BRADKEN

Media / Market Release

Tuesday, 12 August 2014

For immediate release

	June 2014	June 2013	Change
NPAT	$21.5m	$66.9m	(68%)
EBITDA	$143.0m	$183.6m	(22%)
Underlying NPAT	$55.1m	$96.1m	(43%)
Underlying EBITDA	$173.3m	$214.0m	(19%)
Underlying EBITDA Margin	15.3%	16.3%	
Sales Revenue	$1,135.2m	$1,313.1m	(14%)
Operating Cash Flow	$155.1m	$217.6m	(29%)
Underlying Earnings per Share (based on weighted average number of shares)	32.4 cents	56.8 cents	(43%)
Dividend per Share	26.0 cents	38.0 cents	(32%)
LTIFR [1]	4.1	5.3	

Notes: 1. Lost time injury frequency rate (LTIFR) is the number of occurrences of injury divided by the total number of hours worked by all workers, for each one million hours worked.

Key Outcomes

- Achieved an underlying EBITDA for the year ended 30 June 2014 of $173.3 million, which was in line with the guidance given in April 2014. 19% down on the previous year due to the downturn in the mining capital products market
- Well past the de-stocking and order cancellation stage in the last quarter of FY13 with improved order intake levels from that low point remaining stable throughout the year
- Despite pricing pressure in some key markets, the company achieved 33.3% gross margin in the period, up from 32.7%, utilising lower cost facilities
- Maintained overheads up until April 2014 in the hope of a quick rebound in the capital products market but have since implemented plans to restructure manufacturing operations and supporting overheads to take account of the new reality and an advantage of previously installed low cost capacity
- Completed closure of Henderson, Mittagong, Naval Base and Muswellbrook facilities and the Welshpool foundry is being wound down
- Generated strong free cash flow through continued capital reduction and lower capex
- Final dividend of 11.0 cents unfranked, payable on the 9th September 2014 with no dividend reinvestment plan operating

Business Review

Bradken Limited (ASX: BKN) today recorded an underlying net profit after tax for the year ended 30 June 2014 of $55.1 million, well down on the previous year. However, this profit was before one-off adjustments for manufacturing restructure costs of $41.2 million, FX losses of $15.5 million, a favourable Pala settlement adjustment of $13.3 million and costs of acquisitions that did not proceed (including legal costs) of $6.5 million. As a result, statutory net profit after tax was $21.5 million.

While statutory EBITDA was $143.0 million, underlying EBITDA before the one-off costs was $173.3 million, a decrease of 19% on the previous year.

Managing Director, Mr. Brian Hodges said, "Our continued work on new product development, increased low cost capacity, high cost foundry and overhead rationalisation place Bradken in an excellent position to take the greatest advantage of improved market conditions."

The Directors have declared an unfranked final dividend of 11.0 cents per share with nil Conduit Foreign Income, taking the total dividend for the year to 26.0 cents, down 32% on FY13. The Directors have resolved no Dividend Reinvestment Plan will operate for the final dividend, which is payable on 9 September 2014 with a record date of 20 August 2014.

Operational Review

Sales revenue for the Mining Products Division of $339 million was down 18% on the prior year due to difficult market conditions, but gross margin was increased from 34.1% to 34.6% in the highly competitive market. Lower commodity prices had a significant impact on the mining market, with substantial reductions in capital expenditure and deferment of maintenance projects by miners. A drop in demand from the Australian coal market was the main contributor to the reduction in sales revenue for the Ground Engaging Tools & Buckets Business, which was down 14%. Sales by the Crawler Systems Business were down 47% due to significantly reduced sales to mining OEMs as demand for new equipment stalled, offset by an increase in sales of replacement products in the period. The lower capital expenditure on new mining equipment adversely impacted order intake and sales of crawler systems products, particularly in the second half. The Fixed Plant Business' sales were up 11% with strong demand from the Western Australian iron ore market in the second half. The Canadian Oil & Gas Business' sales increased 10% due to higher project activity.

The Mineral Processing Division's sales were down 6% on last year due to lower activity by mining OEMs as new mine developments were put on hold and some mines closed, predominantly in the gold sector and these factors were not totally offset by new business won. Margins increased by 0.2% while price pressure from mining companies remained. Significant product cost reduction initiatives have and are being implemented. These include closure of the Henderson foundry in Western Australia and the implementation of targeted automation in the remaining mill liner plants. Business focus remains on the introduction of new differentiated products into target markets, with success in winning new customers in Zambia, Ghana, Mali, Kazakhstan, China, the US and Peru set to provide strong growth.

The Rail Division's products are used by customers in Australia to move more than 320 million tonnes of product annually. This represents more than one third of Australia's total mineral production. The Division is renowned for the supply of high quality rollingstock equipment and component parts for mining, agricultural and general freight markets. Overall, sales of $206 million were down approximately 7% on FY13, however more favourable contract terms, better cost structures and tighter business controls deployed over the last two years, have delivered much improved margins. While growth remains slow for capital items, strong growth prospects continue to emerge in markets for parts and service.

