

ASX/Media Release



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MARKET UPDATE

Hulon Aquaculture Group Limited (ASX: HUO) (“Company”, “Hulon”)

Earnings Update

Challenging market conditions as a result of COVID-19 have persisted throughout the first half in both the domestic and international markets for salmon. Hulon’s sales volumes for the 1H2021 were around 19,290t (pcp 13,321t) which is consistent with our stated target for FY2021 of at least 36,000t. The increase in production has, as anticipated, resulted in an increased weighting to exports in the channel mix, with around 40% of volume being sold into the lower priced export spot market.

Relative to the first six months of 2020, international salmon prices declined by around 40% and, despite expectations in October that this would be short-lived, remained under pressure to the end of the year with no signs to indicate recovery in the next several months. With the exception of the domestic retail market, all channels have been impacted to varying degrees by the fall in the salmon price. As a result the average price is expected to be around 15% lower than for the same period last year at \$11.40/HOG kg (pcp \$13.37). This together with continued high freight costs, the ongoing uncertainty around the performance of the global economy in the second half and forecast expansion in global supply of salmon by 0.5-2.0% in 2021¹ has resulted in a revision to our internal projections for operating earnings (EBITDA) for FY2021. We now anticipate this to be substantially lower than FY2020 (\$47.3m)

Impairment and Asset Write-Down

Hulon’s recent business performance and outlook, combined with the Company’s market capitalisation trading below book value, has resulted in an impairment assessment of the carrying values of assets on the balance sheet to be undertaken. Subject to review by the external auditor, we expect to recognise material charges for impairment and write-down of assets for the 1H2021 period which will be non-cash. Any such charges will be disclosed within the 1H2021 results as non-recurring costs and will not impact operating EBITDA.

More detail on the Company’s recent trading performance and its outlook for the financial year will be provided on 25 February when Hulon releases its results for the six months to 31 December 2020.

Trading Conditions

The recent escalation in trade tensions between China and Australia confirmed a decision early in 2020 to start reducing Hulon’s exposure to this market. Increased diversification into new markets, including the US, has resulted in spot exports to China declining to around a third of total export tonnage with further reductions expected. Sales volumes contracted through various international retail channels have grown by around 80%, despite the strengthening Australian dollar during the period.

While volumes sold into the domestic wholesale channel increased on the previous corresponding period (pcp), particularly strong gains have been made in building sales through the domestic retail channel despite the lock down in Victoria which was in place for four of the six months in the first half.

Production costs, excluding freight, are tracking in line with our target of under \$9.50/HOG kg, however distribution costs continue at elevated levels driven by the low availability of international air freight, resulting in higher export costs. In October Hulon welcomed the Australian Government’s announcement that the

¹ Rabobank: Global Animal Protein Outlook for 2021

International Freight Assistance Mechanism would receive additional funding that will see the industry assistance program supported into the middle of 2021.

Beyond FY2021, supply demand dynamics continue to point to an emerging global shortage of supply. Rabobank is forecasting an 8-9% contraction in salmon supply from Chile in 2021 as a result of producers reducing smolt numbers for that year. With supply continuing to expand, albeit by historically low levels, the industry is now waiting for demand from the food service sector to return to pre-COVID levels at which time pricing dynamics should start to respond to the expected shortfall in supply. Huon is one of the few suppliers globally with the capacity to meet the incremental growth in demand for salmon as an environmentally responsible source of protein.

Fish Losses

In late November/early December Huon experienced two unrelated events involving damage to pens resulting in fish loss. The first (ASX Release 24 November) resulted from a fire on one of the Company's fish pens located in the D'Entrecasteaux Channel. The electrical fire melted the pen infrastructure resulting in around 50,000 4kg fish escaping. Investigations into the cause of the fire have been inconclusive and an examination of similar equipment used on other pens has not identified any potential risk of fire. On 3 December an entire pen of around 130,000 much smaller salmon, weighing 0.5kg, escaped through a "significant tear" in a fortress pen net in Storm Bay. Investigations into the damaged net indicate it was most likely caused during net cleaning operations.

It is always regrettable when fish are lost; every farmer wants to protect their livestock as well as the environment in which they farm. Combined, these losses have been estimated at \$1.8m for the first half. Nevertheless the fish loss won't impact the overall harvest volumes for FY2021.

Fish loss was also sustained at the Company's Ingleburn processing plant (ASX Release 18 January) as a result of suspected coordinated criminal conduct by employees at the plant. The book value of inventory and gross margins have been estimated to be \$2.1 million lower than would otherwise be the case for the first half.

Initiatives to Grow the Retail Market

Huon opened a new value-added processing facility in Forrestdale, Western Australia in December 2020. It is now fully operational, fulfilling retail contracts in Western Australia. The facility strengthens Huon's ability to meet major retail contracts and complements the NSW facility at Ingleburn in creating value-added products on-site to meet local demand.

Huon commenced a significant investment in marketing during the first half supporting new product lines introduced into the retail channel. Further marketing support has commenced in the current quarter and supports similar marketing efforts from others in the salmon and seafood industry.

Fresh and frozen Huon RSPCA Approved Salmon has been launched into the retail channel; this is the first time that RSPCA Approved Salmon is available nation-wide and provides consumers with a clear ethical seafood option.

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For further information, contact:

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