

MIDWAY LIMITED

(ASX: MWY)

ASX and Media Release

FY20 interim profit affected by global market weakness but stronger 2nd half expected

Midway Limited (**Midway** or the **Company**) recorded underlying Earnings Before Interest Tax and Depreciation and Amortisation (EBITDA), the key measure of profit performance by the company, of \$4.2 million in 1H20 compared with underlying EBITDA of \$12.2 million in the corresponding half last financial year due to unusually weak global market conditions.

Midway also recorded statutory net profit after tax (NPAT) for 1H20 of \$0.97 million, materially down on the statutory NPAT of \$14.3 million in the corresponding half last financial year. Before the impact of significant items, including the write-down in the value of Plantation Management Partners of \$4.8 million and the write-off of \$1.5 million in the equity investment in ADDCO Fibre Pty Ltd, Midway produced a loss of \$1.2 million in underlying NPAT in 1H20.

As a result of the low 1H20 profit result, the Board of Directors of Midway have decided to not declare an interim dividend. The capacity to pay a full year dividend will be reviewed once the full year results are known.

The Managing Director of Midway, Tony Price, said company performance in 1H20 was adversely affected by the weakness in market demand for high quality wood fibre as a result of over-production of pulp in Brazil leading to lower pulp prices and the US-China trade-war in 2019.

Mr Price said trading conditions in the last few months were better after a US-China trade agreement in January 2020 and the Group has secured new contracts that will drive a stronger sales and earnings performance.

He also said the timber plantations that supply Midway in south-west Victoria had been unaffected so far by the unprecedented bushfires that have adversely impacted forests in south-east Victoria and South Australia.

“Midway has been in contact with timber companies in the bushfire affected regions and is in discussions with them about ways that we can help them in the recovery process,” he said.

Key business results

Mr Price said favourable foreign exchange rates and additional sales from new businesses partially offset the weak demand in volume for wood fibre exports in 1H20. As a result, sales revenue was only down one per cent to \$123.0 million compared with \$124.2 million in the previous corresponding period.

The biggest impact on 1H20 sales and earnings was reduced demand in China for high quality wood fibre from Geelong in the first six months of the financial year, approximately half the normal vessels shipped for this period.

Reduced demand for lower quality wood fibre in the form of acacia from the Tiwi Islands and plantation hardwood from QCE in Brisbane has also meant the overall profit margin on sales was lower in 1H20.

A lower dry fibre content of export shipments in 1H20 of 56.8% compared with the corresponding period of 57.0% also contributed to lower earnings.

The impact of reduced sales volume was partially offset by an increase in export prices on an FOB basis for higher quality eucalypt wood fibre from Geelong than the previous corresponding period.

A favourable average exchange rate in 1H20 of 0.71 cents, two cents more favourable than the previous corresponding period of 0.73 cents, also partially offset the impact of lower volumes on Midway earnings.

Mr Price said earnings and cash-flow in 1H20 were adversely affected by increased payments to timber suppliers that followed higher prices for wood fibre in the first half of 2019 calendar year (CY) and unexpectedly high stocks of wood fibre as a result of the market downturn in the second half of 2019 CY.

“Midway was required to increase its working capital facility to fund short-term working capital requirements but our bank was very supportive of Midway given the short term nature of this facility, the underlying strength of our balance sheet and the long-term growth prospects for the company,” he said.

The group remained well within its banking covenants and long-term debt has not changed and remained at \$29.3 million at the end of 1H20.

FY20 Outlook

Mr Price said Midway had weathered the worst global wood fibre market downturn in the last decade during 1H20 and looked forward to a better second half of FY20 on the back of improved trading conditions.

He said global trading conditions had improved in the first two months of 2H20, with global stocks of pulp trending towards normal levels, more stable global pulp prices and the successful negotiation of a trade agreement between the US and China.

“Midway is comfortable that it will meet current consensus forecasts for EBITDA in FY20 based on current market conditions and the Groups’ sales outlook. Midway’s Geelong site has already shipped as much wood fibre in the first two months of 2H20 as it did in 1H20,” he said.

Mr Price said several uncertainties remain that may affect the timing and strength of the market recovery, including the annual Japanese price negotiations, several uncommitted hardwood export shipments for lower quality wood fibre and the impact of the COVID-19 outbreak in China.

“Midway has commenced price negotiations with our major Japanese customer and is expecting to finalise price in the next few months and we are anticipating that the recent Chinese price agreement will flow through to Japanese sales and be back-dated to January 2020. Our sales and marketing team remain confident that they will be able to secure export contracts for all remaining uncommitted export volume,” he said.

“Our customers in northern China continued to produce during the annual Chinese New Year celebrations and have so far been unaffected by COVID-19 but we are closely monitoring developments.”

Strategy & Business Development

Mr Price said wood fibre processing and exports will continue to be the engine room of Midway sales and earnings in the short term while the company builds its plantation management and forestry logistics businesses.

“We have made good progress in completing the restructuring and integration of our new businesses, including Plantation Management Partners and Midway Logistics (formerly SLS Logging Services),” he said.

“We have also employed additional capability in our marketing and sales teams and created a new business development function to successfully progress our future growth strategy and plans.”

Mr Price said Midway is pursuing a number of longer-term business development initiatives to increase total sales and earnings, as well as grow its Australian sales and earnings and reduce its reliance on exports to China.

“Midway is exploring a range of options to increase exports from its processing facility at Geelong in Victoria including exports of softwood chips and other commodities, such as grain. A tender for the establishment of grain storage at Geelong will be conducted in 2H20,” he said.

“Midway Tasmania is growing its own hardwood woodchip export business as well as marketing third party hardwood chips.

“Midway is also developing and expanding its domestic biomass business with major companies in Western Australia as well as exploring biomass exports from the Port of Brisbane.”

Mr Price said Midway was pleased that the largest global timber investment manager, Hancock Natural Resource Group (HNRG) acquired the Strategy hardwood plantation trees in Victoria on behalf of their investor clients, and that discussions were progressing with other investors for expressions of interest in 2H20 to support a future second tree crop on the Tiwi Islands.

“We strongly believe that these investments will positively position Midway to exploit the projected timber supply deficit in the Asia Pacific region in the next few years with increased export sales and earnings that will underpin good returns to Midway shareholders over time,” he said.

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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 (MWL) 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.