

## ASX ANNOUNCEMENT

30 August 2019

### Macmahon delivers strong earnings uplift in FY19 and reinstates sustainable dividends

- Revenue of \$1,103.0 million, up 55% (FY18: \$710.3m) and above guidance
- Underlying EBITDA<sup>1</sup> of \$181.4 million, up 52% (FY18: \$119.2m)
- Underlying EBIT<sup>2</sup> of \$75.1 million, up 81% (FY18: \$41.5m) and within guidance
- Underlying EPS of 2.69cps, up 74% (FY18: 1.55cps)
- Operating cash flow<sup>3</sup> of \$125.9 million, up 24% (FY18 \$101.9m)
- Robust balance sheet with low gearing<sup>4</sup> at 10.5%
- NTA of 20.3cps, up 8% (FY18 NTA 18.7cps)
- Advanced negotiations to increase contract rates at Telfer – no onerous contract provision recorded
- Reinstatement of dividends - FY19 final dividend of 0.5cps (partially franked)
- Strong order book of ~\$4.7 billion<sup>5</sup>, providing considerable revenue visibility
- FY20 revenue and earnings guidance of \$1.2 billion - \$1.3 billion revenue and \$80 million - \$90 million EBIT<sup>6</sup>

Macmahon Holdings Limited (ASX:MAH) ('Macmahon' or 'the Company') has delivered another strong result, with earnings and revenue growth for the year ended 30 June 2019 (FY19) in line with guidance.

Revenue grew by 55% over the prior corresponding period to \$1.103 billion as the Company increased activity across its contract mining projects in Australia and Indonesia.

Underlying EBITDA increased by 52% to \$181.4 million (margin of 16.4%), while Underlying EBIT increased to \$75.1 million (margin of 6.8%). Statutory Net Profit After Tax was \$46.1 million (FY18: \$33.2 million).

Macmahon Chief Executive Officer Michael Finnegan said the strong result reflected the Company's ability to execute on its large order book for its mining clients.

*"I am pleased we have delivered significant revenue and earnings growth in FY19, with our performance demonstrating Macmahon's ability to deliver value for both our clients and shareholders," Mr Finnegan said.*

1. Underlying EBITDA is earnings before interest, tax, depreciation and amortisation from continuing operations, share based payments, class action settlement and M&A transaction costs. A reconciliation of Non-IFRS financial information is contained on slide 23 of the Company's full year results presentation.
2. Underlying EBIT is earnings before interest and tax from continuing operations, share based payments, class action settlement costs and M&A transaction costs.
3. Net operating cash flow excluding interest, tax and class action settlement
4. Gearing = Net Debt ÷ (Net Debt + Equity)
5. Includes GBF Group
6. This guidance assumes an exchange rate of AUD:USD 0.72 and excludes one-off items and amortisation related to the GBF acquisition.



# ASX ANNOUNCEMENT

30 August 2019

*“Consistent project execution has been a key focus for Macmahon and is driving a real transformation in Macmahon’s financial performance, with FY19 revenue more than triple what we achieved in FY17 and earnings moving from negative to strongly positive in that period.*

*“This reliable performance and the good revenue visibility provided by our \$4.7 billion order book has underpinned the Board’s decision to reinstate dividends to Macmahon shareholders. The FY19 final dividend of 0.5 cents per share is the Company’s first dividend in seven years with the Board aiming to pay dividends on a sustainable basis going forward.”*

## **Capital Allocation Policy and Reinstatement of Sustainable Dividends**

Given the Company is in a robust financial position with a large order book, good medium term revenue visibility, and generating healthy levels of cash flow, the Board has adopted a new capital allocation policy.

This policy seeks to retain a strong balance sheet, utilise net cash flow to invest in growth where there is an appropriate return on capital, and thereafter to consider the return of cash to shareholders.

For FY19, the Board has approved the payment of a final dividend of 0.5 cents per share, partially franked to 30%. The record date will be 14 October 2019 and the payment will be made on 29 October 2019.

Going forward, the Board intends to pay dividends on a sustainable basis and will regularly review the level of dividend based on the Company’s financial results, balance sheet strength, tender pipeline and medium-term capex requirements. The Board may also consider share buybacks as a means of returning cash and delivering value to shareholders.

