

ASX Announcement
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Wellard records second successive profitable year with FY2021 results release

	FY2021 ¹	FY2020 ¹	Movement	
Revenue	\$43.4m	\$58.8m	(26.2%)	↓
Gross Profit	\$16.1m	\$18.7m	(13.9%)	↓
Gross Profit Margin	37.1%	31.8%	16.7%	↑
General and Admin expenses	\$(4.4)m	\$(7.4)m	(40.5%)	↓
EBITDA²	\$11.6m	\$15.6m	(25.6%)	↓
Operating Profit (EBITDA) Margin	26.7%	26.6%	0.4%	↑
NPAT	\$1.9m	\$0.2m	850.0%	↑
Net Debt³	\$7.3m	\$6.1m	19.7%	↑

¹ All figures are in US\$ unless stated otherwise.

² EBITDA equals profit from continuing operations before income tax, less depreciation and amortisation expenses, less net finance costs, less other gains/(losses) arising from other activities and less impairment expenses.

³ Net debt equals loans and borrowings less cash and cash equivalents at the financial year end.

Wellard Ltd (Wellard, ASX:WLD) advises that it has recorded its second successive profitable financial year, posting EBITDA of US\$11.6 million for FY2021 and Net Profit After Tax (NPAT) of US\$1.9 million.

The NPAT of US\$3.5 million recorded in the second half of this financial year underpinned the positive financial result, even though the Company's largest livestock vessel, the M/V Ocean Drover, spent five weeks in scheduled dry dock in February-March 2021.

Exporters chartering Wellard vessels to transport breeding cattle from Australia, New Zealand and South America to North Asia provided the bulk of the Company's revenue, offsetting a reduction in the number of cattle being shipped from northern Australia to South East Asia.

Wellard Executive Chairman John Klepec said that it was important to the Company to prove that last year's profit was not a one-off event.

"Previous changes to Wellard's debt structure, operating cost base and business strategy have provided a more sustainable, resilient and profitable business," he said.

“All three of our vessels have been chartered from the commencement of FY2022 right through to mid-November and early December 2021, and with good inquiry beyond that timeframe, we are entering the new financial year with positive operational and financial momentum.

“As a result, we are now turning our attention to growth and renewal opportunities, particularly with the Wellard livestock fleet, and looking carefully at how those opportunities can be funded without stressing the Wellard balance sheet.

“It is critical that there is continued investment in the livestock fleet so that innovative, modern vessels with state of the art technologies provide the best animal welfare outcomes for the livestock in our care.”

Given the long lead times involved with new ship builds, in late FY2021 Wellard has commenced the process of identifying a replacement vessel for the M/V Ocean Ute.

As part of this process, the Company commissioned an initial technical study into the most ideal vessel design and specifications. The Company’s preliminary assessment concluded that the optimum pen area of a new build vessel is a new sizing for the market – larger than the M/V Ocean Swagman and smaller than the M/V Ocean Drover. The new build would likely be powered by alternative fuels or a combination of fuels, and be capable of steaming at more than 17 knots.

Wellard will look to off-balance sheet funding alternatives for the construction of a new vessel, in preference to taking on high debt.

Other recent developments include:

- The extension of the bareboat charter of the M/V Ocean Swagman to June 2023.
- The extension of the lease term of the M/V Ocean Drover from a December 2021 maturity with US\$4.3 million balloon payment, to a December 2022 maturity with payments amortised over the term of the lease.

Profit and Loss

“Wellard’s continued profits for FY2021 indicate a far more resilient business post restructure and the improved conversion of gross earnings into after-tax profit is particularly pleasing,” Mr Klepec said.

Even though revenue fell 26.2%, the Company was still able to increase its Net Profit after Tax (NPAT) from US\$0.2 million in FY2020 to US\$1.9 million in FY2021, thanks to effective commercial contingency plans, good underlying cost containment and excellent utilisation of Wellard’s vessels throughout the second half of the year.

In particular, the Company was pleased with its financial performance in H2 FY2021. As Wellard outlined in its H1 FY2021 interim results, issues with an extended dry dock of the M/V Ocean Ute and the sudden suspension of the live cattle trade from New Zealand due to the tragic sinking of the Gulf Livestock 1, caused Wellard’s H1 revenue to almost halve, to US\$18.2 million. Even though the M/V Ocean Drover was in scheduled drydock for five weeks in H2 FY2021, revenue rebounded to US\$25.2 million (a 38.5% rise) in the second half of FY2021.

