SGH | Industrial Services, Media, Energy and Investments

19 February 2020

Company Announcements Office
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Level 6, 20 Bridge Street
Sydney NSW 2000

By electronic lodgment

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Dear Sir / Madam

HALF-YEAR END RESULTS PRESENTERS' NOTES

Please find attached Presenters' Notes for the Presentation of Results for the financial half-year ended 31 December 2019.

Yours faithfully
For and on behalf of Seven Group Holdings

Warren Coatsworth
Company Secretary

SGH | Industrial Services, Media, Energy and Investments

Results Release – Half-Year Ended 31 December 2019

Slide 1 – Ryan Stokes

Opening Slide

Good morning and welcome to the Seven Group Holdings results presentation for the six months ended 31 December 2019.

I am Ryan Stokes, CEO and Managing Director.

With me today is Richard Richards, Group CFO, who will present the financial results for the half-year.

Slide 3 – Ryan Stokes

Group Overview – People, Safety and Culture

The safety and welfare of our people is a priority for the Group. Over the last 12 months the aggregate safety performance across the Group has improved. This result is reflective of the commitment to leadership and safety culture across all our businesses.

As always, there is more work to be done and AllightSykes safety performance is an area of specific focus for the new leadership team.

We are proud of our people and their continued commitment to support our customers and contribution to the communities in which they operate. This has been evident in the response to the recent bushfire emergency that we'll touch on later.

We continue to invest in the development of our people across our businesses to grow their skills and capability. These include expansion of the WesTrac apprenticeship program, introduction of Coates Hire apprenticeships, and programs to build leadership capability and nurture an open and inclusive culture that values diversity.

On to slide 4.

Slide 4 – Ryan Stokes

Group Overview – Businesses and Markets

This slide shows a summary of our key businesses and illustrates the breadth of our involvement across the Australian economy.

WesTrac and Coates Hire are both leading businesses in equipment and related services for mining, infrastructure and construction customers. Our value proposition is to meet customer productivity and safety requirements by providing quality equipment and solutions, leading technology, and high levels of after-sales support.

Beach Energy, in which we own a 28 per cent interest, is a key supplier of gas to the East Coast market, with a portfolio of development and exploration opportunities. Our SGH Energy assets also provide opportunities in domestic gas and LNG exports.

In media, we hold a 40 per cent interest in Seven West Media, one of the largest media companies in Australia with substantial reach into the Australian community.

On to slide 5.

Slide 5 – Ryan Stokes

The devastating impact of the bush fires across the country, particularly in NSW, Victoria and South Australia, has had an immense impact on the communities where our people and customers live and work.

On the two slides we share some images of our businesses on the front-line supporting these communities in this time of enormous hardship.

On to slide 7.

Slide 7 – Ryan Stokes

Across the group companies we had 35 of our people commit their personal time to support volunteer fire fighting services. We are proud of their contribution and in early January ensured all activity undertaken was provided as paid leave.

The SGH businesses, through the equipment we provide, is heavily involved in supporting the building and development of communities. As such we feel we have an important role to play in supporting the bushfire relief and recovery. On behalf of all our people, SGH has committed $5 million in direct support for the relief and rebuilding effort. In addition, ACE, the major shareholder of SGH, has matched our contribution with an additional $5 million.

To date we have jointly contributed $2.8 million, through equipment and services deployed to the RFS, CFS, CFA, BlazeAid and the Australian Defence Force, including temporary shelters, small tools, generators, and heavy machinery including dozers and graders. We have provided direct funding to the two BCA rebuilding trusts. In addition, Seven West Media has supported the Fire Fight concert that raised almost $10 million.

On to slide 8.

Slide 8 – Ryan Stokes

Group Overview – Highlights

The Group has delivered solid results in the half with trading revenue up 12 per cent or $236 million on the prior year. Underlying EBIT of $418 million was up 7 per cent with EBIT margin relatively stable at 17 per cent.

Industrial Services EBIT increased by 7 per cent reflective of demand in mining and infrastructure and a large pipeline of major projects in WesTrac and Coates.

WesTrac delivered another record for parts lines invoiced, up 4 per cent to 3.6 million and component rebuilds revenue up 49 per cent for the half. This was driven by customer demand to maintain high machine utilisation and extend equipment life.

Coates Hire generated EBIT of $104 million, down on the prior corresponding half, but encouragingly, up 15 per cent against the second half of FY19. Revenue is up 2 per cent. This reflects the positive impact of the management focus in the business.

Coates has strong leverage to infrastructure activity which provides opportunity to capture future growth as the infrastructure project pipeline continues to strengthen over the coming years.

