Half Year Results Announcement

26 February 2020

ASX & media announcement

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Highlights

- **Record half year revenue of $230.3m, up 27% on prior corresponding period**
- **EBIT up 22% on PCP to $8.4m and NPAT up 24% on PCP to $5.5m**
- **Balance sheet remains strong with total cash of $53.3m and no debt**
- **Public infrastructure and commercial largest revenue contributors in half year**
- **Resources revenues to increase following recent significant project wins**
- **On track to exceed FY20 revenue forecast of over $420m**
- **Expecting stronger H2 profitability**
- **Order book of $440m at 31 December 2019 with over $250m secured for FY21**
- **Actively pursuing acquisition opportunities**

Southern Cross Electrical Engineering Limited (ASX: SXE) today released its results for the half year ended 31 December 2019. SCEE delivered a record half year revenue of $230.3m and improved results compared to the prior corresponding period with a 22% increase in EBIT and 24% increase in net profit after tax.

Results for the half year ended 31 December 2019

Revenue for the half year was $230.3m, a record half year for the Group, which represented a 27% increase on the prior corresponding period revenue of $181.8m.

Key revenue contributors in the period by market sector included:

- Public infrastructure and defence – revenue increased to $93m from $49m in the prior corresponding period. In transport infrastructure work continued on the Westconnex M5 motorway tunnel project in New South Wales, the Forrestfield Airport Link project in WA commenced and the Northlink Central Section Project in WA demobilised. In the health sector work progressed on the Westmead Hospital project in New South Wales and work commenced under the recently awarded maintenance panel arrangements with a number of Metropolitan Health Services in WA. In defence there is ongoing work at the RAAF Tindal project in the Northern Territory.

- Commercial – revenue in the period was $88m compared to $53m in the prior corresponding period. The majority of revenue in the sector continues to be generated in the New South Wales market on a range of large construction and fit-out projects including various projects at Parramatta Square, Wynyard Place, 231 Elizabeth Street and the Edmondson Square Town Centre Development.

- Resources – revenue decreased from $61m in the prior corresponding period to $20m in the current half year as a result of large scale construction projects demobilising in the prior year and not being replaced. The business continued to win and perform minor works projects for Rio Tinto and BHP and secure work under its framework agreements on the Sino Iron and Boddington Gold projects.

- Telecommunications and data centres – revenue was $20m compared to $12m in the prior corresponding period. NBN and carrier network construction and maintenance works continued across Australia and work commenced on the RUData SYD53 Data Centre project in New South Wales.
- Industrial, energy and utilities – revenue was $9m compared to $7m in the prior corresponding period. Work continued under the three year Ergon Energy Service Agreement in northern Queensland and commenced on the Agnew Windfarm project in WA.

Gross profit for the half year of $23.8m was up 12% on the prior corresponding period although gross margin percentages were lower than the prior corresponding period because prudent positions have been taken whilst negotiating changes on certain infrastructure projects.

Overheads were $13.2m compared to $12.8m in the prior corresponding period. As a percentage of revenue overheads decreased to 5.7% in HY20 from 7.1% in HY19.

EBIT for the half year was $8.4m and NPAT was $5.5m, up 22% and 24% respectively on the prior corresponding period.

The balance sheet remained strong throughout the period. Net cash at 31 December 2019 was $53.3m with no debt, the same balance as at the start of the period. The payment of the final $6.5m tranche of deferred Heyday acquisition consideration was offset by positive operating cashflows whilst the payment of the FY19 dividend was funded by an underwritten Dividend Reinvestment Plan.

During the period substantial progress was made in the commercial resolution of resources projects completed in early 2019.

Capital expenditure for the half year was $1.1m and is expected to remain at low levels.

The new leasing accounting standard AASB 16 was adopted on 1 July 2019 and resulted in the recognition of $5.6m of right of use assets and $5.6m of lease liabilities in respect of operating leases.

No interim dividend has been declared by the Board in order to conserve cash to pursue acquisition opportunities.

Outlook

The Group remains on track to exceed the FY20 revenue forecast of over $420m and is expecting stronger H2 profitability.

Order Book

The business continued to win work across its core markets in the period. Significant awards included resources work at the MARBL Joint Venture's Kemerton Lithium project in WA and Rio Tinto's Gove operations in the Northern Territory and commercial building and fit-out projects including 231 Elizabeth Street and the Sandstone Precinct in New South Wales and the City 7 and Parade developments in the ACT. A number of new framework and panel agreements were also secured in the health, education, resources and telecommunications sectors.

The order book at 31 December 2020 was $440m, a similar level to the start of the period despite delivering record revenues. Over $250m of work is already secured for the FY21 year.

The business development pipeline remains strong, particularly in the New South Wales commercial and public infrastructure sectors.

Markets

Infrastructure was SCEE's largest revenue sector in FY19 and remained so in the current period. The sector is primarily driven by government expenditure and with significant investment sanctioned peak activity is still to come with electrical work generally later in the cycle. Work is continuing on key projects including RAAF Tindal in the Northern Territory, Westmead Hospital and Westconnex M5 in New South Wales and the Australian National University in the ACT. Tendering in the transport sector remains high with a number of active bids on Sydney Metro. There continues to be a significant pipeline of opportunities in defence and health.

Commercial remains the largest component of the order book with multiple base-builds and fit-outs in progress in Sydney and Canberra. Activity in New South Wales is forecast to remain at high levels with a number of commercial developments related to Sydney Metro. The Group is bidding its first commercial project in Brisbane.

Resources activity is forecast to increase as significant recent wins at Kemerton Lithium in WA and Rio Tinto Gove in the Northern Territory mobilise in the second half. There are ongoing sustaining capital and maintenance projects at multiple Rio Tinto and BHP facilities and mine sites and work is continuing under Master Service Agreements at Boddington Gold and Sino Iron.

In the telecommunications and data centres sector the NBN construction roll-out is passing its peak nationally but works are continuing in WA, Queensland and Victoria. NBN maintenance and upgrading contracts commenced during the period while 5G related activity remains low at the present time. Work is ongoing at the RUData SYD53 Data Centre project and other data centre opportunities are currently being bid.

The industrial, energy and utilities sector remains stable with a variety of projects being tendered. The Agnew Windfarm electrical works project in WA is performing well and the Ergon Energy Service Agreement in northern Queensland is ongoing. There is still a pipeline of opportunities for SCEE for the electrical construction portion of renewables projects.

Strategy

SCEE primarily sees itself as an electrical contractor. Historically focussed in resources, over the last four years we implemented a strategy to diversify organically and acquisitively into commercial, infrastructure, defence, telecommunications, industrial, energy and utilities work.

Our growth strategy continues so as to realise further sector and geographic diversity, including targeting maintenance and recurring earnings, through a combination of organic and acquisition activities.

Organic growth will be achieved through our strong commercial and infrastructure pipelines and resources activity is increasing again across multiple commodities having been at a low point in recent periods.

Acquisition opportunities are being actively pursued.

CEO Comment

Commenting on the results, SCEE's CEO Graeme Dunn said "I am pleased to be able to report a record half year of revenue as we continue to grow the SCEE Group through our diversification strategy.

The ongoing implementation of this strategy has seen public infrastructure and commercial become our largest sectors in recent periods and we are now seeing an increase in activity in the resources sector as demonstrated by our recent significant contract wins.

We continue to target acquisition opportunities that will further expand our geographic and sectoral capabilities."

Authorised for release by Graeme Dunn – SCEE Managing Director

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