.com.au

MEDIA CONTACT

Jane Gallichan
Huon Aquaculture Corporate Affairs Manager
0400 159 664
jgallichan@huonaqua.com.au