Big River Industries Limited (ASX:BRI)

Results Announcement – Half Year ending 31 December 2018

25 February 2019

Headlines

- Revenue of $106m up 1.3% from 1H18, albeit reflecting a like for like revenue decline of 3.9%, driven by a weaker second quarter result.
- EBITDA of $4.5m (prior to acquisition costs of $0.2m), down 23% on 1H18, in line with guidance.
- NPAT of $1.8m, down 38% on 1H18.
- Distribution gross margin continuing to show improvement - up 22bps from 1H18, despite the slightly weaker position after quarter 1.
- The re-sizing of the manufacturing function continues, with solid cash cost reductions exceeding $3m for 1H19 versus 1H18.
- Imported plywood volumes doubled in the period which assisted in offsetting a decline in manufactured product.
- Expansion of the distribution network continued during the period, with the successful acquisition of MB Prefab in Geelong, completed in December 2018.
- The balance sheet remains strong with net debt of $13.8m and gearing below 20%.
- Interim dividend declared of 2.2 cents per ordinary share, fully franked.

RESULTS SUMMARY			
REVENUE	**H1 FY19 ($m's)**	**H1 FY18 ($m's)**	**Change**
Total Revenue	**106.0**	**104.6**	**1.3%**
EBITDA	**H1 FY19 ($m's)**	**H1 FY18 ($m's)**	**Change**
Distribution activities	**5.5**	**6.5**	**-14.3%**
Corporate expenses	(1.7)	(1.4)	-21.8%
Manufacturing facilities	0.7	0.8	-18.4%
EBITDA (before acquisition costs)	**4.5**	**5.9**	**-23.7%**
Acquisition costs	(0.2)	(0.2)	-
EBITDA	**4.3**	**5.7**	**-24.7%**
Depreciation and amortisation	(1.3)	(1.2)	-5.8%
Interest	(0.4)	(0.3)	-29.8%
Taxation expense	(0.8)	(1.3)	37.6%
NPAT	**1.8**	**2.9**	**-38.2%**
NPATA [1]	**2.0**	**3.1**	**-35.9%**
Distribution activities GM%	*18.2%*	*18.0%*	
EBITDA margin	*4.3%*	*5.7%*	
Interim dividend (cps)	*2.20*	*3.50*	

[1] NPATA = NPAT before post tax amortisation of acquired intangibles.

Big River Industries Ltd (ASX:BRI) reports that EBITDA for the six months to December 2018 was $4.5m before acquisition costs, down 23% on the previous corresponding period and was in line with the market guidance provided on 10 December 2018. NPAT was $1.8m, down 38% on 1H18.

The Directors have declared a fully franked dividend of 2.2 cents per share, payable on 4 April 2019, with a record date of 26 March 2019. The dividend is approximately 65% of after-tax profit for the first half of FY2019.

Trading Summary

Total sales revenue for the half year 2019 increased 1.3% to $106.0m. Like-for-like sales declined 3.9% in the challenging market environment but a full period contribution from prior acquisitions more than offset this decline. Performance showed some significant variances, with the first quarter recording 1% like-for-like sales growth over 1H18 while the second quarter declined 8% on the same basis. There was a noticeable slowdown during the second quarter in a number of market segments which largely reflected the well reported macroeconomic conditions with reduced medium/high density residential demand and deferral and cancellations of some projects. Within this environment regional performance also varied. The Southern region had solid like-for-like sales growth of 2.5% in the half, largely reflecting a more buoyant housing sector in that region, whilst both NSW and QLD regions recorded sales declines of 5.0% and 3.5% respectively (like-for-like) where the impact of slowing medium and high-density housing has been greater.

From a market segment perspective, total Building Products growth was 9% versus 1H18 (or flat on a like-for-like basis), reflecting further market share penetration, particularly from the Company's acquisitions, together with the general softening in residential activity. The Formwork segment sales revenue declined 3% on a like-for-like basis, as sales into the stronger Civil and infrastructure segments were offset by reduced multi-residential activity and a weaker Commercial construction performance. The Commercial construction segment suffered from project delays and reduced new shopping centre construction. Specialty product sales declined in the order of 10%, as discretionary spending on architectural products weakened and commercial fit-out work fell in line with the reduced Commercial construction activity.

The Company continued to grow its market share of the imported formply market, with sales doubling on the previous corresponding period, in line with the strategy. However manufactured formply volumes continued to reduce, applying further pressure on the manufacturing facilities. Whilst manufacturing volumes fell by around 30%, further restructuring of these facilities generated more than $3m in cash cost reductions in 1H19 and contributed to holding the EBITDA impact on manufacturing facilities to a $0.1m decline. Whilst the performance of manufacturing has stabilised and, encouragingly, it weathered further loss of volume, it remains a challenge.

Balance Sheet & Cashflow

Net debt at 31 December 2018 was $13.8m an increase of $5.4m on the 30 June 2018 position. This increase was largely the cash component of the acquisition completed in the period, totalling $4.4m. The Company's working capital ratio of 17% remains within the Board's target range, whilst the $36m of net working capital at December 2018 was up just 3% on the previous corresponding period, largely reflecting increased levels of imported inventories, and the additional working capital at the Geelong acquisition.

Gearing levels (measured as net debt to net debt plus equity) remain below 20% despite the acquisition completed in December, and hence the Company remains well placed to continue to execute earnings per share accretive bolt-on acquisitions, a key component of the Company's strategy.

Whilst the dividend declared of 2.2 cents per ordinary share fully franked reflects the reduced NPAT performance of 1H19, it also recognises the challenging period parts of the construction market are experiencing as well as the enhanced acquisition opportunities that inevitably come up during tighter market conditions.

Outlook

Residential housing activity, particularly in the medium density and multi-residential segment, continues to decline, albeit this is more pronounced in the Sydney, Melbourne and Brisbane markets. The smaller capital cities and sub-metropolitan markets of the Gold Coast, Sunshine Coast, Canberra and Geelong are forecast to be less impacted. However there still remains some uncertainty given the issues of credit availability, political and macro-economic factors affecting consumer confidence and the willingness to invest in construction markets.

The Commercial construction outlook currently looks somewhat more positive than experienced at the beginning of the 1H19, so this together with the strong infrastructure pipeline should help offset the weakness in the residential markets.

Big River continues to actively pursue its acquisition strategy, with challenging market conditions presenting additional opportunities to the Company.

Jim Bindon, Big River CEO, said: "We continue to expand geographically and make investments where there are sound prospects for future growth. To support this strategy, we are also investing in additional resources at a Sales, IT and Accounting level, to support well-controlled growth. Opportunities for expanding the distribution network are strong, despite the challenging conditions in parts of the Building Products Industry".

Subject to no further deterioration in markets, the Company confirms its previous guidance for full year FY2019 of EBITDA (before acquisition costs) in the range $9m to $10m.

Chairman

Greg Laurie, who has been Chairman of the Company from the time of Listing on the ASX in May 2017, has indicated that he will retire from the Board later in 2019. At an earlier time, Greg was an independent non-executive director of Big River Group Pty Ltd for nine years, when the business was in private family ownership.

Conference Call

Investors are invited to join a conference call hosted by Jim Bindon and Steve Parks on Tuesday 26 February 2019 at 11:00am AEDT. The dial in details are as follows:

Toll Free: 1800 123 296

Toll: +61 2 8038 5221

Conference ID: 5959606

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