Watpac Limited

31 December 2016

Half Year Results Presentation

16 February 2017

1H FY17 Group financial summary

WATPAC

Construction earnings down; Civil & Mining improves and project funding capacity substantially enhanced

Financial Performance

- Group revenue of $583.8M slightly down on pcp (1H FY16: $621.9M)
- Statutory Net Profit Before Tax of $699k, Statutory Net Profit After Tax of $570k
    - Includes $3.3M in pre-tax costs relating to new business expenditure
- Underlying Net Profit Before Tax of $4.0M, Underlying Net Profit After Tax of $3.1M

Financial Position

- Liquidity remains strong with gross cash of $237.4M at balance date; net cash position $222.6M
- Bank Guarantee facility increased by $50M to $170M demonstrating strong financial position; provides further capacity for growth in Construction workbook and adjacent sectors
- Reduced capital investment in Civil & Mining; position in line with current strategy
- Current surplus capital preserved to support strategic growth opportunities

Financials

Group underlying result down on 1H FY16

	$M	1H FY17 Statutory	1H FY17 Significant items	1H FY17 Underlying	1H FY16 Statutory	1H FY16 Significant items	1H FY16 Underlying	Change 1H FY17 v 1H FY16 Underlying
Revenue	**Turnover**	583.8	-	583.8	621.9	-	621.9	(38.1)
Earnings	**EBITDA**	12.1	3.3	15.4	(20.3)	41.5	21.2	(5.8)
	EBIT	2.1	3.3	5.4	(31.0)	41.5	10.5	(5.1)
	NPBT	0.7	3.3	4.0	(32.8)	41.5	8.7	(4.7)
	NPAT	0.6	2.5	3.1	(25.3)	32.0	6.7	(3.6
Shareholder Returns	**EPS (cents)**	0.31	1.36	1.67	(13.41)	16.97	3.56	(1.89)
	Post-tax annualised return on equity	0.49%		2.69%	(22.18)%		5.89%	(3.20%)

- Statutory Result in 1H FY17 includes $3.3M (pre-tax) in new business expenditure
- Underlying Result in 1H FY17 adversely impacted by prolonged cost escalation pressures, particularly in South East Queensland construction market
- Underlying EBITDA of $15.4M reflects continued depreciation of Plant & Equipment assets in Civil & Mining business in line with Strategic Plan

Segment performance

	Segment ($M)					
	Construction		Civil & Mining		Property	
	1H FY17	1H FY16	1H FY17	1H FY16	1H FY17	1H FY16
Revenue	511.5	535.8	67.7	79.3	4.6	6.8
Profit / (loss) before tax – underlying	10.1	20.6	2.8	(4.1)	(0.3)	0.5
Profit / (loss) before tax – statutory	10.1	20.6	2.8	(45.8)	(0.3)	(1.9)
Profit / (loss) before tax margin (%) - underlying	2.0%	3.8%	4.1%	(5.2)%	N/A	N/A

- Construction revenue decrease consistent with selective tendering practices and deferral of a major project; margin application discipline also emphasised in pre-contract teams given risks associated with current market conditions
- Financial performance of the Group's Construction segment impacted by below-budget performance of Queensland Construction business unit, emanating from cost escalation pressures on projects awarded in previous periods
- Decrease in Civil & Mining revenue reflective of elimination of iron ore mining contracts from workbook
- Civil & Mining result reflects the stabilising resources sector, with the return to profitability in 2H FY16 continuing into 1H FY17

Segment performance

- Gross cash of $237.4M (30 June 2016: $251.5M)
  - Solid underlying operating cash flow and management disciplines
  - Gross cash position impacted by normal working capital movements
- Net liquidity enhanced
- Current ratio improved to 1.32 (30 June 2016: 1.29)
- Continued strategic reduction to debt levels on Civil & Mining plant assets to 14.7% of book value
- Surplus capital maintained for strategic growth initiatives

