

19 February 2019

## MONADELPHOUS REPORTS HY 2019 RESULTS

### Performance Highlights

**Revenue** \$830.5 million\*, in line with guidance provided

- Significant increase in maintenance revenues, up 25 per cent on pcg
- Growing contribution from infrastructure markets

**Net profit after tax** \$30.7 million

**Interim dividend** 25 cps, fully franked

**Secured approximately \$770m of new contracts since beginning of financial year**

**High level of tendering** for major resources construction projects

Engineering company Monadelphous Group Ltd (ASX: MND) ("the Company") today announced revenue of \$830.5 million\* for the half year ended 31 December 2018, which is in line with the guidance provided at the Company's Annual General Meeting held in November 2018.

The result reflects a significant increase in maintenance revenues and a growing contribution from infrastructure markets. This was offset by a reduction in construction revenues following the completion of the Ichthys Project and the timing of new resource construction opportunities.

Monadelphous Managing Director Rob Velletri said the Company's Maintenance and Industrial Services division had achieved a record performance for the six-month period.

"Increasing activity levels in offshore oil and gas contracts, and a growing demand for services in the resources sector resulted in a 25 per cent increase in the division's revenues," he said.

"We expect the demand for maintenance services to continue to be strong as resources production in Australia remains at record levels, ongoing maintenance and support on aging resources assets continues to increase and offshore LNG assets ramp up production."

"We've also continued to increase our presence in the infrastructure market, securing a number of new contracts and additional work in both the renewable energy and water and irrigation sectors. In particular, Zenviron, our renewable energy joint venture, continues to go from strength-to-strength, having been awarded \$390 million of new contracts since April 2018."

In total, the Company was awarded approximately \$770 million of new contracts since the beginning of the financial year. This includes the recently announced major construction contract at BHP's South Flank Project in the Pilbara region of Western Australia associated with the Project's outflow infrastructure.

The Company is currently experiencing high levels of tendering activity for new work on major resources construction projects which are expected to generate significant revenue in 2019/20 and beyond.

"Overall, the long-term outlook for Monadelphous remains positive as operating conditions continue to strengthen and the pipeline of resources construction opportunities gains in number," he said.

\* Includes Monadelphous' share of joint venture revenue – refer to page 8 for reconciliation

## 2019 HALF YEAR RESULTS

### Revenue

Monadelphous recorded revenue from contracts with customers for the half year of \$830.5 million\*, a decrease of 5 per cent on the previous corresponding period and in line with guidance provided at the Company's Annual General Meeting held in November 2018.

The result reflects a significant increase in maintenance revenues and a growing contribution from infrastructure markets, offset by a reduction in construction revenues from the completion of the Ichthys Project and the timing of new resource construction opportunities.

The highlight of the result was the strong performance of the Maintenance and Industrial Services division, which achieved a 25 per cent increase in revenue compared to the first half of the previous financial year. This represents a record six-month performance for the division and was a result of increasing activity levels in offshore oil and gas contracts, and growing demand for services in the resources sector.

### Earnings

Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$55.8 million which was 10.2% lower than the previous corresponding period. An increase in the depreciation charge resulting from the Company's recent plant and equipment fleet renewal process, and a reduction in net interest earned, contributed to net profit after tax attributable to members (NPAT) of \$30.7 million, an 18.3% reduction on the prior corresponding period.

Earnings per share (EPS) was 32.7 cents.

### Dividend

The Board of Directors has declared an interim dividend of 25 cents per share fully franked. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the interim dividend.

### Strong balance sheet

Monadelphous ended the half year with a healthy cash balance of \$193.5 million, with cash flow from operations for the period of \$15.5 million. This resulted in a cash flow conversion rate of 72 per cent which was impacted by the significant level of employee entitlement payouts on a number of large, multi-year projects which demobilised during the period.

### Strategic Progress

Monadelphous made good progress in its markets and growth strategy to maximise returns from core markets, build an infrastructure business and deliver core services to overseas markets.

Having successfully completed all works on the Ichthys Project Onshore LNG Facilities in Darwin, Northern Territory, the Engineering Construction division demobilised from site during the period. The division's performance throughout this project was strong, resulting in the award of additional work as a result of its track record of effective delivery and a solid safety record. Work on this project broadened our proven capability in the oil and gas market.

