Media Release

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Adbri FY20 Results

Robust performance in a challenging year

Leading construction materials and lime producer Adbri Limited ("Adbri" or "the Company") (ASX: ABC) today reported results for the full year ending 31 December 2020 (FY20).

Results Summary

- Reported net profit after tax (NPAT) of $93.7 million, up from $47.3 million in FY19
- Underlying NPAT[1] of $115.6 million, ahead of market guidance withdrawn in April 2020
- Strong operating cash flow from operations, up 32.6% to $256.2 million
- Balance sheet strength – gearing of 30.5%, interest cover 13.3x underlying EBITDA, leverage ratio 1.4x underlying EBITDA, all well within banking covenants and Board's capital management target range
- Cost-out program delivered pre-tax cost savings of $35.5 million, ahead of target
- Return on Funds Employed (ROFE) down marginally to 10.9%, above cost of capital
- Revenue down 4.1% to $1,454.2 million with the impact of lower residential activity on cement and concrete volumes offsetting improved sales of lime and concrete products
- Fully franked final dividend of 7.25 cents per share approved, taking total dividends for the full year to 12.0 cents per share. Payout ratio of 68% on underlying earnings
- COVID-19 impact well managed, all sites remained operational

Financial Performance

The Company reported revenue of $1,454.2 million (FY19: $1,517.0 million) with the impact of lower residential activity on cement and concrete volumes offsetting improved sales of lime and concrete products.

Underlying NPAT of $115.6 million (FY19: $123.0 million) was ahead of the guidance provided for FY19 of $110.7 million, which was withdrawn on 2 April 2020 as the Company prudently responded to pressures from slowing markets, rising input costs and challenges posed by COVID-19.

Earnings reflected the benefit of cost reductions achieved as a result of the Group's cost-out and business improvement programs which exceeded initial targets, as well as stronger than anticipated volumes in the second half, particularly in Western Australia.

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[1] Underlying NPAT, Underlying EBITDA, Underlying EBIT, Underlying Return on Funds Employed are non-AIFRS measures reported to provide greater understanding of the Group's underlying business performance and exclude significant items. Full details of significant items are contained on pages 55-56 of the 2020 Annual Report.

Reported NPAT of $93.7 million, up from $47.3 million in FY19, reflecting non-cash impairment charges totalling $15.2 million after tax and non-recurring significant items totalling $6.7 million after tax.

Nick Miller, Adbri Chief Executive Officer, said:

"In the context of the challenging operating environment, the financial outcomes we delivered for FY20 are better than we had expected and reflect the successes of our cost-out and business improvement programs. Adbri also benefitted from improving demand in the Western Australian market during the period which offset slowing demand in east coast markets, particularly in New South Wales.

"We took a proactive approach to managing the impact of COVID-19, incurring some additional costs to ensure our people and customers remained safe and our sites could remain operational. Pleasingly, we recorded a further improvement in safety with our Total Recordable Injury Frequency Rate (TRIFR) improving 47.2% to 5.6 compared to 2019.

"Adbri remains in a strong financial position. Cash flow is healthy and benefitting from improved working capital management, while our cost-out program delivered $35.5 million in pre-tax savings, which was in excess of our initial target. Our balance sheet is strong, with available liquidity at the end of the year in the order of $525 million whilst also maintaining investment grade credit metrics, ensuring we are well funded to pursue strategic initiatives like our recently announced Kwinana Upgrade Project.

"Mining demand continues uninterrupted while the construction materials sector is expected to benefit from various government stimuli, particularly to fast-track 'shovel ready' construction projects including infrastructure spending, home-building grants and stamp duty relief, all of which position Adbri to play a key role in building a better Australia."

Operational Review

Cement and Lime

Western Australian cement volumes increased as residential construction and infrastructure demand improved and the mining sector remained robust, although construction activity in other states was lower due to declining residential construction activity and slower demand from infrastructure. Overall cement volumes were down 7.1%. Average cement prices were 1.4% higher.

Clinker volumes were 23% lower, principally due to lower offtake by Sunstate Cement joint venture partner Boral.

Lime sales volumes increased 4.2% predominantly due to increased demand in the Western Australian gold and non-alumina markets, although average lime prices were marginally lower.

The Company has taken a $21.7 million pre-tax impairment, primarily on Munster kiln 5 which will be mothballed following completion of the contract to supply lime to Alcoa's Western Australian alumina refineries after 30 June 2021. A strategic review of the lime operations has been conducted with the preferred strategy to increase exposure to the growing quicklime market segment and to remain a key supplier to the mining and infrastructure sectors.