## **Cash Flow and Balance Sheet**

Macmahon generated operating cash flow (excluding interest, tax and settlement for the class action) of \$125.9 million in FY19 (FY18: \$101.9 million), representing a conversion rate from underlying EBITDA of 69.4%. The cash flow conversion was impacted by an increase in working capital due to delayed receipts from trade receivables of \$24m slightly later than expected. Including payments from customers received in the first week of July 2019, the EBITDA conversion would increase to 82.6%.

Macmahon maintained a robust balance sheet in the year, with gearing of 10.5% at 30 June 2019, cash on hand of \$113.2 million, and net debt of \$52.7 million. When factoring in the delayed receipts from clients, net debt and gearing is reduced to \$28.7 million and 6.0% respectively.

## **Telfer Negotiations**

As announced on 12 June 2019, Macmahon commenced facilitated negotiations with Newcrest Mining (**Newcrest**) regarding pricing for changes to the mine plan and contract programme at the Telfer gold project. While these discussions did not initially reach a

## ASX ANNOUNCEMENT

30 August 2019

resolution, progress in recently renewed discussions between the parties has led Macmahon to form the view that an acceptable agreement for increased revenue is likely to be reached in the near future.

Given this progress, the Company's current assessment is that the net present value of incremental cash flows from the Telfer contract<sup>7</sup> is likely to be positive over the remaining term of that project, and so Macmahon has not recognised an onerous contract provision as previously indicated. While this assessment could change in the future, it is Macmahon's view of the most likely outcome at this point.

### Board Renewal

The past year has seen significant change in the Macmahon Board. In June this year, Mr Jim Walker and Mr Kim Horne resigned as directors. While these resignations were unexpected there has been no change to the Company's strategy or positive outlook.

Commenting on the Board changes, the Independent Non-Executive Chair of Macmahon, Ms Eva Skira noted that, the resignations had provided the Company with the opportunity to pursue Board renewal in preparation for the next phase of the Company's growth.

Ms Skira said: *"We have been speaking to several high quality director candidates and I look forward to announcing the appointment of additional independent directors in due course. To assist us in this process, I'm pleased to acknowledge the recent reappointment of Mr Vyril Vella as an Independent Non-Executive Director. Mr Vella has a long history with Macmahon and brings a wealth of knowledge and experience to the Company's Board."*

### Outlook

The Company is well positioned for growth in FY20 with secured work in hand of \$1.2 billion. The Company expects FY20 revenue of \$1.2-1.3 billion, and EBIT of \$80-90 million<sup>6</sup>.

Mr Finnegan said: *"Over the past 12 months we have continued to position the business for growth, both organically and through the strategic acquisition of specialist underground contractor GBF Group."*

*"These initiatives have been in line with our growth strategy to enable Macmahon to be a leading mining contractor that can service clients through the life cycle of their mining operations."*

*"The acquisition of GBF, our \$4.7 billion order book, and significant tender pipeline means the Company is well positioned to deliver further earnings and cash flow growth in FY20."*

*"This growth is underpinned by consistent execution on our secured work in hand, and a tender pipeline of more than \$7 billion in potential new revenue. This pipeline includes over \$4.5 billion of projects where Macmahon is the preferred or exclusive tenderer. Many of these*

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<sup>7</sup> As per AASB 137 Provisions, Contingent Liabilities and Contingent Assets



## ASX ANNOUNCEMENT

30 August 2019

*opportunities are with existing clients which, given our ongoing strong performance, puts us in a competitive position.*

*“In FY20, our focus will be to integrate the GBF business, continue to execute our order book safely and secure new work, whilst leveraging our collaborative end to end offering to benefit our clients, people, and our shareholders.*

*“These initiatives will be supported by continued investments in innovation and technology, and improving the capacity of our human resources through training, all aimed at strengthening both our service delivery and operating efficiency.”*

**\*\*\* ENDS \*\*\***

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### **About Macmahon**

*Macmahon is an ASX listed company offering the complete package of mining services to miners throughout Australia and Southeast Asia.*

*Macmahon’s extensive experience in both surface and underground mining has established the Company as the contractor of choice for resources projects across a range of locations and commodity sectors.*

*Macmahon is focused on developing strong relationships with its clients whereby both parties work in an open, flexible and transparent way to ensure mutually beneficial outcomes whilst also minimising risks for both parties.*

Visit [www.macmahon.com.au](http://www.macmahon.com.au) for more information.