

MIDWAY LIMITED (ASX: MWY)

ASX and Media Release

Midway Limited Announces Record Full Year Profit

28 August 2019 – Geelong, Australia – Midway Limited (ASX: MWY), Australia's largest wood fibre processor and exporter, today announced its full year profit results for the period ending 30 June 2019.

Midway Limited is pleased to report to shareholders that the company has delivered its third consecutive year of revenue and profit growth as a listed company on the back of strong demand and higher global prices for wood fibre in Japan and China.

In the 2019 financial year, Midway generated sales revenue of \$283.6 million, up 22.3 per cent on the previous year, EBITDA before significant items of \$37.1 million, up 29.3 per cent on the previous year and Net Profit After Tax before significant items of \$20.5 million, up 23.5 per cent on the previous year. Net Profit After Tax and significant items was \$26.2 million, up 42.4 per cent on the previous year.

The wood fibre processing business performed strongly with an EBITDA before significant items of \$42.7M, up 38.6 percent.

Forestry Logistics, which includes the newly acquired business in Western Australia, made a first year EBITDA loss before significant items of \$2.4 million.

However, the Ancillary segment, which includes third party wood fibre processing, generated EBITDA before significant items of \$2.1 million, up 133.3 percent on the back of strong growth in Tasmania.

Segment assets at the end of the 2019 financial year were \$277.0 million, up 47.1 per cent on the previous year. Total cash in the business at the end of the financial year was \$15.5 million, up 49 per cent on the previous year. This included the proceeds of the share issue less the restructuring of PMP and investment in property, plant & equipment.

Midway remains well capitalised, with a low debt to equity ratio of 26 per cent and high interest cover of 18.7 times. Midway also remains well within its banking covenants. This provides Midway with balance sheet flexibility to undertake further acquisitions or investments.

Midway Managing Director, Tony Price said, the record profit result was very pleasing given the management challenges of several bolt-on acquisitions, and on-going restructuring across the business during the last twelve months.

“Overall export volumes were up as we expanded our production base, export prices were up in Japan and China, and we were able to take advantage of favourable currency movements and good dry fibre content to deliver a record profit,” he said.

“I am particularly pleased that the management team and our staff and contractors worked very hard to ensure we met market expectations about full year earnings – the third consecutive year we have delivered improved results.”

Dividend

Midway has consistently paid strong dividends since listing on the ASX. Given the strong operating and financial results of FY19, the Board of Directors has declared a fully franked final dividend of 9.0 cents per share, to be paid on 28 October 2019. Including the interim dividend, the full year dividend, will be 18.0 cents per share fully franked.

Business Strategy

During the 2019 financial year, the management team and the Board of Directors worked together closely to develop an expansion strategy that will enable Midway to tap into future growth in the wood fibre market in the Asia Pacific region including wood fibre processing, plantation management and forestry logistics.

Wood Fibre Processing

Total wood fibre processing assets were \$137.4 million. The segment generated total revenue of \$297.3 million, up 34.2 per cent on the previous year. EBITDA after significant items was \$44.7 million, up 45.1 per cent on the previous year.

Midway decided to consolidate wood fibre processing from all of its manufacturing operations in Geelong, Portland, Brisbane, Tasmania and the Tiwi Islands to highlight the overall volume growth and sourcing diversity in our wood fibre export business.

Midway invested significantly in the Tiwi Island operations of Plantation Management Partners (**PMP**) in the 2019 financial year so that it would have the capacity to expand exports into the growing Asian wood fibre market.

We refurbished machinery, purchase new machines and invested in new port capacity in the Tiwi Islands. This meant we had to defer production and exports for several months during the wet season, but that work is now complete.

Wood fibre exports continue to be the engine room of Midway and will remain a significant part of our business in the next few years in line with long-term forecasts by global forest industry experts for high quality wood fibre in key Asian countries.

Plantation Management

Total plantation management assets were \$138.3 million. The segment generated total revenue of \$17.2 million, which was down 1.7 per cent on the previous year. The segment recorded EBITDA of \$9.7 million after the annual fair value adjustment of biological assets.

Midway manages over 90,000 hectares of plantation estate in Australia and Asia. Its Australian plantation estate includes around 17,000 hectares of freehold land in the Otway Ranges, Upper Goulburn and Ballarat regions in Victoria.

In early 2019, Midway decided to consolidate all plantation management activities into one business to better leverage our PMP management capability. This has resulted in immediate efficiency benefits across the business.

The Midway management team continues to look actively at opportunities to add to our plantation management business and to better manage our timber supply, both on and off the balance sheet, potentially in conjunction with patient capital to maximise our return on investment.

Forestry Logistics

Total forestry logistics assets were \$5.8 million. This segment generated total revenue of \$6.1 million in its first year as part of the Midway group. The segment recorded a small EBITDA loss of \$0.9 million after significant items of \$1.5 million.

Midway acquired Softwood Logging Services (**SLS**) and 40% of Biogrowth Partners (**BGP**) in October 2018. BGP is equity accounted. These related acquisitions provide Midway with an important footprint in both the Western Australian forestry sector and the emerging biomass energy market that is growing rapidly in Japan and South Korea.

Following the acquisitions, Midway restructured the business to better reflect these emerging growth opportunities. SLS was renamed Midway Logistics, and along with BGP, we created a new logistics division which includes the earnings from the ADDCO investment in NZ and Australia.

Integration of the new acquisitions completed, and legacy issues rectified to ensure benefits are realised in FY20.

Outlook

Market pulp prices have dropped significantly over the last few months, largely due to Brazilian pulp mills over producing and carrying high inventories. These mills have announced that measures have now been put in place to curtail production.

Also, Chinese traders and buyers have run their inventories down to extremely low levels before they recommence buying, once this happens it is expected pulp prices will improve.

The short-term imbalance between supply and demand in the global pulp market is having a flow on effect on the global woodfibre market.

Midway has secured export shipments to China in the last few months, but it is too early to be precise about the full impact of current market conditions on export woodfibre volumes and prices during the 2020 financial year.

Despite this issue, pulp mills in China and Japan are still operating at full production and while there has been some deferral of vessels, woodfibre prices are largely set for the remainder of the calendar year in both Japan and China.

When production normalises and pulp stocks return to normal levels in China, Midway is confident that positive long-term trends for woodfibre exports and pricing in the Asia Pacific region forecast by global forest industry experts will re-emerge.

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Contacts:

Sophie Karzis, Company Secretary
T: +61 3 9286 7500 E: sk@ccounsel.com.au

Robert Hadler, Investor & Media Contact
M: 0437 745 462 E: robert.hadler@yahoo.com.au

About Midway Limited

Midway Limited is a leading Australian forestry company with headquarters in Geelong, with 100% shareholdings in Plantation Management Partners (PMP) based on Melville Island and Midway Logistics based in Bunbury, Western Australia, and majority shareholdings in South West Fibre Pty Ltd (SWF) based in the Green Triangle and Queensland Commodity Exports Pty Ltd (QCE) based in Brisbane. Founded in 1980, Midway is primarily involved in the production, processing and export of high quality wood fibre to producers of pulp, paper and associated products in the Asian region. For further information, visit www.midwaylimited.com.au.