Similarly, EBITDA grew from US\$3.4 million in H1 FY2021 to US\$8.2 million in H2 FY2021, for a full year EBITDA of US\$11.6 million. And a H1 FY2021 loss of US\$1.6 million was more than offset by a H2 FY2021 profit of US\$3.5 million, to record the US\$1.9 million NPAT for FY2021.

“The promising results posted by Wellard in FY2021 were achieved despite cattle exports from our core market of northern Australia to South East Asia falling by 30% from their FY2020 levels,” Mr Klepec said.

Balance sheet

Through FY2021 Wellard’s net assets grew from US\$41.4 million to US\$43.4 million with the change largely driven by a US\$4.2 million decrease in total liabilities as debts were repaid. As a result, Wellard’s ship loan to asset value ratio finished the financial year at 25.5%, a further reduction on the 37.6% ratio a year prior.

Despite the reduction in total liabilities, net debt increased by US\$1.2 million or 19.7% to US\$7.3 million as of 30 June 2021 as a result of the US\$4.8 million decrease in cash and cash equivalent following the M/V Ocean Ute and M/V Ocean Drover drydocking expenditures.

Coronavirus impact

COVID-19 continues to increase operating costs for Wellard, but has had little impact on demand for its vessels.

The biggest impact on the Company’s operations remains the restricted ability to undertake crew changes. Wellard’s crews mainly come from the Philippines. Pre-COVID-19, crew joining or leaving vessels were flown to and from convenient international ports to meet the vessel or to return home. Now, our vessels must transit via Manila on their ballast voyages to complete crew changes. This increases ballast voyage sailing times, which has both a direct and an opportunity cost to the Company.

There are also longer berth times at each port of call to comply with COVID-19 procedures.

Outlook

Each of Wellard’s vessels has already been chartered for the duration of Q1 FY2022 and well into Q2, providing a good start to the new financial year.

Last financial year, Wellard’s outlook for FY2021 indicated that with low Australian cattle supply and high Australian cattle prices, it expected shipping activity from Australia to Indonesia and Vietnam to subside. That has proved the case and Wellard expects that will continue well into H2 FY2022 and FY2023.

In a promising sign, Meat & Livestock Australia is forecasting that the number of cattle exported live from Australia will grow by 30% in FY2022 and a further 13% in FY2023. This would be a positive development for Wellard.

There has been little improvement in trading activity between South America and Turkey, so Wellard retains a watching brief in this market.

In FY2020, Wellard conducted 9 voyages to North Asia, transporting breeding cattle from New Zealand, Australia and South America. In FY2021, that number grew to 15 voyages. There is no indication that demand for these routes will change in FY2022 with numerous voyages chartered.

As the pricing of Australian-sourced breeding cattle has increased due to supply constraints, quality alternative sources such as Uruguay have been utilised by exporters. The M/V Ocean Drover is ideally suited to the South America to North Asia route as its large deck area provides economies of scale for charterers, its high cruising rate reduces time at sea and therefore costs, and it achieves excellent voyage success rates despite the long distances involved (99.94% on one of its most recent South America to North Asia voyages).

“Wellard enters FY2022 with considerable positive momentum and the short and medium-term horizons are showing promise,” Mr Klepec said.

Animal welfare and government regulation

Under Wellard’s charter-only business model, the Company continues to ensure that every animal in our care is managed to the highest animal welfare standards.

Wellard continues to support sensible and sustainable Australian regulations which move the industry away from mortality as the sole indicator of onboard animal welfare to alternative indicators, though the pace of this change is slower than ideal due to a range of factors.

While those indicators are being developed, mortality remains an important animal welfare indicator. In FY2021 the Wellard fleet matched its FY2020 performance figures, once again recording one of the highest success rates in its history, achieving a 99.9% success rate for the 186,985 head of cattle loaded during the period. No sheep were transported by Wellard during the period.

Change of reporting currency

Following the Group’s restructure, nearly all revenue and expenses of the Group are now reported in United States Dollars (US\$). As previously announced, with effect from 1 July 2020, all amounts in Wellard’s annual financial report are presented in US\$ unless stated otherwise, whilst the prior corresponding period amounts that were previously presented in Australian Dollars (A\$) have been restated in US\$ to provide shareholders with meaningful comparisons.

This ASX release was approved by the Wellard Board of Directors.

Investors should refer to the Company’s FY2021 Annual Report for further details.

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