

# PRESS RELEASE

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## Construction revenue grows as reduced Civil & Mining workbook offsets Group performance

National construction and mining services group Watpac Limited (ASX: WTP) (**Watpac** or **Group**) today announced a statutory loss after tax of \$1.4 million for the half year ended 31 December 2017 (**1H FY18**) (1H FY17 \$0.6 million profit after tax).

The reported loss is a result of lower work volumes in the Civil & Mining business offsetting a solid financial performance from the Group's Construction business, which recorded a 2.56 per cent increase in revenue for the reporting period.

### Key 1H FY18 highlights:

- Statutory net loss after tax of \$1.4 million (1H FY17: \$0.6 million profit after tax)
  - Construction pre-tax profit of \$9.2 million (1H FY17: \$10.1 million)
  - Civil & Mining pre-tax loss of \$3 million (1H FY17: pre-tax profit of \$2.8 million)
- Underlying net loss after tax of \$1.4 million (1H FY17: \$3.1 million profit)
- Revenue down 2.11 per cent to \$571.5 million (1H FY17: \$583.8 million)
  - Construction revenue of \$524.7 million up 2.56 per cent on the comparative period (1H FY17: \$511.5 million)
  - Civil & Mining revenue of \$47.5 million down 29.86 per cent on the comparative period (1H FY17: \$67.7 million)
- Strong balance sheet with gross cash and deposits of \$256.7 million as at 31 December 2017.

In commenting on the results, Watpac Managing Director, Martin Monro, said the Group's selective tendering practices in targeted sectors had resulted in an improved workbook quality anticipated to result in enhanced earnings prospects.

"Our Construction business has continued to perform profitably over the past six months however this has been impacted by a reduction in the financial contribution of the Group's Civil & Mining business," Mr Monro said.

"While we have experienced residual effects from the prolonged cost escalation pressures within the Queensland residential construction market and some risks remain in completing this carry forward work profitably, recently awarded projects have assisted the Construction business nationally to start performing more in line with expectations and improved underlying market conditions.

"Our business is becoming less exposed to the intense price competitiveness of some components of the construction market and we believe we are delivering on the objective of significantly enhancing the quality of the workbook."

Mr Monro said the reduction in the financial contribution of the Civil & Mining business was disappointing and reflective of the lower levels of work completed during the Reporting Period as several large projects neared or reached completion.

"While there is low work-in-hand for the mining component of our business, pleasingly our civil infrastructure opportunities continue to grow and we anticipate this to continue into future periods."

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The Group's financial position remains strong with gross cash and deposits totalling \$256.7 million at balance date.

"In addition to a strong cash position, the Group maintains a \$170 million syndicated banking facility for the provision of bank guarantees and \$245 million in bi-lateral facilities for the provision of insurance bonds.

"This allows extensive capacity for the Group to provide required performance bonding on new projects – a positive demonstration of the Group's financial strength for current and future clients."

Mr Monro said despite some legacy projects still impacting performance, Watpac's sector-specific credentials coupled with a total forward order book of approximately \$1.35 billion positions the Group for improved performance in the second half of the reporting period.

"The recent award of a \$126 million contract for the Mid North Coast Correctional Centre Expansion at Kempsey is indicative of the approach to project selection we are now taking.

"We expect our work volumes across a variety of sectors including Health, Education and Defence to increase and to do so in a way which successfully reflects this approach.

"Projects in these sectors generally require application of specialised experience and know-how, and provide greater scope for Watpac to secure new work on factors beyond simply price.

While the Group's Civil & Mining business has not performed well, Mr Monro said focus remained on growing work volumes steadily through existing client relationships in targeted product sectors.

"The Board and Management are positive about the prospects within the Civil & Mining space while also being cognisant of the risks should that business's workbook not achieve targeted growth forecasts."

Mr Monro said the Group is well placed and confident in its ability to build on its strong financial platform and workbook.

"We remain focused on our long term strategy of providing innovative and valued outcomes for our clients, enhanced returns for our shareholders and a business that our employees are proud to be a part of."

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**Note to editors:** Watpac is a leading national construction and mining contracting group with operations in all mainland States and Territories. We have been listed on the Australian Securities Exchange since 1985 and have offices in Brisbane, Sydney, Melbourne, Adelaide, Perth, Townsville and Port Macquarie. More information is available at [www.watpac.com.au](http://www.watpac.com.au).

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