	$M	
	31 December 2016	**30 June 2016**
ASSETS		
Cash at bank and deposits	**237.4**	251.5
Trade and other receivables	**142.8**	141.8
Inventory (property development)	**12.6**	17.1
Inventory (stock and spares)	**14.4**	14.4
Plant and equipment	**110.7**	115.2
Intangible assets (Goodwill)	**17.7**	17.7
Other assets	**21.8**	21.9
Total assets	**557.4**	579.6
LIABILITIES		
Creditors and payables (current)	**281.7**	301.4
Borrowings	**14.8**	18.5
Provisions	**19.1**	19.7
Other payables (non-current)	**10.7**	9.2
Total liabilities	**326.3**	348.8
Net assets	**231.1**	230.8

Finance Facilities Summary

Facility	Utilised $M	Unutilised $M	Facility limit $M
Bank Guarantee *	100.3	69.7	170.0
Surety Bonds	113.1	131.9	245.0
Equipment Finance	14.8	21.0	35.8

** Bank guarantee limit reflects $170M total facility commitment, with amount available for utilisation subject to exchange of bank guarantees issued by previous syndicate fronting bank; a process that is well advanced.*

- Core bank guarantee facility with syndicate of four banks refinanced in 1H FY17
  - Facility increased by $50M (41.7%) to $170M
  - Undrawn bank guarantee balance of $69.7M
  - Current facility available until December 2019
- Surety bond facility limits voluntarily reduced by $70M in 1H FY17 with substantial undrawn capacity still available for utilisation
- Current aggregate bank guarantee and surety bond issuing headroom of $201.6M at 31 December 2016, capable of supporting considerable growth in targeted sectors (including adjacencies)

Capital position

- Previously implemented capital management plan remains in place
  - Reduced capital investment in Civil & Mining business
  - Conversion of remaining property assets to cash (circa 24 months)
- Surplus capital preserved for review and consideration of other initiatives
- Surplus capital provides growth opportunities in both existing operations and adjacent revenue streams

	$M		
	Construction	Civil & Mining	Group
Net liquidity *	81.2	15.7	**96.9**
Other current assets	6.3	14.2	**20.5**
Non-current assets	16.3	102.6	**118.9**
Other liabilities and provisions	(25.5)	(4.3)	**(29.8)**
Total tangible assets	**78.3**	**128.2**	**206.5**
Intangible assets	39.4	-	**39.4**
Total capital allocation **	**117.7**	**128.2**	**245.9**
Debt capital	-	14.8	14.8
Equity capital ***	**117.7**	**113.4**	**231.1**

