

MIDWAY LIMITED (ASX: MWY)

27 August 2020

Midway Limited FY20 Financial Results

Australia's biggest listed wood fibre processor and exporter, Midway Limited, (Midway or the Company) today announced its full year financial results for the period ended 30 June 2020.

In FY20, Midway generated sales revenue of \$257.8 million, a 9.1 per cent reduction on the previous year due to adverse global market conditions, including the US-China trade war, lower customer demand in China and Japan, and the COVID-19 pandemic.

Midway recorded underlying EBITDA before significant items of \$12.0 million, down from EBITDA of \$37.1 million in the previous year and a Net Loss After Tax, before significant items, of \$0.4 million, despite efforts to reduce operating costs and mitigate the impact of the global downturn on the business.

Midway recorded operating cash flow of \$11.1 million, up from \$9.9 million in the previous 12 months.

Lower export prices and sales volumes flowed through to the net fair value of biological assets and impairment losses on non-current assets, including pre-tax writedowns of \$6.5 million in Plantation Management Partners and \$2.1 million in ADDCO.

Midway also restructured some of its business operations during the year to reduce operating costs. Plantation Management Partners temporarily closed its operation on the Tiwi Islands and South West Fibre also temporarily closed its mill near Portland. As result, Midway incurred some redundancy costs during the last financial year.

Midway recorded a non-cash interest expense as a result of the accounting treatment under AASB 15 of the former company tree estate held by Strategy. As a result, Midway recorded a statutory Net Loss After Tax and significant items of \$11.7 million.

Net debt at the end of the financial year was \$39.4 million up from \$29.5 million in the previous financial year but with a strong underlying balance sheet and a good track record of EBITDA conversion into cash flow, National Australia Bank renewed the Company's banking facilities and extended its term debt maturity to September 2022.

Given the FY20 result and the current dividend policy, Directors have decided that Midway will not pay a final dividend to shareholders for FY20. Directors and senior management also took a three month, 20 per cent remuneration reduction in FY20.

Business Performance

The Woodfibre segment recorded total revenue of \$223.0 million, down 25 per cent from \$297.3 million in the previous year. Underlying EBITDA before significant items of \$20.9 million.

The segment recorded a \$1.3 million uplift from the impact of AASB 16 but included \$5.5 million in significant items from write downs of PMP and redundancy costs. As a result, the Woodfibre segment recorded statutory EBITDA of \$16.7 million and net profit after tax of \$1.5 million.

The Forestry Logistics segment recorded total revenue of \$8.3 million in the last 12 months, up from \$5.6 million in the previous financial year. However, the segment recorded an underlying EBITDA loss before significant items of \$2.6 million in the last 12 months.

The segment recorded an uplift of \$0.2 million from the impact of AASB 16 but included a \$2.1 million write down in the value of the Midway investment in ADDCO which went into receivership as a result of the industry downturn. As a result, the Forestry Logistics segment recorded a statutory EBITDA loss of \$4.8 million in the last 12 months.

The Plantation Management segment recorded total revenue of \$6.8 million in the last 12 months, down from \$15.9 million in the previous financial year. The segment recorded an underlying EBITDA loss of \$2.6 million in the last 12 months.

The segment recorded an uplift of \$0.4 million from the impact of AASB 16 but recorded a \$4.9 million write down in the value of biological assets as a result of lower woodfibre prices. As a result, the Plantation Management segment recorded a statutory EBITDA loss of \$7.0 million in the last 12 months.

Midway re-allocated third party woodfibre trading from the ancillary segment during the year to the Woodfibre segment to better reflect the underlying nature of this business. The FY19 and FY20 accounts have been restated to reflect this. As a result, the ancillary business segment now only includes one-off transactional or non-recurring costs.

Business Development

Mr Price said the company has identified a range of business opportunities to grow revenue, however some have been deferred given current trading conditions.

“The recent announcement of a new woodfibre and export operation at Bell Bay in Tasmania is a good example of how Midway can fund business development to continue its expansion and diversification strategy,” Mr Price said.

Mr Price said Midway is well progressed in evaluating a range of opportunities to increase the utilization of the Geelong site, including grain handling, woodchip handling and wood pellet production.

“In addition, an Information Memorandum has been provided to a number of parties keen on investing in a second rotation plantation estate on the Tiwi Islands, we are progressing discussions with parties interested in joining us in establishing plantations in south-west Victoria and we have embarked on a divestment program of surplus land north of Melbourne”, Mr Price said.

Mr Price said there were positive signs that the Midway earnings diversification strategy is starting to gain traction even though the business results are not yet what the company would like to see from Forestry Logistics and Plantation Management.

“Midway reduced its exposure to China in the last 12 months to 70.8 per cent, from 75.4 per cent in the previous financial year, as the impact of COVID-19 adversely affected that market,” Mr Price said.

“Nearly seven per cent of total revenue now comes from domestic operations in Australia, up from 4.1 per cent last year. Midway expects to grow this domestic segment over time.”

Trading Conditions

Midway Managing Director, Tony Price, said all woodfibre exporters, including Midway had been affected by adverse global market conditions and the COVID-19 pandemic but there are signs of economic recovery.

“GDP growth in China has rebounded after the first wave of COVID-19 and the long term woodfibre supply deficit in Asia is expected to underpin export prices once the current global pulp stock overhang has been eliminated,” Mr Price said.

“The medium to long-term outlook for the company also remains positive given the strong Midway balance sheet and asset base, and industry forecasts of a future supply deficit in Asia.”

This announcement has been approved by the Midway Board of Directors.

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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.