Concrete and Aggregates

Concrete volumes decreased by 8.3% compared to FY19, in line with reduced demand in New South Wales and Queensland and the completion of key infrastructure projects in South Australia and the Northern Territory.

Aggregate sales volumes increased by 5.0% reflecting strong demand for quarry products across infrastructure, road maintenance and civil projects, combined with an improvement in residential subdivision in the second half of the year driven by the Federal Government's HomeBuilder program, particularly in the South Australian and Queensland markets.

Average concrete and aggregate prices moderated due to lower sales volumes in higher priced markets and higher volumes of lower priced fill materials.

Concrete Products

Demand was strong across all retail channels and regions for much of the year as consumers directed discretionary household spend towards home renovations and improvements. Conditions remained challenging for the commercial and residential construction sectors although improvement was evident during the second half of the year.

A strong focus on reducing costs and increased demand from the higher margin retail sector provided for overall expansion of margins and saw EBIT increased by 33.3% to $8.0 million.

Joint Arrangements and Associates

Earnings from joint ventures and associates were 14.6% lower at $26.9 million, primarily due to a lower contribution from Sunstate Cement. Independent Cement and Lime experienced stable bulk volumes in Victoria and good packaged product sales to the retail market. COVID-19 lockdown periods impacted Aalborg Portland Malaysia's production and sales during the year. Mawsons experienced strong demand in regional Victoria and New South Wales.

Strong Financial Position

Cash flow from operations increased by 32.6% to $256.2 million with improved working capital and lower income tax payments offsetting reduced distributions from joint ventures and higher interest payments.

Capex of $136.4 million ($78.9 million stay-in-business capex and $57.5 million for development) was $44.8 million higher than in 2019. Major capex during the period included purchase of land at Badgerys Creek for a concrete plant to service the Western Sydney Aerotropolis, completion of the Pinkenba concrete plant, and the Birkenhead dry-mix upgrade. Capex plans for 2021 include commencing the Kwinana Upgrade Project and a planned refurbishment of the MV Accolade, our limestone transport vessel.

The balance sheet remains strong, with net debt reduced by $51.2 million to $372.1 million at 31 December 2020, representing a leverage ratio of 1.4 times underlying EBITDA and gearing of 30.5%, while interest cover was 13.3 times underlying EBITDA. These key credit metrics remain investment grade and within the Board's target of 1-2 times underlying EBITDA for leverage and 25-45% for gearing.

The Board has approved a final ordinary dividend for the period ending 31 December 2020 of 7.25 cents per share, fully franked. Dividends for the full year 2020 totalled 12.0 cents per share, representing a payout ratio of 68% of underlying earnings, in the middle of the Board's target range of 65-75%.

Strategic Initiatives

Adbri's strategy to create shareholder value over the long-term involves:

- 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.

Outlook

While COVID-19 continues to impact the world, Adbri's performance during 2020 demonstrated the quality of its vertically integrated business and the value of its balanced geographic and sector exposure.

Stimulus measures from all levels of government, particularly fast-tracking of construction projects including infrastructure spending, home-building grants and stamp duty relief, are anticipated to benefit demand for construction materials in 2021. The improvement in housing approvals in 2H20 is translating to commencements and planned infrastructure projects are moving to the construction phase at varying levels of speed.

Nevertheless, trading conditions are expected to remain challenging until the stimulus measures completely offset underlying softness in east coast construction markets. We are making strong progress in evaluating strategic initiatives to unlock opportunities for our lime business. However, as previously announced, earnings will be impacted when the Alcoa contract concludes on 30 June 2021, and by the anticipated start-up of a competing cement terminal in New South Wales with an expected after-tax impact of $16 million for 2021. Earnings will be supported by increasing demand for cement and lime from a growing number of mining projects as the resources sector continues to operate largely uninterrupted.

The Group will continue its cost reduction and operational improvement program, targeting $20 million in cost savings to counter cost headwinds of $10 million in 2021.

Capital expenditure is anticipated to be around $200 million, including approximately $75 million for the Kwinana Upgrade Project and approximately $40 million in development capital. Surplus land sales are expected to generate $20 - 30 million in proceeds over the next two years.

At this stage, we do not intend to provide more specific guidance, due to the ongoing uncertainty associated with COVID-19 and the timing of major infrastructure projects.

Authorised for release by the Board.

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