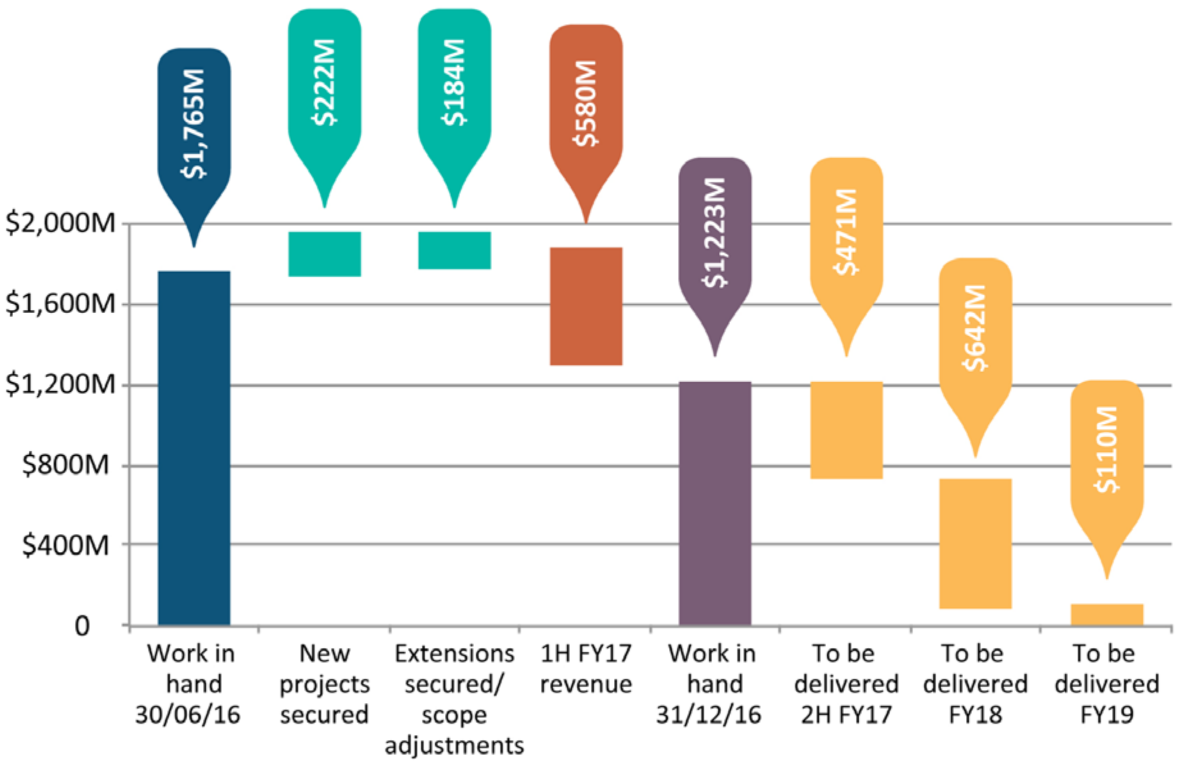
** Net liquidity includes cash and term deposits, trade and other receivables (current) and trade and other payables (current).*

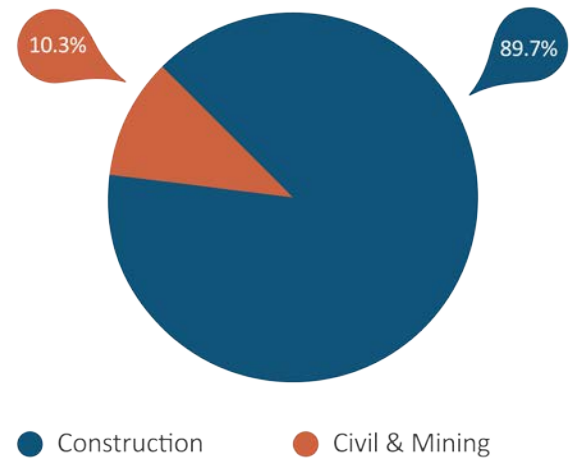
*** Total capital allocation in Construction and Civil & Mining segments includes allocation of Property and Unallocated assets.*

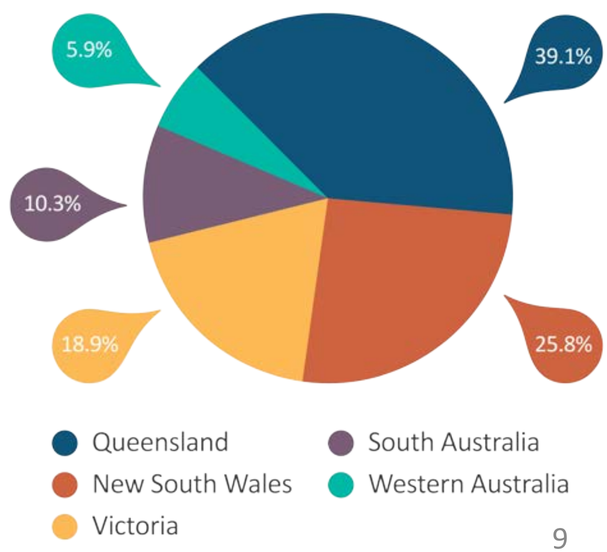
**** Includes surplus capital allocated for future growth.*

