Half Year Results Announcement

ASX & media announcement
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Highlights

- **Revenue $181.8m, EBITDA $9.0m, EBIT $6.9m and NPAT of $4.5m**
- **Revenue up 3%, EBITDA up 5%, EBIT up 30% and NPAT up 66% on prior corresponding period**
- **Balance sheet remains strong with total cash of $56.2m (including restricted term deposit of $11.6m) and no debt**
- **Banking facilities renegotiated to increase bonding capacity**
- **Anticipate FY19 revenue over $400m**
- **Order book over $480m at 31 December 2018 with over $280m secured for FY20**
- **Good visibility of opportunities across sectors with tenders and pipeline exceeding $2.5bn**

Results for the half year ended 31 December 2018

Revenue for the half-year was $181.8m, which represented a 3% increase on the prior corresponding period revenue of $176.2m. Key contributors in the period included:

- Commercial – the majority of revenue in the sector was generated from the buoyant New South Wales market on a range of large construction and fit-out projects including the ATP Building 1 in Eveleigh, the Duo Central Park tower development in Chippendale and various projects at Parramatta Square.
- Resources – in Western Australia the business continued to win and perform work under its framework agreements with the major iron ore producers and at the Wheatstone LNG project, which is now demobilising. Rio Tinto's Amrun Bauxite project in Queensland has now demobilised.
- Public infrastructure and defence – in transport infrastructure work ramped up on the Westconnex M4 and M5 motorway tunnel projects in NSW and continued on the Northlink Central Section Project in WA. In the health sector mobilisation is increasing on the Westmead Hospital project in NSW and in defence there is ongoing work at the RAAF Tindal project in the Northern Territory.
- Telecommunications – NBN and wireless construction activity continued across Australia.
- Industrials, energy and utilities – work continued under the three year Ergon Energy Service Agreement in northern Queensland and the Woodman Point Wastewater Treatment Plant in WA.

Gross margins for the half-year were 11.7% compared to 11.1% in the prior corresponding period.

Overheads as a percentage of revenue remained consistent with the prior corresponding period at 7.0%.

EBITDA for the six months ended 31 December 2018 was $9.0m, a 5% increase on the prior corresponding period EBITDA of $8.6m.

EBIT increased by 30% to $6.9m and NPAT increased by 66% to $4.5m compared to the prior corresponding period with the increase due to improved trading performance and reducing amortisation of acquired customer contract intangibles.

The balance sheet remained strong throughout the period. Net cash at 31 December 2018 was $56.2m (including $11.6m in a restricted term deposit) with no debt compared to $58.1m at the start of the half-year period. The payment of $7m of FY18 dividends and $6.5m of deferred Heyday acquisition consideration during the period was offset by earnings and net working capital inflows.

Capital expenditure in the half-year was $1.3m and is expected to remain low.

During the period the Group negotiated increases to its banking and bonding facilities to increase total bonding capacity from $60m to $100m to support future growth.

The Directors have not declared an interim dividend for the six months ended 31 December 2018.

Outlook

A stronger second half is expected as certain major projects ramped up slower than anticipated in the first half. Significant ongoing projects include RAAF Tindal, Westconnex M4 and M5, Westmead Hospital, Parramatta Square, Wodgina Lithium Project, Ergon Energy and the NBN roll-out. Demobilisation continues at the Wheatstone LNG project and there will be focus in the half on the commercial close out of recently completed contracts.

Full year revenue expectations remain over $400m.

Order book and pipeline

The Group has an order book of over $480m including estimates of work to be performed under framework, reimbursable and panel agreements.

The Group continues to secure new work across its sectors and geographies. Significant wins during the period included the award of electrical works on the Westconnex M4 and M5 motorway tunnels in NSW and multiple commercial building and fit-out projects in Sydney including at Parramatta Square and Wynyard Place. The Group also secured framework agreements for electrical maintenance services at the Sino Iron project in WA and electrical installation services at Arrow Energy's gas projects in the Surat and Bowen Basins in QLD.

The order book supports the anticipated full year revenues and includes over $280m of orders for work to be performed in FY20.

Tendering across the Group remains at a high level with nearly $900m of submitted tenders with clients pending decision. The business development pipeline remains strong and, combined with submitted tenders, now exceeds $2.5bn.

Markets

In the public infrastructure and defence sector work continues on Westmead Hospital, multiple road projects including the Westconnex M4 and M5 and Northlink projects and RAAF Tindal. With significant investment required in road, rail, education, health and aged care and defence there is longevity to the pipeline in this sector.

The commercial sector makes up the largest component of the order book with approximately $275m of work secured. Current works include multiple projects at Parramatta Square and a fit-out project Wynyard Place. It is anticipated that current public infrastructure developments will lead to a further wave of commercial development when completed.

In the resources sector sustaining capital spend by key iron ore clients is continuing to increase and works on the large scale replacement tonnage projects are being pursued along with opportunities in other mining commodities. In oil and gas the Wheatstone LNG project is currently demobilising while upstream Coal Seam Gas works continue in Queensland.

In the telecommunications sector the NBN roll-out is peaking and the technology mix has stabilised. NBN construction works are ongoing In WA, QLD and VIC and NBN maintenance and upgrade opportunities are being targeted. The mobile networks continue to upgrade capacity and the commercial deployment of 5G is anticipated from 2020. Growth in data demand is expected to drive further data centre construction.

The industrial and utilities sectors are stable and continue to provide a flow of opportunities. Energy generation and distribution to meet consumer demand remains a challenge on the east coast. With ongoing investment in renewables there is a strong pipeline of opportunity to perform the electrical construction portion of these projects. Work is continuing on the Ergon Energy Service Agreement in northern QLD and the Woodman Point Wastewater Treatment Plant in WA.

Strategy

SCEE continues to see itself primarily as an electrical contractor. From early 2016 we implemented a strategy to add to our historic resources business by diversifying into adjacent and complementary sectors through organic initiatives and the acquisitions of Datatel and Heyday.

The growth strategy continues so as to realise further sector and geographic diversity. SCEE's expansion will be undertaken through a combination of organic and acquisition activity. Organic growth will primarily be achieved through further penetration into large scale infrastructure projects, leveraging the combined Group's customer relationships and skills into new states and rising activity levels in various sectors.

CEO Comment

Commenting on the results, SCEE's CEO Graeme Dunn said "I am pleased to be able to report on a half-year result that showed growth in the key metrics against the prior corresponding period. We remain on track to deliver full year revenues of over $400m and with a strong balance sheet, large order book and significant opportunity pipeline are well placed to achieve further growth as we continue to deliver on our strategy of sector and geographic diversification."

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