The division also executed several contracts under its panel arrangement with BHP at iron ore operations in the Pilbara, WA, and continued to experience a high level of tendering activity in preparation for a number of major construction prospects planned for coming years.

The Maintenance and Industrial Services division continued to offer its broad range of services to existing and new customers and diversify its presence in new geographical regions. The division further enhanced its position as the market leader in the resources market in Western Australia, securing a three-year general maintenance services contract with BHP to service a number of its sites in the Pilbara.

Monadelphous continued to increase its presence in the infrastructure market, securing a number of new contracts and additional work in both the renewable energy and water and irrigation sectors.

\* Includes Monadelphous' share of joint venture revenue – refer to page 8 for reconciliation

Zenviron, the Company's renewable energy joint venture, continued to perform strongly, having been awarded a total of \$390 million in new contracts since April 2018, and having successfully completed the Sapphire and Salt Creek Wind Farms during the period.

On the back of its strong performance in the water and irrigation market, Monadelphous was appointed to the Hunter Water Corporation Complex Capital Works Design and Construct Panel, in the Hunter Region of New South Wales, for a four-year period.

The Company continues to make good progress on the two packages of work current being undertaken on the Oyu Tolgoi Underground Project in Mongolia. This large-scale project will likely provide Monadelphous with a number of further opportunities in years to come.

In total, the Company has secured new contracts and contract extensions valued at approximately \$770 million since the beginning of the financial year, including the following awards, totalling \$250 million which were made subsequent to the half year end:

- A major construction contract at BHP's South Flank Project in the Pilbara region of Western Australia, comprising structural, mechanical, piping and electrical and instrumentation works associated with the project's outflow infrastructure;
- The award of a supply, fabrication and construction package under an existing contract with BHP at the Jimblebar Mine, east of Newman, Western Australia;
- The design and construction of a pipeline, pump station and associated works from Malpas Dam to the Guyra Water Treatment Plant for the Armidale Regional Council, New South Wales;
- A contract for the supply and fabrication of structural steelwork for the Oyu Tolgoi Underground Project in Mongolia;
- An additional order from Australia Pacific LNG, under an existing agreement, for the supply of wellhead skids;
- An additional package of work under its existing agreement with Sydney Water Corporation to provide desilting and rehabilitation works for a section of the Northern Suburbs Ocean Outfall Sewer;
- The award of a contract to Zenviron for the engineering, procurement and construction of the Cherry Tree Wind Farm, located near Seymour in Victoria;
- Two three-year contracts with Whitehaven Coal for the provision of mechanical services, maintenance, shutdown support and minor projects in New South Wales; and
- A two-year extension to an existing contract with BHP Mitsubishi Alliance to provide dragline shutdown services in the Bowen Basin, Queensland.

## **Health and Safety**

The Company's safety performance for the period was impacted by the rapid ramp-up in maintenance activity levels, with the 12-month total case injury frequency rate (TCIFR) declining to 4.17 incidents per million man-hours. The Company has implemented a number of activities to address this performance, including the rollout of a renewed Safety Leadership Development program, and an organisational restructure to optimise leadership resources.

The lost time injury frequency rate (LTIFR) for the year was unchanged at 0.19 incidents per million man-hours worked.

## **People**

The Company's employee numbers at 31 December 2018 was 5,378, with the demobilisation of a number of construction projects during the period, and a continued growth in employee numbers within the Maintenance and Industrial Services division.

The strategic diversification of the business over recent years into the infrastructure sector, as well as overseas, has seen a substantial increase in the engagement of subcontractor labour to supplement the Company's capability in these markets.

Total workforce numbers, including subcontractors, as at 31 December 2018 was 7,536.

Key talent retention levels remained high, and the Company will maintain its focus on this important success factor as market conditions continue to improve and the employment market tightens. People development remained a focus with the continued rollout of the Company's safety leadership and emerging leaders programs, graduate and apprenticeship programs and the implementation of a senior leadership framework.

During the period the Company formalised its longstanding commitment to increasing female participation levels across the Company through the launch of the inaugural Monadelphous Gender Diversity and Inclusion Plan.

### **Productivity and Innovation**

Monadelphous is committed to enhancing its competitive position in the market through the development of innovative solutions for customers, the application of proven technology and the continual improvement of work practices to improve productivity and reduce costs.

The Company has identified and implemented a range of technological initiatives which improve the efficiency of service delivery, including the prototyping of robotic inspection vehicles and automated service tools, investment in 3D visualisation software, and the increased deployment of infield mobile devices.