National work in hand volumes reflect tendering discipline

- *Remains diversified at a geographic level*
- *Civil & Mining levels reflective of new 'normal' in market*



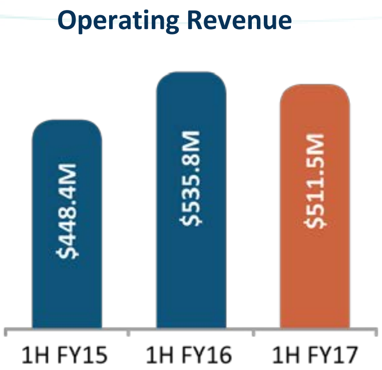


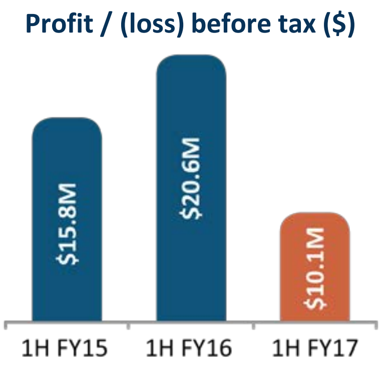


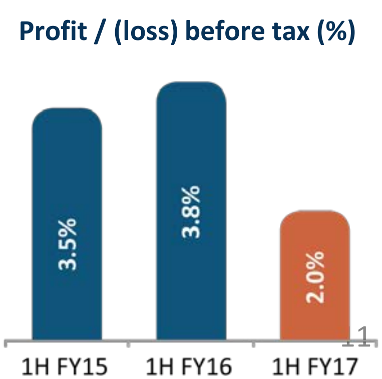
Construction segment

Solid profit contribution impacted by cost escalation pressures in South East Queensland

- Despite prolonged cost escalation pressures impacting profitability in Qld Construction business unit, and lower margins from residential construction projects, aggregate Construction earning result includes:
    - Successful delivery of key projects across multiple regions
    - Strong balance sheet and surety issuing capacity
    - Targeted project selection criteria
- Demand for subcontractors remains high
    - Specific new resources have been added to address subcontractor pricing and manage risk
    - Pricing and contingency levels for new projects require additional scrutiny and management
- Work in Hand reduction of ~$500M from 30 June 2016
    - Includes impact of removing $240M project now delayed
    - More selective tendering practices
    - Residential and accommodation project composition of work book expected to return to more normal levels in FY18
- Strategic approach to opportunity selection a priority
    - Health & Sciences and Defence & Secure Environments sector heads appointed to drive this initiative in FY16
    - Specialty Services (food processing) sector head appointed in 1H FY17