Beach delivered $80 million to the Group result, reflecting operational excellence through robust production after adjusting for the sale of the Otway interest. The market value of our investment in Beach is $1.6 billion against an equity accounted value of $808 million.

On to slide 9.

Slide 9 – Ryan Stokes

Key Financials

The results we have reported today incorporate the requirements of the AASB 16 lease accounting standard. The prior half comparative results have been restated on this basis.

Underlying EBIT for the half was up 7 per cent to $418 million. Underlying net profit after tax was up 3 per cent to $255 million. Underlying earnings per share was 75 cents and stable against the prior corresponding half.

Underlying EBITDA cash conversion of 59 per cent was a 5 per cent reduction on the restated prior half. Cash flow reflected our investment in working capital to support the future sales opportunity, particularly in relation to committed sales within WesTrac.

On a statutory basis, EBIT was $201 million and statutory net profit after tax was $38 million, impacted by significant items of $217 million, including $113 million of impairments relating to the Seven West Media investment and $104 million relating to the Bivins Ranch investment.

Today we have declared an interim fully franked ordinary dividend of 21 cents per share.

I will now hand over to Richard to take you through the Group's financials for the half-year.

Richard.

Slide 11 – Richard Richards

Profit and Loss

Thanks', Ryan and good morning.

Slide 11 provides both the statutory and underlying net profit after tax for the period.

I refer you to the 4D for the detailed statutory presentation, please note comparatives have been restated for the application of AASB 16, with a reconciliation of these outlined on Slide 32.

The financial results for the period reflect the continued strong performance of WesTrac and improved performance of Coates relative to 2H last year, demonstrating their ability to win back market share and grow revenue while maintaining cost discipline.

The performance of Beach was also pleasing, with 13 MMboe of oil production, minimal exposure to spot gas prices, and continued reduction in field operating costs, supporting Beach's contribution to SGH earnings after adjusting for the partial sale of Otway.

Group underlying EBIT of $418 million was up $27 million or 7 per cent on the prior corresponding period.

Consolidated trading revenue of $2.3 billion was up 12 per cent, an increase of $236 million, supported by continued growth in WesTrac product support sales up $122 million and $96 million increase in equipment sales. Coates Hire also achieved an $11 million increase in rental revenue.

Ryan will discuss each segment's specific financial result later in his presentation.

Underlying results from equity accounted investees was steady at $112 million, however, reflects a declining contribution from SWM of $5 million offset by increased earnings from Flagship.

Other income increased by 18 per cent to $36 million reflecting additional distributions from a China PE investment as the fund matures and monetises its investments.

Expenses, excluding depreciation and amortisation, increased by 13 per cent to $1.7 billion with cost of goods sold increasing by 18 per cent to $1.2 billion, although it is noted that employee benefits expense was contained to an increase of 2 per cent to $394 million.

Depreciation and amortisation expense increased $4 million being 3 per cent, due to increases in rental and operating fleets at WesTrac and Coates.

The Group's underlying effective tax rate increased to 25 per cent for the period benefiting from a combination of fully franked and exempted dividends.

Slide 12 – Richard Richards

Significant Items

During the period, the Group incurred a net $217 million in Significant Items, reducing the statutory net profit after tax to $39 million.

Significant Items primarily relating to the investment in SWM, including $56 million relating to SGH's share of SWM's significant items, and a mark-to-market impairment of $57 million to the carrying value of our investment based on the share price at 31 December 2019.

Following the change in ownership and operatorship of the Bivins Ranch lease, we have seen a material change in the development outlook for the property and the likely economics of production volumes now to be realised. This has resulted in an impairment for $104 million been applied to the carrying value of our investment in Bivins Ranch.

There was no tax benefit associated with these impairments, as they are not deductible. This results in the Group's statutory effective tax rate for the period increasing to 68 per cent.

Slide 13 – Richard Richards

Earnings Summary

Slide 13 details the underlying EBIT result across each segment, providing a reconciliation to statutory EBIT after allocation of the significant items from Slide 12.

The underlying segment EBIT increased 7 per cent on prior period, with WesTrac increasing 17 per cent. Coates Hire was down slightly on the 1H FY19 result, pleasingly however, it has rebounded 15 per cent against 2H FY19.

Media segment underlying earnings increased by $6m, with China media funds return increased $11 million offsetting the reduction in the $5m SWM EBIT result.

Slide 14 – Richard Richards

Cash Flow

Underlying operating cash flow was $323 million, a reduction of 2 per cent or $8 million on prior corresponding period. This represents underlying EBITDA cash conversion of 59 per cent, a 5 per cent decrease on the prior period adjusted for AASB 16. Our key businesses are continuing to grow and capture revenue opportunity, accordingly we have invested more in working capital, particularly in WesTrac, to continue to support our customers in their drive for higher production and WesTrac to achieve forecasted growth.

