Full Year Results Announcement

ASX & media announcement
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Highlights

- **FY19 revenue of $386.0m up 11%, EBITDA of $23.6m up 13% and NPAT of $12.7m up 51%**
- **Strong second half with EBITDA up 62% on first half**
- **Public infrastructure and commercial overtook resources as largest revenue contributors**
- **Balance sheet remains strong with net cash of $53.3m and no debt**
- **Fully franked dividend of 3.0 cents per share and Dividend Reinvestment Plan established**
- **Targeting FY20 revenues over $420m**
- **Order book of $450m includes over $360m secured for FY20 representing 80% of FY20 target**
- **Strong business development pipeline over $2.7bn includes over $600m of submitted tenders**

Southern Cross Electrical Engineering Limited (ASX: SXE) today released its results for the 2019 financial year. SCEE delivered improved results compared to the prior year including an 11% increase in revenue, 13% increase in EBITDA and 51% increase in net profit after tax.

Results for the year ended 30 June 2019

Revenue for the year was $386.0m which represented an 11% increase on the prior year revenue of $347.9m. Revenues in the second half of the year were $204.2m compared to $181.8m in the first half.

Revenue was generated from a broad range of sectors and geographies as the Group's diversification strategy continued to progress. Key revenue contributors in the year by market sector included:

- Public infrastructure and defence – revenues increased significantly from $44.1m in the prior year to $143.4m and became the group's largest sector in FY19. In transport infrastructure work was completed on the Westconnex M4 in NSW with ongoing works on the Westconnex M5 project and the Northlink road project in WA. In the health sector activity ramped up on the Westmead Hospital project in NSW and work was completed at the University of Canberra Hospital in the ACT. In defence there is ongoing work at the RAAF Tindal project in the Northern Territory and RAAF Townsville in QLD. Minor works were completed at Campbell Barracks and HMAS Stirling in WA.

- Commercial – revenue for the year was $114.5m compared to $111.9m in the prior year. The majority of work in the sector was performed in the buoyant New South Wales market on a range of large construction and fit-out projects including Parramatta Square 3 and 4, the ATP Building 1 in Eveleigh, the Duo Central Park tower development in Chippendale, the Wynyard Place redevelopment in the Sydney CBD and 100 Mount Street in North Sydney.

- Resources – revenues decreased from $125.3m in the prior year to $88.2m with work on the Wheatstone LNG project completing early in the second half of the year. In Western Australia the business continued to win and perform sustaining capital works at multiple Rio Tinto and BHP Billiton facilities and through its framework agreements at the Sino Iron and Boddington gold mines. Work at the Rio Tinto Amrun Bauxite project in Queensland and the Mineral Resources Wodgina Lithium project in WA demobilised during the year.

- Telecommunications and data centres – revenues were $27.0m compared to $49.2m in FY18 with no significant data centre contribution in the current year. NBN and carrier network construction continued across Australia including the group's first mobile tower builds in WA and NT. Work commenced under recently secured equipment upgrade and minor works contracts direct to NBN.
- Industrial, energy and utilities – revenue was $12.9m compared to $17.4m in the prior year. Work continued under the three year Ergon Energy Service Agreement in northern Queensland and the Woodman Point Wastewater Treatment Plant in WA.

Full year revenue was slightly behind the forecast of over $400m due to the earlier than anticipated demobilisation of the Westconnex M4 project.

Gross margins for the year were 12.3% compared to gross margins of 11.9% in the prior year. Second half gross margins were 12.5% compared to 11.7% in the first half of the year.

Overheads were $25.7m compared to $24.1m in the prior year, continuing to decrease as a percentage of revenue from 6.9% in 2018 to 6.7% in 2019.

EBITDA for the year was $23.6m representing a 13% increase on the EBITDA of $20.9m in the prior year. EBITDA in the second half of the year was $14.6m, a 62% increase on the first half EBITDA of $9.0m

Net profit after tax increased by 51% to $12.7m compared to the prior corresponding period with the increase due to the improved trading performance and reducing amortisation of acquired customer contract intangibles.

The Directors have declared a fully franked dividend for the year ended 30 June 2019 of 3.0 cents per share, consistent with the prior year and have established a dividend reinvestment plan.

The balance sheet remained strong throughout the period. Net cash at 30 June 2019 was $53.3m with no debt compared to $58.1m at the start of the year. The payment of $7m of FY18 dividends and $6.5m of deferred Heyday acquisition consideration during the period was offset by an operating cash inflow of $10.7m. Significant cash inflows are anticipated as resources projects completed during the year are closed out.

