

Watpac Limited

30 June 2014

Full Year Results Presentation

19 August 2014

Disclaimer

This presentation contains summary information about Watpac Limited and its subsidiaries ('Watpac'), and should be read in conjunction with other periodic and continuous disclosure announcements. While this results presentation is unaudited, it contains disclosures which are extracted or derived from Watpac's Financial Report for the year ended 30 June 2014 which has been audited by the Group's independent auditor.

Information contained within this presentation is not financial product or investment advice and is not a recommendation to acquire or sell Watpac shares. It has been prepared without taking into account the objectives, financial situation or needs of individuals. Before making an investment decision investors or potential investors should consider the appropriateness of the information having regard to their own objectives, financial situation and needs, and seek their own independent professional advice.

Forward looking statements, opinions and estimates are based on assumptions which are subject to change. Past performance information in this presentation is given for illustrative purposes only and should not be relied upon as (and is not) an indication of future performance.

All dollar values are in Australian dollars, unless otherwise stated.

Presentation overview

- Results summary
- Capital management
- Work in hand
- Property investment
- Inside the organisation
- Outlook
- Questions

Results summary

Overview

- Statutory Net Profit Before Tax \$24.5M, Net Profit After Tax \$17.9M.
- Basic Earnings Per Share of 9.65 cents.
- Partially franked final dividend of 3.5 cents per share
 - Total FY14 dividend of 6 cents per share, approximately 50% franked.
- Aggregate work in hand of \$1.84B as at 30 June 2014 compared to \$1.34B in prior year.
- Strong cash position with \$190.2M in cash and term deposits.
- After tax return on equity 7%.
- Core businesses of Construction and National Mining & WA Civil profitable.
- Market conditions improving in Construction but the resources sector remains tight.
- Focus remains on achieving return on equity targets and balance sheet strength to fund future growth and as a strategic advantage.

Financial performance - overview

FY14		Continuing Operations	Discontinued Operations	Group Total
Revenue	Turnover	\$1,203.0M	\$6.1M	\$1,209.1M
Earnings	EBITDA	\$75.3M	Nil	\$75.3M
	EBIT	\$35.3M	Nil	\$35.3M
	NPBT	\$24.5M	Nil	\$24.5M
	NPAT	\$17.9M	Nil	\$17.9M
Shareholder Returns	EPS	9.65 cents	Nil	9.65 cents
	DPS	6.0 cents	Nil	6.0 cents

Financial performance – continuing operations

- Revenue from continuing operations down 18.45% on FY13
 - Impacted by timing of project finalisations and new project commencements / awards.
- Gross margin slightly higher than FY13 - improved financial performance of Contracting segment.
- Significant reduction in property costs
 - Holding costs minimised following repayment of property debt
 - Impairment expenses negligible.
- Cost saving initiatives have resulted in a substantial reduction to Group overheads.
- EPS improving but further improvement required to reach return target.

	FY14	FY13
	\$M	\$M
Revenue	1,203.0	1,475.2
Cost of sales	(1,117.6)	(1,373.0)
Gross margin	85.4	102.2
Other income	1.0	0.6
Net property asset income	1.0	1.7
Property holding costs expensed	(1.6)	(5.1)
Net impairment expense	(0.7)	(15.6)
Group overheads	(54.4)	(69.5)
Net financing expenses	(6.2)	(6.8)
Net profit before tax	24.5	7.5
Tax expense	(6.6)	(3.0)
Net profit after tax	17.9	4.5
EPS (cents)	9.65	2.45

Discontinued operations

- The Group committed to a plan of closing its east coast civil operations during the second half of FY13.
- All projects were successfully completed during FY14.
- No financial impact from discontinued operations in the reporting period.
- Based on information at hand, no additional costs expected to be incurred as the remaining contractual obligations are extinguished.

	FY14	FY13
	\$M	\$M
Revenue	6.1	164.4
Cost of sales	(6.1)	(161.3)
Gross margin	-	3.1
Other income	-	(0.1)
Group overheads	-	(16.0)
Net financing expenses	-	(0.1)
Net profit / (loss) before tax	-	(13.1)
Tax (expense) / benefit	-	3.9
Net profit / (loss) after tax	-	(9.2)
EPS (cents)	-	(4.99)

Divisional financial performance

Continuing operations	Segment (\$M)					
	Contracting		National Mining & WA Civil		Property	
	FY14	FY13	FY14	FY13	FY14	FY13
Revenue	856.6	1,045.6	287.8	288.8	55.6	123.6
Profit / (loss) before tax	25.8	24.3	15.2	18.6	(1.7)	(19.4)

- **Contracting contributed \$25.8M (FY13 \$24.3M):**
 - Despite the revenue reduction, profit increased compared to FY13.
 - Margins reflective of strong fundamentals of the underlying business units and improving contributions outside of Qld.
 - Recent project wins and market improvement support positive outlook for contracting businesses in the near term.
- **National Mining & WA Civil contributed \$15.2M (FY13 \$18.6M):**
 - Sector is under pressure and reflective of reduced profitability compared to FY13.
 - Delivery and overhead support costs continue to be reduced as business matures and delivery model efficiencies are generated.
 - Recent project award (Cornishman) demonstrative of strong reputation for successful project delivery.
- **Property loss decreased significantly:**
 - Reflective of substantially reduced impairment expense in FY14 and sales over the past 12 to 24 months decreasing holding costs (particularly financing costs).