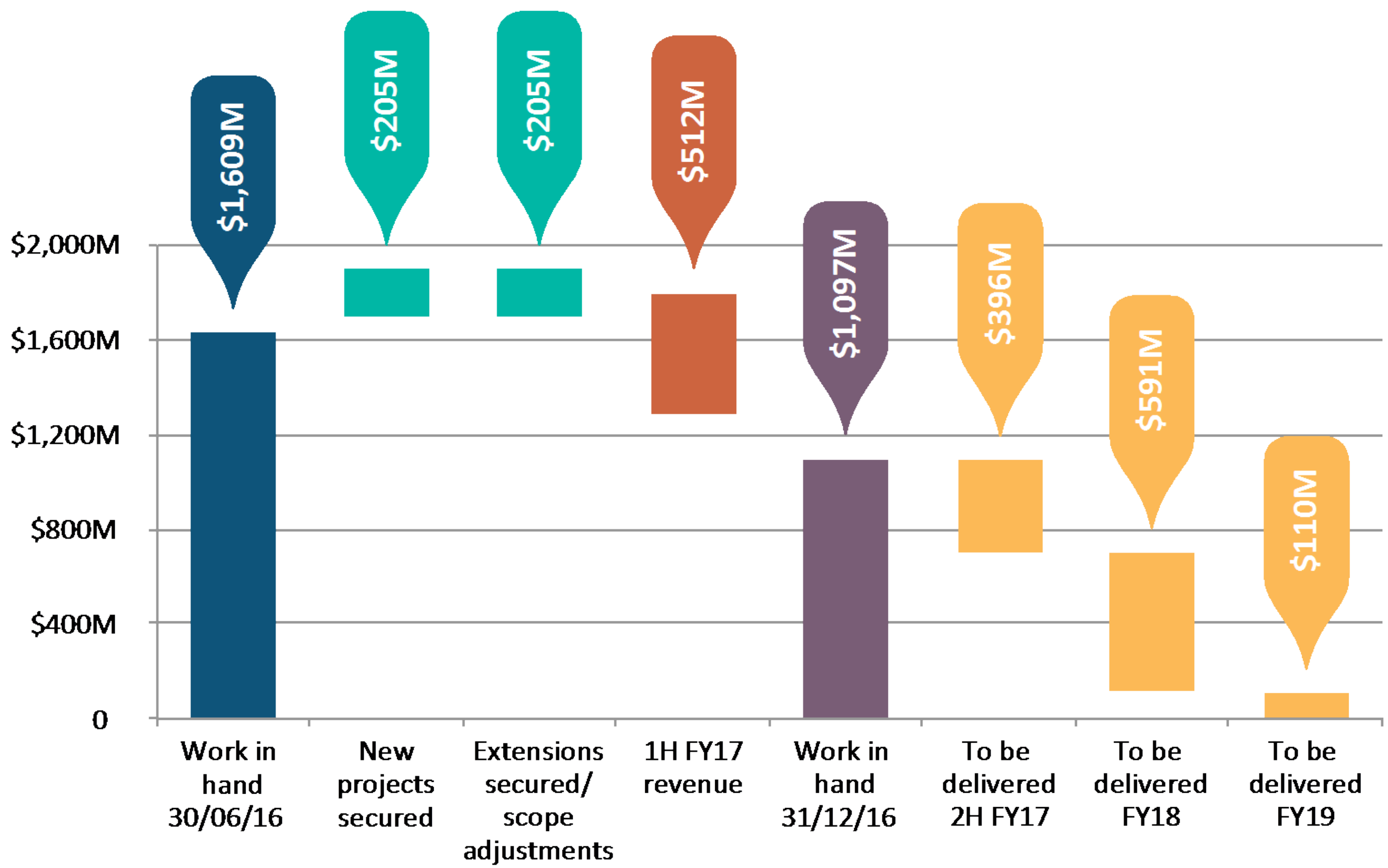




FY16 Construction project losses – final positions not yet resolved

- Significant losses incurred across two NSW-located Construction projects in FY16
  - 333 George St (Sydney CBD)
    - Site access and latent condition issues
    - Major flood event January 2016
  - ANSTO Mo-99 Facility (Lucas Heights)
    - Complex nuclear medicine facility
    - Issues with initial design documentation
    - Performance of highly-specialised international subcontractors
- Both projects to be completed in FY17
  - Practical Completion on 333 George Street project received in December 2016
  - ANSTO expected to be completed in June 2017
- Final project accounting issues not yet resolved
  - Reflects both a risk and opportunity depending on final position with head contract and subcontractor packages