During the year the group negotiated increases to its banking and bonding facilities to increase total bonding capacity from $60m to $100m to support future growth.

Capital expenditure for the year was $2.1m and is expected to remain at similarly low levels.

Outlook

Order Book

The Group continues to secure work across its core markets and had an order book at 30 June 2019 of $450m, a similar level to the prior year, with over $360m of work secured for the FY20 year. This represents more than 80% of the forecast FY20 revenue of over $420m.

The business development pipeline remains strong with identified opportunities exceeding $2.7bn including over $600m of submitted tenders with clients pending decision.

Markets

The commercial sector remains the largest component of the order book with over $250m of work in hand at 30 June 2019, primarily in NSW including works ongoing at Parramatta Square 3 and 4, Wynyard Place and 32 Smith Street. The pipeline is expected to remain strong as a result of office, multi-storey and retail investment and refurbishments of existing facilities to meet high demand. The current high level of public infrastructure spend is expected to lead to a further wave of commercial developments once completed.

In the public infrastructure and defence sector we had nearly $100m of work in hand at 30 June 2019 including the Westmead Hospital and Westconnex M5 projects in NSW and the continuation of work on the Northlink Central Section road project in WA and at RAAF Tindal in the Northern Territory. SCEE recently secured its first project on the Metronet program in WA with work on the Forrestfield Airport Link and there are multiple opportunities presenting on the Sydney Metro project. The Federal budget in March 2019 committed over $100 billion to land transport projects over the next 10 years and there is significant other federal, state and private infrastructure investment planned in defence, airports, ports, education, health and aged care.

In resources there is ongoing work for Rio Tinto, BHP Billiton, Sino Iron and at Boddington Gold mine. There is over $20bn of committed capital expenditure on WA resources projects in the period to 2021 and SCEE is actively pursuing opportunities in iron ore, zinc, bauxite and lithium construction. There is no foreseeable LNG construction work in the near term but there is ongoing coal seam gas work in QLD that provides opportunities and visibility of LNG developments in the medium term.

In the telecommunications sector the NBN construction roll-out is completing and will transition to the maintenance phase. Contracts are in place with the NBN that can facilitate this work nationally. Opportunities with other network carriers continue to be actively pursued. The commercial deployment of 5G is commencing but the delivery model and scale remains uncertain. The first two stages of the RUData SYD53 Data Centre project in NSW were recently secured and a range of new data centres is currently being tendered.

The industrial, energy and utilities sector remains stable and provides a steady flow of opportunities. Current tenders include fuel terminal, power station and brickworks projects. The renewable energy project pipeline is subdued compared to prior periods but there is still a pipeline of opportunities for SCEE for the electrical construction portion of renewables projects. Work is ongoing on the Ergon Energy Service Agreement in northern QLD and SCEE was recently awarded Agnew wind farm electrical works in WA.

Strategy

SCEE primarily sees itself as an electrical contractor. Historically focussed in resources, over the last four years we implemented a strategy to diversify organically and acquisitively into commercial, infrastructure, defence, telecommunications, industrial, energy and utilities work.

This successful diversification has meant the resources sector is now the third largest revenue generator after infrastructure and commercial and over 70% of revenues originate from the East Coast.

Our growth strategy continues so as to realise further sector and geographic diversity through a combination of organic and acquisition activities.

Organic growth will be achieved through our strong commercial and infrastructure pipelines and resources activity is increasing across multiple commodities

We foresee significant acquisition opportunities presenting in the short to medium term which offer both sector and geographic diversity.

CEO Comment

Commenting on the results, SCEE's CEO Graeme Dunn said "2019 saw SCEE continue to improve its financial performance with record revenues and increased profitability.

We continue to see the benefits of our diversification strategy with significant projects being performed across Australia in our five sectors. We expect a continuation of this strategy to lead to further growth in FY20. Our healthy balance sheet and order book of $450m including over $360m of work to be performed in FY20 puts us in a strong position to achieve this."

Contact

SCEE Perth Office
41 Macedonia Street
Naval Base WA 6165
T: +61 8 9236 8300

Graeme Dunn
Managing Director and CEO
E: graeme.dunn@scee.com.au

Colin Harper
Company Secretary
E: colin.harper@scee.com.au