ASX Announcement
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Fuel prices and drop in cattle exports impact Wellard H1 FY23 results

FOR HALF-YEAR ENDED 31 DECEMBER (US$'000)		2022	2021	Movement
Revenue	US$'000	22,815	23,204	(1.7%)
Gross Profit	US$'000	3,030	8,395	(63.9%)
Gross Profit Margin	%	13.3	36.2	(63.3%)
General and Administrative expenses	US$'000	(2,063)	(2,134)	(3.3%)
EBITDA[1]	US$'000	661	6,264	(89.4%)
Operating Profit Margin	%	2.9	27.0	(89.3%)
Net (Loss)/Profit After Tax	US$'000	(5,007)	500	(1101.4%)

AS AT		31 Dec 22	30 Jun 22	Movement
Negative Net Debt[2]	US$'000	(6,275)	(7,541)	(16.8%)
Ship loan to asset book value ratio	%	3.7	13.6	(72.8%)

*Note: All figures contained in this announcement are in United States Dollars (US$) unless specified.

[1] EBITDA equals profit from continuing operations before income tax, depreciation and amortisation expenses, net finance costs, other gains/(losses) arising from other activities and impairment expenses.
[2] Net debt equals loans and borrowings less cash and cash equivalents. A negative net debt indicates that the cash and equivalents exceed the entire debt balance.

A fall in Australian cattle exports to their lowest level in 10 years – a result of high cattle prices and disease outbreaks in Indonesia – combined with high shipping fuel prices has caused Wellard Limited (Wellard, ASX:WLD) to report a US$5.0 million loss for the half year ending 31 December 2022, after reported a US$0.5m profit in H1 FY22.

Despite maintaining revenue at H1 FY22 levels, Wellard's cost of sales increased by US$5 million in H1 FY23, with fuel price increases contributing ~US$4 million of the US$5 million increase.

Wellard Executive Chairman John Klepec said while it was disappointing to break Wellard's recent run of profits, the Company's efforts to build a strong balance sheet ensured it can weather the current trading conditions.

"Whilst cattle producers continued to enjoy high prices, the first half of FY2023 was tough for the rest of the Australian live export supply chain – with the outbreaks of both Lumpy Skin Disease (LSD) and Foot and Mouth Disease (FMD) in Indonesia causing both a fall off in buying activity and a changed charter market dynamic towards smaller vessels in that market.

"Fortunately, the demand for breeding cattle from North Asia remained strong and VLSO prices have retracted from their historical highs, though they still remain relatively expensive when compared to prior years."

FINANCIAL RESULTS

Revenue for H1 FY23 of US$22.8 million was only marginally lower than the US$23.2 million recorded in H1 FY22. This was despite a 35-day dry-dock for the M/V Ocean Ute's special survey class renewal.

However, the Company's Cost of Sales increased by US$5.0 million, which was largely caused by a global increase in Very Low Sulphur Fuel Oil (VLSFO) prices when compared to H1 FY22. Wellard's fuel costs rose by 55.3% in H1 FY23, from US$7.6 million in H1 FY22 to US$11.8 million.

Fuel prices, in the form of the VLSFO consumed by Wellard's vessels, are the Company's largest cost. By way of comparison, in H1 FY22 VLSFO prices in Singapore commenced the half at US$550/tonne and six months later had risen to US$650/tonne. In comparison, the Singapore VLSFO began H1 FY23 at around US$1,100/tonne and fell to just above US$600/tonne at the end of December 2022, with similar trends recorded in the other ports on Wellard routes.

Normally Wellard passes on fuel price fluctuations through the freight rates paid by its customers. However, with livestock export traders and importers suffering either losses or tight margins themselves, Wellard's ability to fully pass on increased bunker prices was compromised in H1 FY23 (as well as in H2 FY22), creating an imbalance between increasing costs and stagnating revenue, which impacted the Company's EBITDA and NPAT.

Wellard's EBITDA remained positive at US$0.7 million but was a significant decrease on the US$6.3 million EBITDA recorded in H1 FY22.

Net finance costs continued to decline in line with reduced loans and borrowings, falling to just US$0.13 million in the half (1H FY22: US$0.46 million).

A US$5.2 million non-cash depreciation and amortisation expense, primarily relating to the depreciation of the Group's vessels (H1 FY22: US$5.1 million), prompted a Net Loss After Tax of US$5.0 million compared to NPAT of US$0.5 million in H1 FY22.