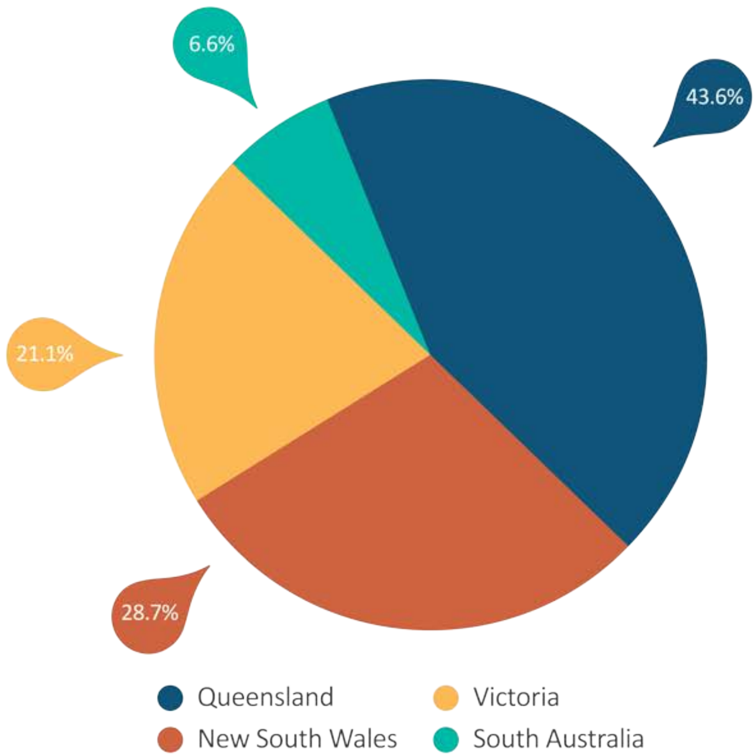
Construction work in hand and delivery profile



Work in Hand presently weighted to Residential & Accommodation projects

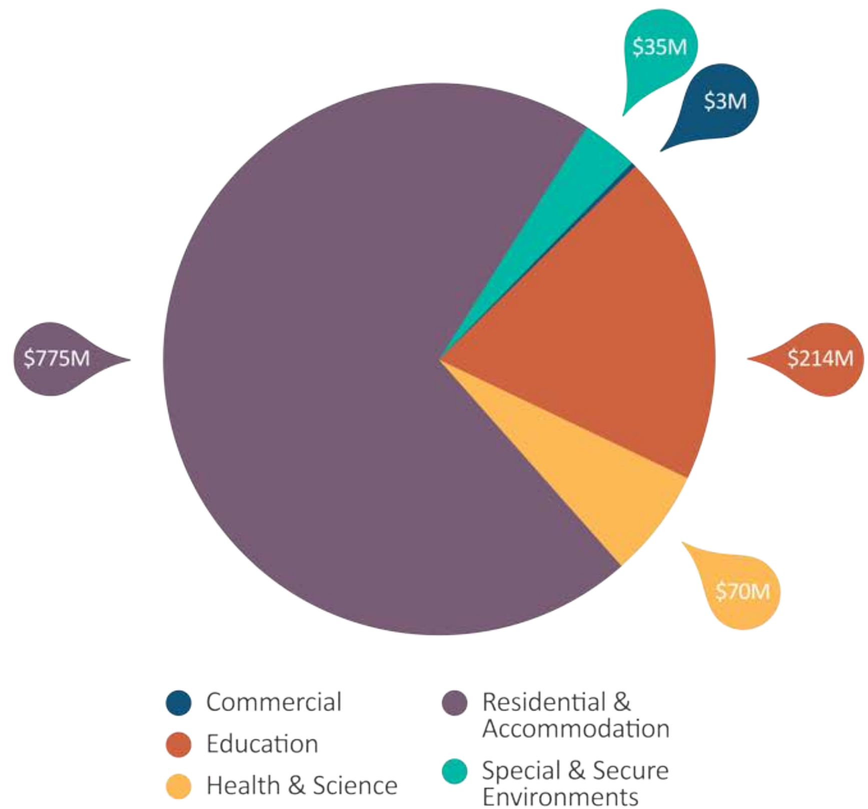
Expected to normalise in FY18 due to new work opportunities in targeted sectors

