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## Civil & Mining returns to profitability as residential market weakens Construction performance

National construction and mining services group Watpac Limited (ASX: WTP) (**Watpac** or **Group**) today announced its financial results for the half year ended 31 December 2016 (**1H FY17**), reporting a return to profitability for its Civil & Mining business, as Queensland's prolonged residential construction activity and associated cost escalation impacted the Group's Construction performance.

### Key 1H FY17 highlights:

- Statutory net profit after tax of \$0.6 million (1H FY16: \$25.3 million loss after tax)
  - Construction pre-tax profit of \$10.1 million (1H FY16: \$20.6 million)
  - Civil & Mining pre-tax profit of \$2.8 million (1H FY16: pre-tax loss of \$45.8 million)
- Underlying net profit after tax of \$3.1 million (1H FY16: \$6.7 million)
- Revenue down 6.12 per cent to \$583.8 million (1H FY16: \$621.9 million)
  - Construction revenue of \$511.5 million (1H FY16: \$530.6 million)
  - Civil & Mining revenue of \$67.7 million (1H FY16: \$79.3 million)
- Strong balance sheet with gross cash and deposits of \$237.4 million as at 31 December 2016
- Bank Guarantee facility limit increased by \$50 million to \$170 million.

Commenting on the results, Watpac Managing Director, Martin Monro, said the Group's return to profitability in the Civil & Mining business was pleasing, however overall financial performance had been impacted by prolonged cost escalation pressures within the Queensland residential construction market.

"Both of our core businesses performed profitably over the past six months, but the result for the Group's Civil & Mining business is particularly pleasing given the issues which affected this business in the previous corresponding period," Mr Monro said.

"Our Construction businesses also performed profitably, however cost escalation pressures in South East Queensland have adversely impacted our results.

"We continue to place more discipline on our project selection, and are well positioned to respond as market conditions reduce in volatility."

Mr Monro said the execution of the Group's capital management plans has resulted in surplus capital to support strategic growth opportunities.

"Significant investment was made in the first half of FY17 in the pursuit of new opportunities not previously available to Watpac," he said.

### Construction Segment

The Group's Construction businesses contributed a solid overall result for 1H FY17, contributing a pre-tax profit of \$10.1 million (1H FY16: \$20.6 million).

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While lower than the previous corresponding period, the decrease is primarily a consequence of prolonged cost escalation pressures from South East Queensland's intense residential construction activity.

Mr Monro said the Group has responded by taking a more selective approach to tendering, but is continuing to convert targeted project opportunities across all operating regions.

"Our commitment to excellence and our collaborative approach continues to assist us in winning new work, demonstrated by almost \$1.1 billion of Construction work-in-hand at balance date," he said.

"We are focused on assessing all new opportunities in a selective way that will minimise any further impacts of the cost pressures which have adversely affected us during the first half."

#### **Civil & Mining Segment**

Despite lower work volumes, the Group's Civil & Mining business recorded a pre-tax profit of \$2.8 million in 1H FY17 (1H FY16 Statutory Result: pre-tax loss of \$45.8 million; Underlying Result: pre-tax loss of \$4.1 million).

Mr Monro said the increased profitability was representative of sound project selection and operational performance across all Civil & Mining projects.

"Our strategy to focus on production and cost efficiencies has delivered positive outcomes for both Watpac and our clients," he said.

"We have also reduced the value of our plant and equipment investment as planned, but remain conscious that future work volumes are required to continue to deliver upon this continuing objective.

"While we experienced a decrease in Civil & Mining revenue, reflective of the elimination of iron ore mining contracts from our workbook, the business has redistributed its project portfolio to those sectors with long-term prospects and a more sophisticated approach to project-value creation."

#### **Strong balance sheet**

Watpac has retained a strong liquidity position with \$237.4 million in gross cash and deposits at balance date. The Group's debt has reduced over the reporting period by \$3.6 million to \$14.8 million.

During the reporting period the Group completed arrangements for a new \$170 million syndicated banking facility, a \$50 million increase to the previous limit. This new facility, together with Watpac's insurance bond facilities, provides the Group with significant bonding capacity to tender for targeted projects with higher entry barriers.

#### **Solid pipeline for future performance**

With a total forward order book of more than \$1.2 billion, Mr Monro said the Group was well positioned for improved performance.

"Opportunities to increase work volumes are available and we will continue to be selective in our tendering practices and margin application," he said.

"Our strong credentials across a wide variety of sectors, including Health, Education, Defence and Stadiums, offer a range of opportunities for the Group, as we look to provide more enhanced returns for both our clients and shareholders.

“Projects such as the \$291 million Victorian Schools PPP and \$350 million Queensland Schools PPP continue to achieve great outcomes for our clients and Watpac, and place us in good stead for the future delivery of critical social infrastructure across Australia.

“We have recently commenced a number of new projects in Victoria providing senior living communities, another market that will continue to expand to meet the requirements of Australia’s aging population.”

With prospects for Civil & Mining having significantly shifted from iron ore contracts to gold and mineral sands mining, Mr Monro said the Group anticipates more stability in future for the demand of Watpac’s contract mining services.

“Our primary aim is to grow work volumes steadily through existing client relationships in those product sectors that have good medium and long-term opportunities,” Mr Monro said.

“We also expect greater contributions from civil projects as more infrastructure opportunities come to market.”

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**For further information:** Media – Amanda Campbell, Corporate Affairs Manager on 07 3251 6453.

Investor Relations – Mark Baker, Chief Financial Officer on 07 3251 6442.

**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).