This also reflects a greater proportion of the Group's earnings being delivered by Beach which has focus on debt reduction to support future growth over distributing cash to shareholders.

Cash flow from investing activities utilised $148 million that has been used in reinvestment supporting our existing businesses. This includes net capital expenditure of $135 million in Coates and $16 million in WesTrac.

Cash flow from financing was $2 million, comprising $71 million in ordinary dividends and net $100 million in debt drawn and $27 million in lease liabilities repaid.

Overall cash increased by $2 million while net debt reduced by $22 million to $2.1 billion including the impact of foreign currency movements.

Slide 15 – Richard Richards

Balance Sheet

The Group had net assets of $2.8 billion decreasing $56 million since 30 June balances. This movement includes the $39 million statutory net profit for the year less the ordinary dividend payment of $71 million. Other amounts decreasing shareholder's equity primarily relating to $26 million change in fair value of financial assets and hedge valuation changes through other comprehensive income.

The key movement on the balance sheet relates to the $67 million in additional inventory acquired to support continued sales growth in WesTrac from both the level of committed orders and future projects in the pipeline.

The Group increased its receivables balance by $53 million which is reflective of increased turnover during the period.

PP&E increase of $68 million reflects step up in fleet replacement together with targeted growth capex within Coates.

Reduction in investments of $55 million includes the impairment of SWM by $113 million, decline in value of listed portfolio of $15 million and realisation of other assets, partially offset by the share of equity accounted results.

AASB 16 has also required the recognition in a right of use asset valued at $640 million and lease liabilities of $853 million at December 2019, at a similar level to June 2019.

Slide 16 – Richard Richards

Capital Management

SGH has remained diligent to preserve significant balance sheet strength with net debt being below $1.7 billion net of value of the hedges and listed investment portfolio. Capacity to pursue opportunities and growth is currently in excess of $1 billion.

The Group over the next 18 months will refinance just over $1 billion including the OEM, syndicated bank and USPP, presenting an opportunity to reduce future borrowing costs across facilities and thereby improving the weighted average costs of capital accessed by the Group.

Total facilities of the Group were $2.9 billion at 31 December, with $738 million undrawn and $80 million of available cash. The average facility maturity is 3.1 years with the next major refinance to occur in 2021. The Group gearing ratio at balance date was 42 per cent, whilst this figure reduces to 31 per cent when including market value of the listed portfolio, favourable mark to market of the borrowing hedges and market value of Beach in excess of its book value at 31 December.

The Group maintained financial discipline and operational focus, achieving total shareholder return of 41 per cent in the 3 years to 31 December 2019. This places SGH positively in a total market context, being ranked third against the S&P / ASX 100 excluding financials.

Given the opportunities to reinvest across our existing businesses the Board has elected to maintain the interim dividend at 21 cents per share.

I will now hand you back to Ryan.

Slide 18 – Ryan Stokes

Industrial Services – WesTrac Highlights

Thank you, Richard. On to slide 18.

Our customers are exporting at near record levels. Iron ore exports were up 4.1 per cent and coal exports through Newcastle were up 5.5 per cent half-on-half, supporting growth in activity for WesTrac.

WesTrac's product support services allow mining customers to extend the useful life of their fleet, at higher utilisation rates and lower downtime. Value-added services such as retrofitting autonomous technology and component rebuilds provide our customers with the opportunity to operate at greater efficiency and lower cost.

To support future growth WesTrac is investing in our facilities and capability. This includes expansion at all our Perth operations and building the first Autonomous training and operating facility in Collie WA, the only such facility outside of the Caterpillar proving ground in Arizona.

On to slide 19.

Slide 19 – Ryan Stokes

Industrial Services – WesTrac Financials

WesTrac's revenue was up 15 per cent during the half. Product sales revenue was up 22 per cent, including a strong lift in NSW new equipment sales of 41 per cent.

Product support revenue was up 12 per cent, and as noted, the reduction in AHS conversion kits sold in the half was more than offset by growth in revenue and earnings across several other segments, reflecting the level of diversity in the products and services we provide to our customers.

WesTrac's EBIT for the half of $186 million was 17 per cent above the prior corresponding half and EBIT margin improved to 10.9 per cent.

We are seeing solid demand for new fleet sales for ad-hoc purchases and larger fleet transactions in WA and NSW.

On to slide 21.

Slide 21 – Ryan Stokes

Industrial Services – Coates Highlights

Coates Hire provides equipment to a diverse range of end markets, including engineering and construction, infrastructure, mining and resources, residential and non-residential construction, and many other activities. Revenue growth has been a strong focus for the team as we look to drive the top line performance and utilisation of the fleet.