Construction Work in Hand by Region



Reflects region of management team – projects may be undertaken in other regions

Construction Work in Hand by Sector



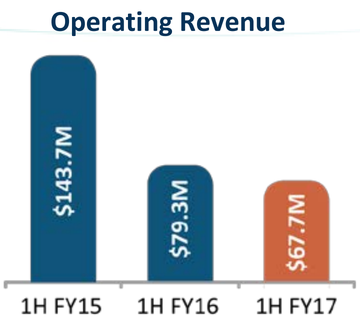
Residential and Accommodation sector includes hotel construction, of which the Group is currently delivering three

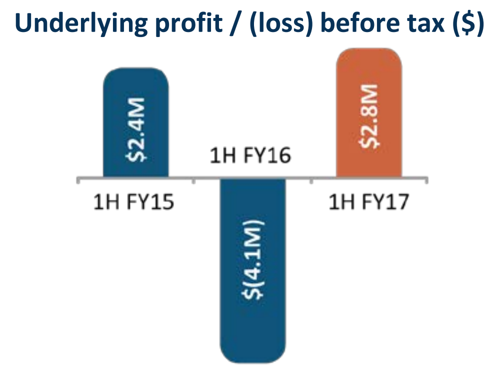
Civil & Mining segment

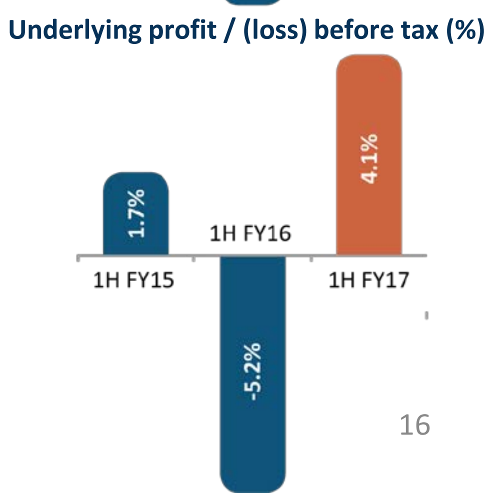
Civil & Mining: Difficult conditions with areas of promise

