



Wellard

ASX Announcement
14 February 2019

Wellard Reports Maiden After Tax Profit of \$2.9 million

Highlights

- **Net Profit After Tax of \$2.9 million, up \$10.3 million from previous \$7.4 million loss**
- **NPAT from continuing operations of \$3.4 million, up from previous \$7.2 million loss**
- **High vessel utilisation, increased cattle trading and cost savings lifts EBITDA from \$7.7 million to \$23.0 million**
- **Net operating cash flow improves from negative \$7.7 million to \$25.8 million**
- **Weather and market challenges in second half requires management**

Wellard Ltd (Wellard, ASX:WLD) has recorded its first half-year profit since listing on the Australian Securities Exchange, increased its cash position and has reduced debt, according to the Company's interim (1HFY19) financial report released today.

The Company recorded a Net Profit After Tax of \$2.9 million for 1HFY19, a \$10.3 million improvement on the \$7.4 million loss for the prior corresponding period. Revenue for the period was up 34% to \$188.2 million. This result excludes the sale of non-core assets (see ASX announcement 18 December 2018) - the proceeds of which will positively impact earnings and cashflow in the second half of the financial year upon sale completion – but includes an impairment of \$3.5 million to the carrying value of the Group's assets in China and \$0.6 million of restructuring costs, both of which are non-recurring in nature.

For the second reporting period in a row, Wellard also achieved positive operating cashflow, booking a net operating cash flow of \$25.8 million compared to negative \$7.7 million in the prior corresponding period. That helped Wellard boost its cash held from \$8.3 million at the beginning of the reporting period to \$13.4 million at its conclusion, while repaying \$16.4 million in borrowings in the interim.

"It is pleasing for staff and shareholders that we were able to achieve a profit for the first time in the company's listed history," said Wellard's Executive Chairman John Klepec.

"Excellent vessel utilisation, profitable cattle trading from Australia to South East Asia and continued cost savings were the key drivers for the improved operational and financial results."

"However, we are under no illusions that there still is considerable work required to reset the balance sheet, as well as to increase and provide greater repeatability of those operating results."

“In particular, the temporary closure of cattle exports from South America to Turkey and pressure on importer and exporter margins in the trade of Australian cattle to Indonesia and Vietnam are external factors we need to manage very closely in the second half of the financial year. Current weather conditions in Australia, including flooding in Queensland, will delay some planned voyages, and it is not clear how much effect this will have on our full year results.”

Key elements of the 1HFY19 results relative to 1HFY18 results are as follows:

	1HFY19 (\$m)	Prior period** (\$m)
Revenue	\$188.2	\$140.6
Gross Profit	\$35.9	\$21.7
EBITDA (operating)*	\$19.4	\$8.9
EBITDA (reported)	\$23.0	\$7.7
NPAT	\$2.9	\$(7.4)
NPAT from continuing operations	\$3.4	\$(7.2)
Net assets	\$108.9	\$101.5
Cash and cash equivalents	\$13.4	\$8.3

* EBITDA (operating) equals EBITDA (reported) less non-recurring expenses.

**Prior period is 1HFY18 except for net assets and net cash which is as at 30 June 2018.

Operations

The streamlining of Wellard’s operations into shipping and trading divisions is almost complete, improving the financial transparency and accountability of each division.

In the first six months of FY2019 Wellard vessels commenced 24 voyages (H1FY18: 21 voyages).

Third party exporters chartered 69% of Wellard’s shipping capacity, with 31% used by Wellard’s trading division. Although this was a slight reduction in third party charters compared to the prior corresponding period, charter revenue increased both in total (by 36.4%) as well as a proportion of total revenue.

Wellard exported 95,036 cattle on 12 voyages during the period, a 21,383 head increase on the prior period.

“Increased northern Australian cattle availability and better trading margins were the key drivers of increased trading activity. The increase in the number of cattle traded by Wellard in response to a fall in Australian cattle prices in the first half of FY2019 demonstrated the advantages of the more flexible trading/chartering model the Company has implemented,” Mr Klepec said.

“Wellard is maintaining a market share of approximately 20% in both Indonesia and Vietnam, so remains a sizeable participant in both markets.”

Sheep processing volumes were down 6% on the prior corresponding period due to restricted supply and high prices.

This will be the last full reporting period where Wellard's Western Australian abattoir (Beaufort River Meats), its feed mill at Wongan Hills, and its Pre-Export Quarantine facility at Baldivis, are included in Wellard's financial results - though they have been excluded from several specific financial measures in the Company's interim report that detail results from continuing operations. These assets were identified as non-core and are in the final stages of being sold (refer ASX announcement 18 December 2018). The sale of these assets is expected to generate approximately \$13.0 million worth of free cashflow (including working capital realisation).

In 2017 Wellard announced it has targeted a \$10 million reduction in year-on-year operating and administration expenses in FY2018. That program has been very successful with expenses reducing by 28.3% in 2018, a saving of \$18.8 million in FY2018.

The sustainability of those cost reductions is evident by a further \$2.8 million reduction in operating and administration costs in 1HFY19, compared to 1HFY18.

