

Service Stream announces another record half-year profit

Leading essential network services company Service Stream Limited (ASX: SSM) today released its financial results for the half-year ended 31 December 2018 headlined by another record level of half-year earnings.

Group summary

- EBITDA from Operations of \$38.6 million (11.1% margin) on revenue of \$348.0 million
- Reported EBITDA of \$38.0 million after Comdain transaction costs of \$0.6 million in the first-half
- Adjusted EPS of 6.97 cents on NPATA of \$25.1 million
- Operating cashflow of \$17.9 million with Net Cash of \$69.5 million at 31 December 2018
- Interim dividend (fully-franked) of 3.5 cents per share payable on 21 March 2019

All profitability measures for the half-year are up on the prior corresponding period "pcp" (FY18 1st half).

Key financial measures				
\$ million	FY19 1st half	FY18 1st half	Change	
Profitability:				
Revenue	348.0	294.1	53.8	18% ▲
EBITDA from Operations ¹	38.6	32.1	6.6	21% ▲
EBITDA from Operations %	11.1%	10.9%	0.2%	▲
Adjusted EBIT (EBITA) ¹	35.6	29.3	6.3	21% ▲
Adjusted NPAT (NPATA) ¹	25.1	20.6	4.6	22% ▲
Adjusted EPS (cents) ¹	6.97	5.63	1.34	24% ▲
Cashflow & Capital Management:				
OCFBIT	26.4	57.1	(30.7)	(54%) ▼
Operating Cashflow	17.9	42.6	(24.8)	(58%) ▼
Net Cash	69.5	63.6 ²	5.9	9% ▲
Dividends declared per share (cents)	3.50	3.00	0.50	17% ▲
Statutory Profitability:				
Reported EBITDA	38.0	32.1	6.0	19% ▲
Reported EBIT	34.1	28.4	5.8	20% ▲
Statutory NPAT	24.1	19.9	4.2	21% ▲
Statutory EPS (cents)	6.68	5.45	1.23	23% ▲
¹ Refer Appendix 2 of Results Presentation for reconciliation of statutory to adjusted profitability measures				
² Net Cash at 31-Dec-17				
All financial measures and period-on-period changes thereto are rounded to the displayed number of decimal places				

Commenting on the results for the half-year, Chairman Brett Gallagher said: *“This is a very strong performance from Service Stream with the Group producing another record half-year profit and the eleventh consecutive half-year increase in each of EBITDA and NPAT measures. Confirming such a strong result shortly after announcing completion of the acquisition of Comdain Infrastructure augers well for ongoing sustainable earnings growth from the Group.”*

“On the back of outstanding cashflow performance over recent time, the Group has been able to execute the Comdain Infrastructure acquisition by partially funding the purchase price from cash reserves and by only assuming a modest level of core debt. With this capital management backdrop, the Board has increased interim dividends to 3.5 cents per share (fully-franked).”

Segment summary

Each of the Group’s operating segments reported improved performance for the half-year:

- Fixed Communications contributed EBITDA of \$21.8 million (13.0% margin) on revenue of \$168.5 million. Revenue was higher than pcp by \$22.8 million with an increased nbn OMMA activation market share, a more favourable technology mix, increased OMMA assurance and remediation volumes and increased nbn minor project volumes offsetting the impact of lower total nbn activation volumes. EBITDA margin was steady against pcp.
- Network Construction contributed EBITDA of \$13.7 million (10.7% margin) on revenue of \$128.4 million. Revenue was higher than pcp by \$29.7 million due to a significant increase in the volume of construction activity under the nbn DCMA contract and to a lesser extent, an increase in revenue from Wireless. EBITDA margin was down marginally by -0.3 percentage points compared to pcp.
- Energy & Water contributed EBITDA of \$5.9 million (10.4% margin) on revenue of \$56.3 million. Revenue was higher than pcp by \$1.7 million with minor growth from most parts of the business. EBITDA margin improved by +0.6 percentage points over pcp.

