Media Release

26 August 2020

ADBRI LIMITED
JUNE 2020
HALF YEAR RESULTS

Results Summary

- Net profit after tax (NPAT) of $29.1 million and underlying NPAT of $47.6 million
- Strong increase in cash flow from operations, up $71.5 million to $116.3 million
- Strong balance sheet and liquidity – gearing (net debt / net debt + equity) 25.7%, leverage ratio 1.5x well within debt covenants and target range
- An interim dividend of 4.75 cents per share, fully franked, has been declared representing a payout ratio of 65% on underlying earnings
- Revenue down 7% to $700.7 million with lower residential activity as anticipated and the impact of bushfires, floods and smoke in NSW and Queensland earlier in the year
- Cost-out program on-track to deliver an expected $30 million in annual savings to more than offset cost headwinds
- Stronger underlying earnings margins in wholly-owned operations, overall EBITDA and underlying EBITDA margins remain strong at 16.6% and 17.5% respectively
- COVID-19 impact well managed, all sites remain operational
- Mitigation strategies are being formulated to address future reduction in lime earnings following non-renewal of contract by Alcoa from 1 July 2021. The Group has recognised a pre-tax non-cash impairment charge of $20.5 million, primarily associated with cessation of this contract and consequential placement of kiln 5 assets at Munster into care and maintenance in 2021. Restructuring provisions of $5.0 million have been brought to account for job losses and operational efficiency improvements
- Earnings guidance withdrawn in April 2020 due to uncertainty surrounding COVID-19. Underlying financial results for the half are in line with expectations set at the beginning of the year
- Adbri remains well placed to benefit from demand for construction materials as a result of Federal and State Government stimulus measures and demand for cement and lime from a growing mining sector

Leading construction materials and lime producer Adbri Limited ("Adbri") (ASX: ABC) today reported results for the half year ending 30 June 2020 (1H20).

Revenue of $700.7 million (1H19: $755.7 million) reflected lower residential demand, as expected, and a slow start to the year in New South Wales and Queensland due to the impact of bushfires, floods and smoke which restricted construction activity. Trade with the mining sector continued largely uninterrupted, resulting in higher returns in both lime and cement in Western Australia. Demand in the Victorian market exceeded expectations, delivering higher returns across all product lines, while demand was lower in the Northern Territory and South Australia.

Underlying EBIT[1] of $75.2 million (1H19: $85.2 million) reflects lower joint venture contributions, concrete volumes in the higher margin New South Wales market and cement sales volumes into the South Australian market. On a statutory basis, reported EBIT was $48.7 million, which included impairment and restructuring provisions related to the decision to place one of our lime kilns into care and maintenance at the cessation of the Alcoa lime contract in July 2021.

Underlying NPAT[1] was $47.6 million (1H19: $55.3 million) and reported NPAT was $29.1 million.

Nick Miller, Chief Executive Officer, said:

"Adbri remains in a strong financial position and notwithstanding the impact on demand of natural disasters and weaker domestic housing, our wholly-owned operations have expanded their cash earnings margins. Despite the COVID-19 pandemic, our volumes have maintained a solid trajectory and some parts of our operations have outperformed the prior period. Mining demand has remained uninterrupted resulting in higher volumes than in 1H19 while the construction materials sector is expected to continue to benefit from various government stimuli, particularly to fast-track shovel ready construction projects including infrastructure spending, home-building grants and stamp duty relief.

"Cash flow is healthy and benefitting from improved working capital management, capex is being managed well, our cost-out program remains on-track to deliver $30 million in annual savings and our balance sheet is being maintained in a strong condition with available liquidity at the end of the period in excess of $480 million and credit metrics well within investment grade.

"We have recorded a pleasing improvement in safety with our Total Recordable Injury Frequency Rate (TRIFR) declining 41% to 11.6 compared to 30 June 2019. All of our sites remain operational, with strict hygiene and distancing protocols in place."

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[1] "Underlying" measures of profit exclude significant items of revenue and expenses, such as the costs related to restructuring, rationalisation and acquisitions, to highlight the underlying financial performance across reporting periods. Profits from the Group's long-term land sales program are included in underlying profit despite the timing being difficult to predict.

Operational Review

Cement and Lime

Overall cement sales volumes decreased 6% compared to 1H19, predominantly in New South Wales due to lower demand due to bushfires, flood and smoke earlier in the year and underlying market softness. Demand for raw materials, including slag and clinker, declined in Queensland as a result of reduced demand from the Sunstate Joint Venture driven by lower offtake by our joint shareholder Boral and lower volumes in Adbri's concrete business.

Cement volumes in Western Australia rose 7% due to continuing demand from mining projects while commercial projects supported volumes in Victoria. Volumes in South Australia declined as a result of completion of the Northern Connector project and slowing residential demand.