WA operations have delivered a 26 per cent revenue increase on the prior corresponding half, with the strong demand from mining expansion projects and industrial maintenance shutdowns. New South Wales and Victoria remain on a stable trajectory with continued spending on infrastructure.

We have accelerated our fleet investment to bring as much forward as we can. This resulted in net capex of $135 million in the half. Our full year net capex is expected to be up approximately 10 per cent on prior year.

On to slide 22.

Slide 22 – Ryan Stokes

Industrial Services – Coates Financials

Coates generated $104 million in EBIT, decreasing 5 per cent on the prior corresponding period but growing 15 per cent on the prior half to end June 2019.

EBIT margin was down 2 per cent to 21 per cent reflective of the market and a slight increase in depreciation.

Net capital expenditure was $135 million during the half, and we plan to reduce divestment to increase the fleet from an Original Cost perspective through FY20, reflecting the level of confidence we have in the opportunities available over the medium to long term.

Looking ahead, the focus is on driving revenue and time utilisation, building our brand in the SME market place, and planning more work on digital capability to enhance customer support and drive efficiency.

On to slide 24.

Slide 24 – Ryan Stokes

Energy – Beach Investment

Beach has worked through a very active first half, with acceleration in development and exploration activity including commencement of drilling programs in the Victorian Otway and New Zealand. Beach participated in 105 wells at a success rate of 83 per cent, both up on the prior corresponding half.

Beach contributed $80 million towards Group EBIT. Production of 13 Mmboe was down 15 per cent on the prior comparative half.

If adjusted on a proforma basis for the 40 per cent sale of the Victorian Otway asset, NPAT would be up 9 per cent and revenue up 3 per cent.

Beach has updated its FY20 guidance to 27 to 28 Mmboe production, $875 to $950 million in capital expenditure and $1.275 to $1.35 billion in EBITDA.

On to slide 25.

Slide 25 – Ryan Stokes

Energy – SGH Energy

Our dual-track process on Crux is progressing and we are expecting an outcome around the middle of the year, to coincide with the FID scheduled for mid-2020. The Crux project is progressing well with FEED work continuing to come under projected costs.

First gas from the project is targeted for late 2024. We retain the financial flexibility to vend the asset or progress to development and will purse the most value-accretive option for our shareholders.

With Longtom we have 80PJ of gas to supply into the east coast market, and we continue to work with infrastructure owners on establishing commercial agreements.

We have re-evaluated our Bivins Ranch investment following recent changes in operatorship. The new asset strategy being pursued by the operator is focused on optimisation of existing production.

As a result, we have reduced the carrying value of the investment by $104 million to reflect the diminished development potential of the asset under current and foreseeable market conditions.

On to slide 27.

Slide 27 – Ryan Stokes

Media – Seven West Media

In the half Seven West Media has delivered solid ratings performance, strong revenue share, and continues to hold a significant audience reach. Metro TV ad market was down 7 per cent in the half, impacting revenue and profitability, resulting in SWM reassessing the carrying value of its television assets.

The management team has continued to focus on the three core areas of content led growth, transformation, and capital structure. Through the period substantial costs have been addressed that will flow into FY21 and more work us underway.

SWM contributed $29 million in underlying earnings towards Group EBIT, down 14 per cent on the prior half.

Other media investments contributed $17 million towards Group EBIT. These investments relate to the Group's interests in private investment funds focused on media, technology and entertainment in China that are now being realised.

On to slide 28.

Slide 28 – Ryan Stokes

Listed Investments and Property

EBIT of $15m in the half reflected a reduced dividend contribution from listed investments following partial divestment of the portfolio. The property portfolio delivered a higher contribution for the period with the completion of the Kodo project in Adelaide.

On to slide 30.

Slide 30 – Ryan Stokes

Outlook FY20

Now moving to our outlook for FY20.

We are confident FY20 will continue to provide opportunities for growth in our Industrial Services and Energy businesses.

Industrial Services are expected to deliver EBIT growth in the mid-teens for the full year.

The ongoing high level of demand in the mining sector is expected to provide further opportunities for WesTrac through capital sales and support activity.

Coates Hire is expected to benefit from robust activity levels across its diverse customer base and end markets.

Beach is expected to deliver consistent earnings for FY20.

SWM's management team is focused on delivering the FY20 result, with revised guidance of underlying EBIT $165 to 175 million for the full year taking into consideration current market conditions and improved ratings.

At a Group level, we expect underlying EBIT growth in the high single digits against FY19, including the impacts of AASB 16.

Thank you. We would be pleased to take your questions at this time.