BALANCE SHEET

Similar to 30 June 2022, with US$9.2 million of cash and cash equivalents and just US$2.9 million of loans and borrowings Wellard recorded a negative net debt position of US$6.3 million on 31 December 2022, which is effectively cash available for the company. That compares to US$15.3 million of cash and US$7.7 million of loans and borrowings contributing to negative debt position of US$7.5 million on 30 June 2022.

The Company's ship-loan-to-asset book value ratio improved to its lowest point since listing, at just 3.7%, which was aided by the repurchase of the M/V Ocean Ute in August 2022. Wellard's ship-loan-to-asset book value ratio was 13.6% at 30 June 2022.

Similarly, its debt-to-capital ratio fell from 12.6% to 5.7% in the same period.

OUTLOOK

The tough trading conditions experienced at the end of Q2 FY23 have prevailed into Q3 and may extend into the start of Q4 when the supply of export cattle post-northern wet season will increase. Australian cattle exports to Indonesia and Vietnam will be crucial to utilisation of the M/V Ocean Swagman and M/V Ocean Ute, both of which are currently unemployed and not expected to be fully utilised again until the start of Q4 FY23 when Australian cattle volumes increase again.

LSD and FMD infections in Indonesia, combined with high Australian cattle prices and a backlog of cattle and beef, continue to hamper cattle exports to Australia's traditional main market for live cattle exports.

Other than producers, many participants in this market have either ceased operating or sustained significant financial losses in the past year. Young cattle prices in Australia dropped by almost 25% between mid-November 2022 and mid-January 2023. However, live export steer prices had resisted that trend in late calendar year ("CY22"), but did fall ~15% in early calendar year 2023 ("CY23")[1], albeit on very small numbers.

As high Australian cattle prices have been a significant impediment to purchasing activity by Indonesian and Vietnamese importers, the continuation of this change in trend will be the key determinant of live export activity and therefore charter demand for Wellard vessels from northern Australian ports when cattle availability increases in Q4 FY23.

The Meat and Livestock Australia Beef Industry Projections released earlier this month noted that the national herd is now at its highest level since 2014 at 28.8 million head and forecast that live cattle exports would grow marginally in CY2023, up 3% to 619,000 head for the calendar year. In its report MLA noted that CY22 live export levels were the lowest in 10 years.

MLA has forecast cattle slaughter will increase by almost 8% in CY23, but only if abattoirs could secure increased labour, then slaughter rates would flatline at CY22 levels.

Historically and logically, as the herd size increases to a point where it transitions from a rebuild to either consolidation or liquidation, there is a corresponding increase in turnoff, whether to slaughter or live export. When that turnoff exceeds abattoir capacity, and dry weather can exacerbate that trend along with abattoir capacity constraints (e.g. logistics, labour, etc.), the live export market has enabled the efficient clearing of excess stock with increased activity levels in the export and shipping sectors.

The key determinant of whether that trend is again replicated over the next 12 months will be the price response to the changed supply/demand fundamentals, and whether they reduce to the levels required to entice importers to increase or recommence purchases of Australian feeder and slaughter cattle.

At the beginning of February, the M/V Ocean Swagman experienced starboard engine failure after discharging cargo in China, and the extent and cost of the repairs required are not fully known at the date of this report. The affected engine has undergone initial expert appraisal in Korea and will

[1] Beef Central Live export feeder steer price ex Darwin

undergo repairs in Singapore. After payment of relevant deductibles, the costs of repair are likely to be met by insurances. Early estimates are that the vessel will return to service in Q4 FY23.

Following the temporary increased activity prior to the New Zealand export ban coming into effect on the 30 April 2023, breeder cattle exports to North Asia are expected to stabilise in H2 FY23.

On the costs side, VLSFO prices retreated from their historical 'four figure' highs throughout H1 FY23, but, unfortunately, regained some of that fall in January 2023. Futures prices are predicting a gradual softening throughout H2 FY23.

As a result of the above, Wellard is monitoring supply and demand fundamentals closely, including South America, to best position its vessels for an uptick in activity, while keeping its operational costs as lean as possible.

ANIMAL WELFARE

No reportable mortality voyages were recorded by exporters on vessels chartered from Wellard during the current reporting period.

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

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