The USA based Engineered Products Division's total sales revenue of $257 million was down 17% from the previous year. This net change resulted from a continued slow-down in mining and locomotive rail product lines, which began in the latter half of calendar year 2012. Year-on-year sales were down 43% in the first half and 3% in the second half. The Energy Business' annual sales declined 3%, with the majority of it occurring in the second half of FY14. UK revenues were down 6%. Reductions in total general and administrative expenses for the division of 32% were achieved, compared with the prior year. The Division has responded to the reduction in demand in F14 by reducing the workforce approximately 15% from that at the end of F13.

Cash Flow and Borrowings

Operating cash flow before capital expenditure for the year was sound at $155.1 million but was a decrease of 29% from the previous year due to the lower activity. Total capital expenditure for the year was $55.9 million, which was in line with the previous guidance and well below last year.

Net debt levels decreased to $377.2 million from $431.5 million in the previous year due mainly to the lower capital expenditure, reduced working capital level and also lower cash dividend payments. At 30 June 2014 the Company's gearing, measured as net debt to EBITDA, was 2.1 times, which was slightly up from the gearing level at the end of the previous year of 2.0 times, but better than the more recent guidance of 2.25 times.

Human Resources

The Global Lost Time Injury Frequency Rate (LTIFR) for FY14 was 4.1, which is a significant reduction on the previous year's performance of 5.3, with 24 sites being Lost Time Injury (LTI) free for the whole of F14.

Significant employment downsizing from 5,425 to 4,970 occurred throughout the year, which included the closure of the Henderson foundry in Western Australia and several other smaller facilities.

Independent management system triennial audits were conducted at all major global facilities with continued ISO9001 and ISO14001 certification resulting. Safety system audits were conducted on all sites and the new Human Resources Employee Information Portal was rolled out in Australia to allow staff to access and update base information online.

Strategy and Outlook

Mr Hodges said, "We expect an improvement in order intake as delayed expenditure at mine sites is released and mine production volumes continue to increase, supporting sales in the second half," and added that, "It remains unclear when the mining capital cycle will improve, but we are not solely relying on it to do so."

Management initiatives are well underway to significantly reduce overheads as well as capitalise on the GET market share and low cost manufacturing capacity in Xuzhou

Benefits from the restructuring announced in April 2014 and other business remodeling strategies will begin to be realised in the FY15 results

Tight control of capex and working capital will continue, with the previous year's capex directed to capacity expansion in China now completed

"Management remains committed to a gearing level around 2x but now has scope for fast payback cost reduction initiatives and synergistic acquisitions, both of which are presently under review on top of a modest stay-in-business capex of 2.5% of sales," said Mr Hodges.

Ends

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More about Bradken

Bradken is the leading supplier of differentiated consumable and capital products to the resources, energy and freight rail industries. The Company employs almost 4,970 people in 34 manufacturing facilities and more than 30 sales and service centres across Australia, New Zealand, USA, Canada, United Kingdom, Indonesia, South Africa, South America and China.

Bradken, which has been in business for over 90 years and became a publicly listed company in August 2004, has four market-focused divisions.

The Mining Products Division is a global business which manufactures and supplies ground engaging tools, wear plate and liner products, crawler systems and associated refurbishment and maintenance services. These products are primarily consumable wear parts for mobile and fixed plant used extensively throughout the mining industry.

The Mineral Processing Division is a global business which manufactures and supplies mill liners, crusher liners and associated refurbishment and maintenance services. Mill liners and crusher liners are consumable products, which are regularly replaced by operators of mills and crushers in the mining and quarrying industries.

The Rail Division designs, manufactures and supplies rail freight rolling stock, cast and general spares, and provides rolling stock maintenance and refurbishment services. Its product and service offering, as in all Bradken's divisions, is customised to meet specific customer requirements.

The Engineered Products Division is a leading North American based supplier of large (greater than 4,500kg), highly engineered steel castings to the high growth global energy, mining and rail markets. Headquartered in Atchison, Kansas, the Division employs approximately 1,500 people across five steel foundries and three machine shops in North America.

Other businesses of Bradken include Industrial, Cast Metal Services and the Metal Recycling.

- The Industrial business manufactures and supplies iron and steel cast products, mainly consumables, directly to end users for use in their process plants or manufacturing processes. The products can vary from products manufactured to the client's specification, customised products and products based on Bradken's proprietary designs.
- Cast Metal Services is a global business which manufactures and distributes consumable steelmaking and foundry industries, the metal recycling business, which support the Company's foundry business and the corporate activities of the Bradken Group.
- The Metal Recycling business sources mild steel, stainless steel and alloy scrap steel largely from mine sites and industrial operations to supply the Company's foundry operations.

For further information about Bradken visit bradken.com