The Monadelphous Innovation Framework, which was implemented during the period, facilitates the strategic alignment of the Company's productivity and innovation programme, prioritises and focusses internal efficiency and improved customer delivery initiatives, and enhances collaboration across the business.

## **OPERATIONAL ACTIVITY**

### **Engineering Construction**

The Engineering Construction division, which provides large-scale, multidisciplinary project management and construction services, reported revenue from contracts with customers of \$331.6 million\* for the six months, having successfully completed works on its biggest ever project, the Ichthys Project Onshore LNG Facilities, during the period.

Monadelphous undertook a number of projects for the provision of structural, mechanical, piping, electrical and instrumentation work under its BHP panel contract in the Pilbara, WA. Subsequent to the half year end, the Company was awarded a further package of work at the Jimblebar Mine, east of Newman, Western Australia which includes the supply, fabrication and construction associated with new surface infrastructure.

In addition, subsequent to the half year end the Company was awarded a major construction contract at BHP's South Flank Project in the Pilbara region of Western Australia. The contract, which is valued at \$108 million, includes structural, mechanical, piping and electrical and instrumentation works associated with the project's outflow infrastructure. Work will commence immediately, and is expected to be completed by May 2021.

The Company continues to make good progress on its contracted works at the Oyu Tolgoi Underground Project in Mongolia. The work, which includes structural, mechanical, piping and electrical and instrumentation works, significantly ramped up during the period with approximately 1,500 people working on this project at the end of the half year.

Activity levels remain high in the infrastructure sectors of renewable energy and water and irrigation.

Zenviron, Monadelphous' renewable energy joint venture, continued to build upon its success of the prior year, securing another two wind farm contracts during the period, bringing to five the total number of contracts awarded since April 2018. The new work includes a contract with Goldwind Australia for the balance of plant works for the southern section of the Moorabool Wind Farm in regional Victoria, which is in addition to the contract for the northern section secured last year, taking the total contract works on this project to approximately \$130 million. Furthermore, Zenviron was also awarded a contract with Vestas – Australian Wind Technology for the delivery of balance-of-plant civil and electrical works for the Dundonnell Wind Farm in regional Victoria, with Zenviron's portion of the works, which is expected to be completed in August 2020, valued at approximately \$100 million. Subsequent to the half year end, Zenviron has secured a further contract with Vestas – Australian Wind Technology for the engineering, procurement and construction of the Cherry Tree Wind Farm, located near Seymour in Victoria.

\* Includes share of joint venture revenue

Construction was completed on the Sapphire Wind Farm, the largest wind farm in New South Wales and the Salt Creek Wind Farm in Victoria, while activity ramped up on the Lal Lal Wind Farm in regional Victoria, and on the Crudine Ridge Wind Farm in regional New South Wales.

In the water and irrigation business, work continued at Unitywater's Kawana Sewage Treatment Plant and at the Cleveland Bay Purification Plant, both in Queensland, as well as on the Pukaki Irrigation Project in the South Island, New Zealand. The Company also commenced the design and construction of a piped irrigation scheme for Kurow Duntroon Irrigation Company, valued at approximately NZ\$40 million. The project, which is located in Kurow in the South Island of New Zealand, is expected to be completed in early 2020.

Subsequent to the half year end, Monadelphous was awarded a contract with Armidale Regional Council to design and construct an 18km pipeline, pump station and associated works from Malpas Dam to the Guyra Water Treatment Plant, New South Wales. The project, which is funded by the NSW Government through the Stronger Communities Fund and Restart NSW, is expected to be completed in the final quarter of the 2019 calendar year.

Work continued under the Sydney Water Corporation's Network and Facilities Renewals Program, and subsequent to the half year end, the Company was awarded an additional package of work to provide desilting and rehabilitation works on the Northern Suburbs Ocean Outfall Sewer.

On the back of its reputation for the reliable delivery of services to the water sector, Monadelphous was appointed, along with two other contractors, to the Hunter Water Corporation Complex Capital Works Design and Construct Panel, in the Hunter Region of New South Wales, for an initial term of four years (with an additional two one-year extension options). The capital works program includes the upgrade and renewal of water, waste water and recycled water systems, and is valued at approximately \$450 million in total across the four years. The Company has already been awarded its first contract under the program at the Dungog Water Treatment Plant.