Cashflow & capital management

The balance of the Group’s Net Working Capital has started to revert to normalised levels during the half-year as management had been forecasting would be the case. The resulting conversion of EBITDA to operating cashflow before interest and tax for the half-year was 69%, with closing Net Working Capital being 1.8% of annualised revenue. After payments for tax, capital expenditure and dividend, the Group’s net cash decreased marginally by \$3.7 million over the half-year to \$69.5m as at 31 December 2018.

- **Dividends**

The Board has declared an interim dividend for the half-year of 3.5 cents per share (fully-franked), an increase of 0.5 cents. Key dates for the interim dividend are:

Ex-dividend date	6 March 2018
Record date	7 March 2018
Payment date	21 March 2018

- **New Dividend Reinvestment Plan**

The Board has approved a new Dividend Reinvestment Plan (New DRP) allowing eligible shareholders to reinvest all or part of their dividend entitlements to acquire additional shares in SSM, commencing with the interim dividend of 3.5 cents per share applicable to this half-year.

Shareholders are encouraged to review the rules of the New DRP, and update their DRP Instructions by logging onto the Share Registry website www.computershare.com.au/easyupdate/ssm or by contacting the Share Registry to get a copy of the relevant form.

- **Refinance**

The Group completed a refinance of its banking facilities with ANZ & HSBC on 20 December 2018, in advance of completing the Comdain Infrastructure acquisition on 2 January 2019.

The term of the facility has been increased by two years to 30 September 2021, with the larger aggregate facility size of \$190.0 million providing term loan, revolving cash advance, overdraft and bank guarantee facilities to partly fund the Comdain Infrastructure acquisition and to support the Group's expanded operations.

- **Extraordinary general meeting**

A condition of the Group's refinance is that each of the acquired Comdain Infrastructure entities must join the finance facility arrangements that Service Stream has with its bankers, by becoming additional guarantors and parties to the facility's Security Trust Deed.

Since this action would qualify as the provision of financial assistance under s260 of the Corporations Act, the Company must seek approval from shareholders at a general meeting.

In this regard, shareholders will shortly receive a Notice of Meeting for an extraordinary general meeting to be held on 20 March 2019 and an Explanatory Memorandum providing all relevant particulars of the matter and the resolution.

- **On-market share buy-back**

The Board advises that the Group's on-market share buy-back, which was approved for a 12 month period from 1 March 2018, will remain suspended and will not be extended beyond 28 February 2019.

Second-half priorities & outlook

Commenting on the Group's priorities for the balance-of-year, Managing Director Leigh Mackender said: *"The integration of Comdain Infrastructure into the Group's operations is going well and will remain a priority for the second-half of the year, as will our continued focus on safety and service delivery & execution for our valued clients."*

"In terms of financial outlook, we expect that the second-half of FY19 will generate EBITDA from Operations from the core business at least in-line with the first-half and will incur transaction costs associated with the Comdain Infrastructure acquisition of approximately \$1.4 million. We expect Comdain Infrastructure to deliver revenue of \$320 million and EBITDA of \$22 million for the full-year, with approximately 50% thereof contributing to Service Stream's earnings in the second-half."

Results webcast

Service Stream Managing Director, Leigh Mackender and Chief Financial Officer, Bob Grant, will host an on-line FY19 Half-Year Results Briefing at 9:00 am Thursday, 7 February 2019.

The briefing will be webcast live, as well as archived on the Service Stream website, for the convenience of shareholders. To access the webcast, visit the *AGM & Results Presentations* page on the Service Stream website at <http://www.servicestream.com.au/investors/annual-general-meetings>

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About Service Stream Limited:

Service Stream is a public company listed on the Australian Securities Exchange (Code: SSM). The Service Stream Group is a provider of essential network services to the telecommunications, energy and water industries. Service Stream operates out of more than 40 locations nationwide and maintains a workforce of around 1,800 employees and up to 3,500 active contractors. For more information please visit www.servicestream.com.au.