There is likely to be a small increase in administration costs in the second half of the financial year associated with ongoing debt restructuring and redundancies associated with asset sales.

Wellard has maintained a strong focus on animal welfare and traceability throughout the year. No reportable animal welfare issues were recorded.

Although Wellard has limited exposure to the live sheep trade, the Company is conscious of the issues that the Australian live sheep export trade is facing and the stark reminder it provides for live cattle export industry participants that they must continue to meet community expectations with respect to animal welfare as well as investing in community engagement so that the sector retains the public's confidence.

This remains a key area of focus for Wellard as it could have a long-term impact on a significant component of the Company's business.

Balance Sheet

Wellard finished 1HFY19 with net assets of \$108.9 million, an increase of \$7.4 million from the 2018 financial year end position of \$101.5 million. The Company's net debt position as at period end was reduced by \$13.6 million, with both cash increasing and debt paid down. Cash on hand increased by \$5.1 million to \$13.4 million and debt reduced by \$8.5 million to \$136.4 million.

Despite a material improvement in the Group's first half results, given its relatively high level of debt servicing together with the trailing nature of certain covenants, the Group continued to be in breach of banking and convertible notes covenants at 31 December 2018. These breaches require the Company to categorise all long-term debt as a current liability, regardless of tenure. Loans and borrowings of \$84.3 million in the absence of these breaches would have otherwise been classified as non-current liabilities as they are due to mature beyond 12 months from balance date. The Group made all payments due under its working capital facility, ship financing facilities and convertible notes during the reporting period, and despite the breaches in financial covenants noted above, the Company maintains a working relationship with all of its financiers.

As noted in the Chairman's address at the Wellard Annual General Meeting in November 2018, the Commonwealth Bank has extended its trading facility to February 2019 and will not be renewed.

The Group's improved performance during the current reporting period (enabling it to fund its own cattle purchases) and its continued focus on chartering with associated reduction in working capital requirements has reduced its need to draw on its CBA working capital facility. The Group is finalising negotiations with alternative working capital providers for a replacement facility to CBA and is confident that funding will be available prior to the commencement of the traditional Australian livestock supply season. Non-binding term sheets have been signed with alternative providers.

A Standstill Agreement reached with Convertible Noteholders on 18 December 2018 remains in place until 31 March 2019. Productive negotiations are proceeding towards a resolution of outstanding breaches on the convertible notes comprising several possibilities. These include continuing early redemption of convertible notes, potential sale of a vessel, and refinancing and extending some or all of the notes. The Board's preferred position is to fully repay the convertible noteholders ahead of their original schedule.

Outlook

Wellard is managing several factors that are presently combining to present a challenging start to the second half of the financial year.

Three of Wellard's 12 charter voyages in the first half of the financial year were to Turkey. Imports of cattle to Turkey remain suspended (see ASX announcement 31 December 2018) and therefore exporters are not currently chartering ships to transport cattle from South America to Turkey.

There is an expectation, but no guarantee, that this market will re-open early in Q4 FY2019, and present indications are that there will be considerable demand from Turkey for imported cattle, and therefore for ships to transport those cattle.

Exporters continue to achieve excellent voyage results on the state of the art, purpose-built vessels that comprise Wellard's fleet.

Trading margins for Australian live cattle exports are challenging. While this is in part seasonal – reduced supply and tighter margins are created annually by the northern Australian wet season – the flooding across parts of northern Australia is likely to exacerbate the supply and price impact, and therefore trading margins, in the short to medium term.

The inability of our Asian customers to absorb higher cattle prices due to Government regulation and the cost competitiveness of alternative protein sources such as Indian buffalo meat, means that Wellard is actively managing its participation in the export of cattle to Indonesia, and will choose not to export to that market if trading margins mean the export of cattle is commercially unviable.

Consequently, Wellard did not trade cattle to Indonesia in December 2018, choosing to ship cattle to Vietnam or charter out its ships.

Most of the cattle supplied to Vietnam originate from Queensland and any increase or decrease in heavy cattle turnoff as a result of flooding or other weather events will impact that market.

Nevertheless, there could be a pause in any supply for a period out of Queensland whilst growers and the country recover.

“Although we have delivered a profitable result for the interim period, we do remain concerned about the high cost of Australian cattle and the price sensitivity of Indonesian and Vietnamese customers, where the final retail pricing is Government controlled, will impact out full year results,” Mr Klepec said.

Live cattle exports to China remain a work in progress for Wellard, with progress impeded by regulations on heavy slaughter cattle and the non-issue of import permits for feeders.

In response, the Company is seeking to implement a lower capital cost model in China where Wellard works in partnership with existing Chinese processors and retailers.

This will allow the Company to release capital previously invested in a paddock to plate model that Wellard started building when market growth was predicted to ramp-up more quickly.

For further information:

Investors

Executive Chairman, John Klepec
Phone: + 61 8 9432 2800

Media

FTI Consulting, Cameron Morse
Phone: + 61 8 9485 8888
Mobile: +61 (0) 433 886 871