Mondium, the Company's EPC business, is quickly developing a strong reputation with customers and is well placed to secure further work in WA's rapidly growing lithium market, having successfully delivered its second EPC contract, for the design, engineering, construction and upgrade work at Galaxy Lithium Australia's Mt Cattlin Mine at Ravensthorpe, Western Australia. The company will continue to pursue a number of other opportunities in the mining and mineral processing market.

SinoStruct continued to supply and fabricate wellhead skids for Santos and APLNG for their upstream coal seam gas developments in northern Queensland, and subsequent to the half year end, secured an additional order from APLNG, as well as a contract for the supply and fabrication of structural steelwork to Oyu Tolgoi.

The Company's heavy lift services business continued to provide fixed plant maintenance and shutdown crane services for Fortescue Metals Group at the Solomon Hub site in the Pilbara, WA. In addition, the business secured work through an existing contract to provide similar services to several sites for Woodside. The business was supported by the Company's Heavy Lift Operations Centre in Port Hedland, WA, which was opened last year.

In total the division secured new contracts valued at approximately \$460 million since the beginning of the financial year.

### **Maintenance and Industrial Services**

The Maintenance and Industrial Services division, which specialises in the planning, management and execution of multidisciplinary maintenance services, sustaining capital works and turnarounds, reported revenue from contracts with customers of \$503.2 million, up 25.6 per cent on the previous corresponding period. The increase is attributable to a significant ramp up of activity on offshore oil and gas maintenance services contracts, an increased demand in the resources sector in Western Australia for sustaining capital works, as well as an increase in general shutdown activity.

During the period, the division was awarded a major contract with BHP for the provision of general maintenance services for shutdowns, outages and minor capital works, totalling approximately \$240 million over a three-year period. The contract, which contains an additional two one-year extension options, involves the provision of general maintenance services at BHP's Pilbara sites in Western Australia.

The division's offshore oil and gas maintenance services contracts, being the Woodside-operated gas production facilities contract, the INPEX-operated Ichthys LNG contract and the Shell Prelude FLNG maintenance and modification services contract continue to experience increasing activity levels and the Company now employs over 500 people associated with these contracts.

Major work was performed for BHP Mitsubishi Alliance for work on the Shiploader 2 shutdown at the Hay Point Coal Terminal, Queensland. The division received recognition from the customer for its ability to ramp up at short notice to resource rapidly emerging additional works.

Other significant contract activity undertaken during the period included:

- Sustaining capital works and fixed plant maintenance services for Rio Tinto at its coastal and inland operations in the Pilbara;
- Maintenance and major shutdown services at the Woodside-operated Karratha Gas Plant at Karratha, WA;
- Mechanical, electrical, access, coatings and insulation services on the Woodside-operated Karratha Gas Plant Life Extension Program through its joint venture MGJV;
- Engineering, procurement and construction services, in joint operation with Jacobs Engineering, on Oil Search's oil and gas production and support facilities in the Highlands region of Papua New Guinea;
- Maintenance and turnarounds for BHP's Olympic Dam copper-uranium operation at Roxby Downs, South Australia;
- Maintenance and shutdown services for BHP's Nickel West operations in the Goldfields, WA;
- Maintenance and dragline shutdown works for BHP Mitsubishi Alliance in Queensland;
- Maintenance and turnarounds for Glencore in the Hunter Valley, NSW;
- Shutdown maintenance, breakdown and repair services, minor projects and ad hoc services for BHP at Mount Arthur Coal in the Hunter Valley, NSW;
- Maintenance and turnarounds for Queensland Alumina Limited in Gladstone, Queensland;
- Maintenance and shutdown services for QGC's Curtis LNG Plant, on Curtis Island, Queensland;
- Mechanical shutdown services and tank maintenance and refurbishments for Newmont Boddington;
- Operation and maintenance of the coal handling facility at the Muja Power Station for Synergy in Collie, WA;
- Rail track maintenance work in the Pilbara, WA; and
- Rope access based mechanical maintenance, inspection and protective coating services for Dalrymple Bay Coal Terminal in Mackay, Queensland.

## **Markets and Outlook**

The resources and energy sectors continue to experience strengthening operating conditions as a number of global and domestic customers commit to capital investments. In the resources sector, project development activity is increasing with the pipeline of construction opportunities gaining in number, particularly in the iron ore and lithium sectors. Activity in the energy market has increased, with offshore developments entering production and a number of debottlenecking and brownfields growth projects progressing through feasibility studies.