Average cement prices were in line with 1H19.

Lime sales volumes increased 4% compared to 1H19, predominantly due to increased demand in the Western Australian gold and nickel markets. Average lime prices were higher than the prior comparative period, driven by indexation.

In early July, the Company announced Alcoa's intention to move to an imported lime product from 1 July 2021. Adbri is evaluating strategies for its lime business to mitigate this future loss of earnings. Assets specific to the Alcoa contract have been impaired and a restructuring provision in relation to ensuing job losses and operational efficiency improvements has been recognised in the period.

Concrete and Aggregates

Overall concrete volumes decreased by 13% compared to 1H19, in line with reduced demand in New South Wales and Queensland due to bushfires, floods and smoke impacting construction activity in 1H20 as well as underlying market softness. Victorian demand exceeded expectations and volumes increased due to increased activity in the commercial, multi-residential and industrial precast markets.

Despite lower residential demand in South Australia compared to 1H19, strong external demand for aggregates, driven by infrastructure projects, offset lower concrete demand, delivering a higher than anticipated earnings contribution.

Northern Territory demand was lower than 1H19 due to reduced infrastructure project activity.

Overall average concrete and aggregate prices were largely in line with 1H19.

Concrete Products

Overall sales volumes were lower than in 1H19 due to slower demand from the commercial sector although revenue and margins benefitted from higher sales volume in the retail sector. As a result, EBIT contribution rose by $2.3 million, or 121%.

Joint Arrangements and Associates

Earnings from joint ventures and associates were 30% lower at $11.9 million, primarily due to a $5.1 million lower contribution from Sunstate Cement. Aalborg Portland Malaysia was affected by a halt in export volumes for several weeks during the half, while Mawsons experienced stable volumes and pricing. Independent Cement and Lime experienced strong demand in Victoria which more than offset declines in New South Wales and, together with reduced costs, provided a 7% increased contribution of $8.2 million.

Strong Financial Position

Cash flow from operations increased by $71.5 million to $116.3 million as a result of tighter working capital management, including improved debtor collections and reduced inventory levels. The improvement in cash flow was also aided by reduced income tax payments and deferred GST payments as a result of COVID-19 stimulus measures. Debtor days decreased by two days to 46.7 days at June 2020.

Capex of $73.2 million ($31.1 million stay-in-business capex and $42.1 million for development) was $28.8 million higher than in 1H19. Major capex during the period included land purchases at Kewdale and Badgerys Creek, Pinkenba concrete plant, South Wharf concrete plant and an upgrade to the Birkenhead drymix plant.

The balance sheet remains strong, with net debt of $413.8 million and available funds of $481.7 million. Key credit metrics remain investment grade with gearing (net debt to net debt plus equity) decreasing to 25.7%, the leverage ratio at 1.5 times EBITDA and interest cover[2] of 12.4 times.

The Board has declared an interim dividend for the period ending 30 June 2020 of 4.75 cents per share, fully franked. This represents a payout ratio of 65% on underlying earnings in line with the Board’s target range of 65-75%.

Strategic Initiatives

Adbri’s strategy to create shareholder value over the long term continues through the following key strategic initiatives:

- Ongoing cost reduction and operational improvement;
- Lime volume and earnings recovery, following cessation of the Alcoa lime contract from 30 June 2021;
- Targeted downstream integration and diversification;
- Increased exposure to infrastructure; and
- Maximising value creation opportunities across its land holdings.

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[2] Underlying EBITDA / net interest

Outlook

Due to the inherent market uncertainty associated with COVID-19, no earnings guidance for the full year is provided notwithstanding that Adbri's operations have continued, largely uninterrupted by COVID-19.

Trading performance in July continued in line with expectations. August trading was weaker, impacted by stage 4 restrictions in Victoria and a soft NSW market.

The construction materials sector is expected to continue to benefit from stimulus from all levels of government, particularly the fast-tracking of construction projects including infrastructure spending, home-building grants and stamp duty relief. These factors in combination with a low interest rate environment will help support ongoing demand for construction materials.

The resources sector continues to operate largely uninterrupted. Increasing demand for cement and lime from a growing number of mining projects will provide earnings support into the future.

Capital expenditure is expected to be approximately $130 million for 2020. The Kwinana upgrade project is currently in final feasibility, with an expected $150 million spend over 2 – 3 years, if approved by the Board.

From July 2021, the impact of non-renewal of the Alcoa contract is expected to lower future annual revenue by $70 million. The business is evaluating strategies to mitigate the future loss of earnings from this contract.

Adbri's priorities are to:

- Minimise impacts of COVID-19 and the loss of Alcoa lime earnings from July 2021;
- Prudently manage capital spend;
- Continue to contain costs and right-size the business to improve performance;
- Remain competitive against imports; and
- Maintain balance sheet flexibility for reinvestment and growth.

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