Result reflects improved operational performance

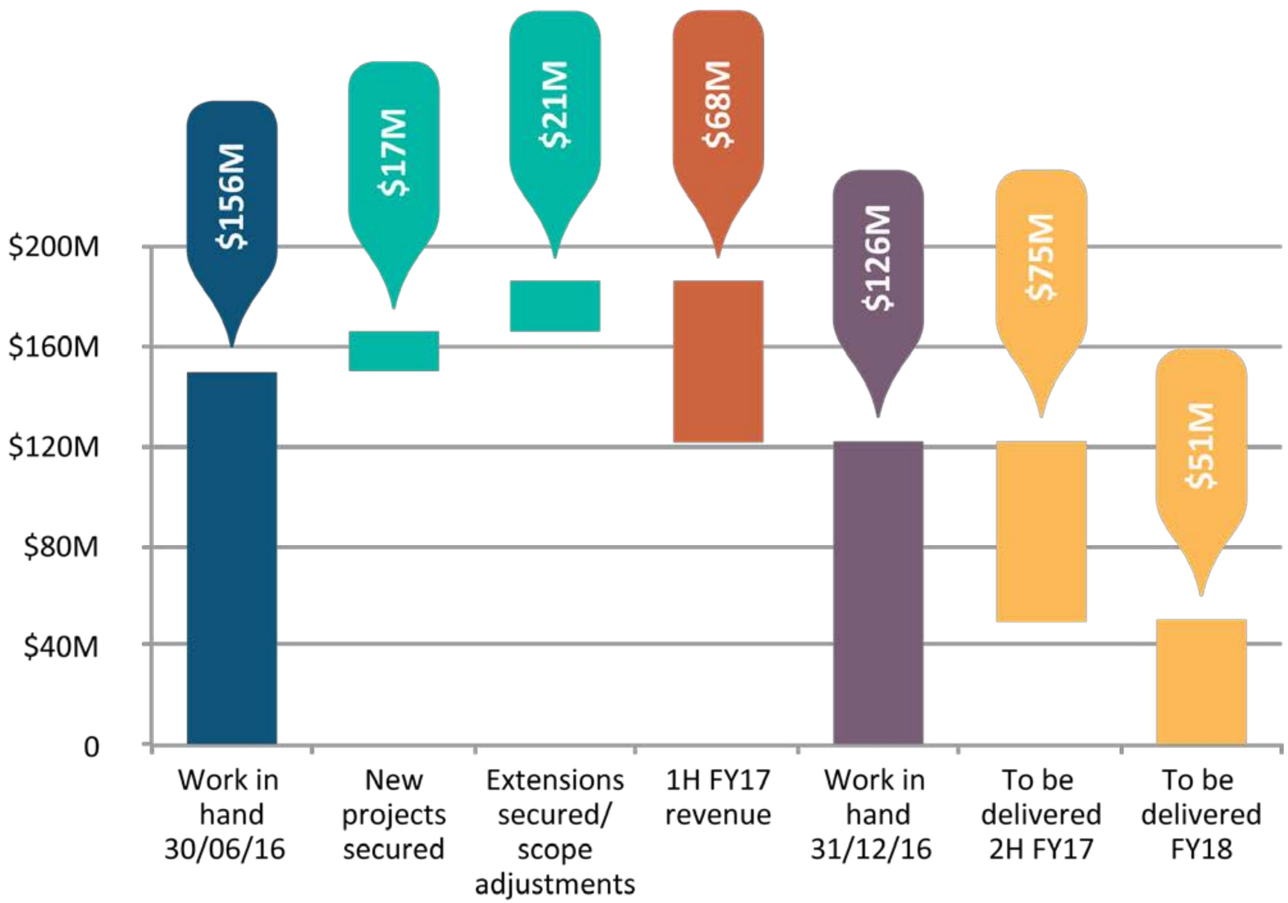
- Decrease in revenue attributable to completion of iron-ore mining contracts
- Profit increase from pcp reflects:
    - Enhanced overall financial performance across continuing projects in 1H FY17
    - Costs to complete and demobilise from iron-ore mining contracts in 1H FY16
- Despite turnover being less than half of 1H FY15 revenue, result reflects higher net profit before tax margin of 4.1%
- $162M of gold project wins/extensions during FY16 and further extensions in 1H FY17 contributed to enhanced performance







Civil & Mining work in hand and delivery



Strategy and outlook

Outlook

Construction

- Cost escalation risk reflects current state of the market
  - Presently requires additional management, but considered a short-term impact associated with the heightened residential construction cycle
  - Risks could reverse to more normal levels as construction activity and subcontractor work volumes reduce, and would likely represent significant opportunity
- Despite current cost pressures, more favourable outlook for the Construction business driven by work winning strategies and targeting of more desired projects
  - Currently pursuing a significant number of projects which align to strategic objectives to enhance profitability, maximising stakeholder value
    - Targeted sectors include Health & Sciences, Education, Defence & Secure Environments, Food Processing and Sporting Stadiums
  - Tenders include significant social infrastructure projects exhibiting desired entry barrier characteristics

Outlook

Civil & Mining

- Contract mining work mix redistributed in recent periods from high iron-ore weighting to sectors with better assessed current opportunities and future prospects, including gold and mineral sands
- Desire to enhance turnover levels in targeted product sectors
- Despite prospects for future iron-ore mining contracts improving in 1H FY17, a conservative and selected tendering approach to all opportunities remains
- Positive contribution from civil infrastructure projects and expanding this product offering is an important near term focus
  - $17M in new civil infrastructure projects awarded in 1H FY17
- Conservative and sustainable capital investment model to be maintained
- Innovative culture and approach to work activities, together with disciplined cost control, will drive the future success of this business

Questions

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