The demand for maintenance services is expected to be strong as resources production in Australia remains at record levels, ongoing maintenance and support on aging resources assets continue to increase and onshore and offshore LNG assets ramp up production.

Investment in infrastructure is healthy, with prospects continuing in the water and irrigation market, while activity in the Australian renewable sector is buoyant as construction continues on a large volume of projects.



The Company is experiencing high levels of tendering activity and is in a good position to secure new work on major resource construction projects. These opportunities are expected to generate significant revenue in 2019/20 and beyond.

As highlighted in the financial results for the year ended 30 June 2018, the expected timing of resource construction opportunities, and the large revenue contribution earned from the Ichthys project in the prior period has resulted in the Company forecasting lower construction revenues for 2018/19.

Total revenue for the financial year ended 30 June 2019 is forecast to be around 10 per cent less than the prior corresponding period.

Productivity improvements will remain a priority as high levels of competition persist and customers focus on innovative and cost competitive solutions. The attraction and retention of labour resources will become a key focus area for Monadelphous as industry activity levels increase and the employment market tightens.

A strong balance sheet provides Monadelphous with the capacity to invest in the right opportunities and enables the Company to continue to progress its markets and growth strategy.

In closing, I would like to thank our very talented and dedicated team of people for their loyalty and outstanding contribution. I also wish to sincerely thank our shareholders and other stakeholders for their ongoing support.

## **DIVIDEND ENTITLEMENTS**

The interim dividend of 25 cents per share fully franked will be paid to shareholders on 29 March 2019 with the record date for entitlements being 8 March 2019.

Revenue including joint ventures is a non-IFRS earnings measure which does not have any standardised meaning prescribed by IFRS and therefore may not be comparable to revenue presented by other companies. This measure, which is unaudited, is important to management when used as an additional means to evaluate the Company's performance.

#### Reconciliation of Statutory Revenue from Contracts with Customers

	31 December 2018 \$'000	31 December 2017 \$'000
Total revenue from contracts with customers including joint ventures	830,533	874,103
Share of revenue from joint ventures ~	(53,338)	(25,793)
Statutory revenue from contracts with customers	<u>777,195</u>	<u>848,310</u>

~ Represents Monadelphous' proportionate share of the revenue from joint ventures accounted for using the equity method.

EBITDA is a non-IFRS earnings measure which does not have any standardised meaning prescribed by IFRS and therefore may not be comparable to EBITDA presented by other companies. This measure is important to management as an additional way to evaluate the Company's performance.

#### Reconciliation of profit before income tax to EBITDA

	31 December 2018 \$'000	31 December 2017 \$'000
Profit before income tax	45,554	54,479
Interest expense	456	223
Interest revenue	(1,203)	(1,285)
Depreciation expense	9,466	8,123
Amortisation expense	614	375
Share of interest, depreciation, amortisation and tax of joint ventures #	871	172
EBITDA	<u>55,758</u>	<u>62,087</u>

# Represents Monadelphous' proportionate share of the interest, depreciation, amortisation and tax of joint ventures accounted for using the equity method.

#### FURTHER INFORMATION

##### Analysts/Investors

Kristy Glasgow

Investor Relations

T +61 8 9316 6386

M +61 403 781 909

[investor\\_relations@monadel.com.au](mailto:investor_relations@monadel.com.au)

##### Media

Zoey Patmore

Marketing and Communications

T +61 8 6311 1018

M +61 406 543 989

[ZPatmore@monadel.com.au](mailto:ZPatmore@monadel.com.au)

#### About Monadelphous

*Monadelphous Group Limited (ASX: MND) is a leading Australian engineering group providing construction, maintenance and industrial services to the resources, energy and infrastructure sectors. The Company has two operating divisions – Engineering Construction, providing large-scale multidisciplinary project management and construction services, and Maintenance and Industrial Services, specialising in the planning, management and execution of mechanical and electrical maintenance services, shutdowns, fixed plant maintenance services and sustaining capital works.*

*Monadelphous is headquartered in Perth, Western Australia, with a major office in Brisbane, Queensland, and projects, facilities and workshops across Australia and in New Zealand, China, Mongolia, Papua New Guinea and the United States of America. Please visit [www.monadelphous.com.au](http://www.monadelphous.com.au) for more information.*