Balance sheet

- Strong cash position of \$190.2M as at 30 June 2014 – reflects effective cash management disciplines, settlement of property sales and return of working capital from discontinued operations.
- Net cash (calculated as gross cash less gross debt) \$115.4M (YE FY13 – \$26.6M).
- Reduction in property development inventory – reflects sales settled and contracted unconditionally in FY14.
- Reduction in net plant and equipment investment resulting from depreciation and only modest purchases - reflective of fleet size and scale.
- Reduction in interest bearing liabilities as equipment finance liabilities are amortised.
- Remaining gross debt of \$74.8M supports income producing plant & equipment used in National Mining & WA Civil operations.
- No significant off-balance sheet plant & equipment operating lease commitments.
- Substantial undrawn surety facilities.
- Current ratio of 1.18 at balance date (1.20 at 30 June 2013).

	30 June 2014	30 June 2013
	\$M	\$M
Assets		
Cash at bank and term deposits	190.2	137.5
Trade and other receivables	149.9	158.3
Inventory (property development)	41.3	95.4
Inventory (raw materials)	15.6	15.4
Plant and equipment	161.8	177.6
Intangible assets	27.7	27.7
Tax assets	15.9	29.5
Total assets	602.4	641.4
Liabilities		
Creditors and payables	254.3	271.6
Total Interest bearing liabilities	74.8	110.9
Provisions	19.5	20.7
Total liabilities	348.6	403.2
Net assets	253.8	238.2

Capital management

Debt funding capacity

	Facility limits	Drawn	Undrawn
Facility			
Equipment Finance	\$140M	\$75M	\$65M
Revolving Credit	\$25M	\$-	\$25M
Guarantee	\$80M	\$70M	\$10M
Bonds	\$250M	\$130M	\$120M

- \$105M facility with syndicate of banks comprising ANZ, Bank of Queensland, BNP Paribas and HSBC established in second half of FY14
 - Comprises \$80M Guarantee facility and \$25M revolving credit facility.
- Equipment Finance facility limits voluntarily reduced by approximately \$30M in FY14
 - Reflects capital structure improvements and reduced reliance on new investment in mining plant & equipment.
- Significant headroom remains in surety bond facilities.

Dividend

- Statutory net profit after tax and current strong financial position have resulted in the Directors declaring a final dividend of 3.5 cents per share.
- Final dividend only partially franked (12.5%) due to Watpac having been in a tax loss position for the past two years and having insufficient franking credits to fully frank the payment.
- Further unfranked dividends may be necessary for a further 12 months.
- Increases total Dividend for FY14 to 6 cents per share.
- Dividend is expected to be distributed on 19 September 2014.
- Dividend Reinvestment Plan will be in operation for the distribution at a 5% discount.



Work in hand

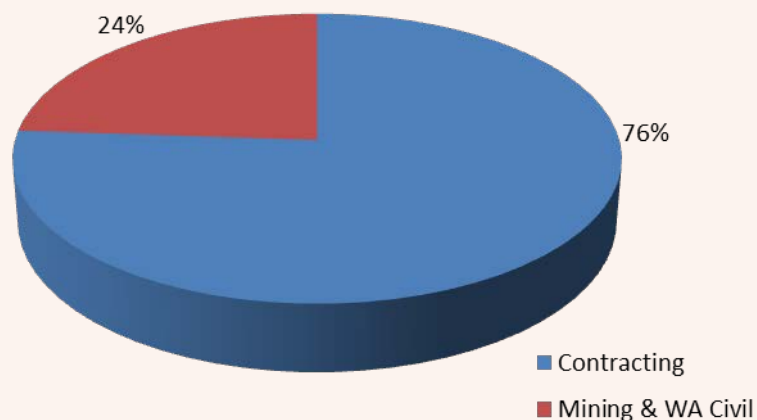
National work in hand position

Region	Work in hand 30 June 2013	New projects secured FY14	Extensions secured FY14 *	FY14 Turnover	Work in hand 30 June 2014	To be delivered FY15	To be delivered FY16	To be delivered FY17+
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Contracting	823	1,367	59	857	1,392	938	325	129
Mining & WA Civil**	518	16	203	288	449	233	150	66
TOTAL	1,341	1,383	262	1,145	1,841	1,171	475	195

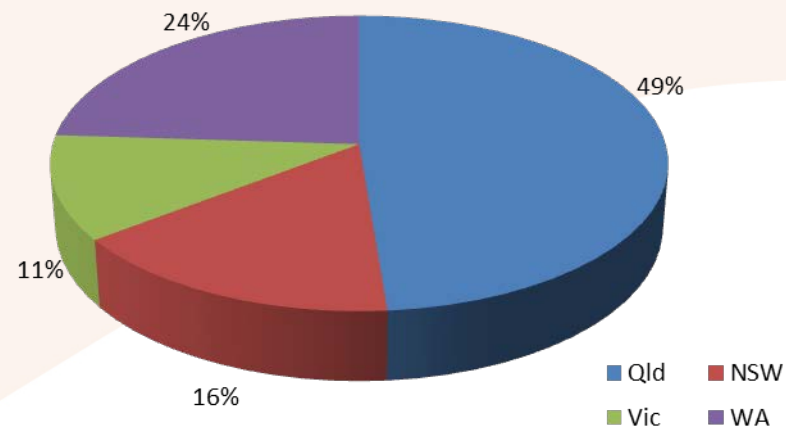
* Includes forecast turnover attributable to three year extension at Cockatoo Island negotiated in April 2014, performance of which is linked to the ongoing economic feasibility of the mine.

** Reflects region of management team – projects may be undertaken in other states / territories.

Work in hand by product type



Work in hand by region

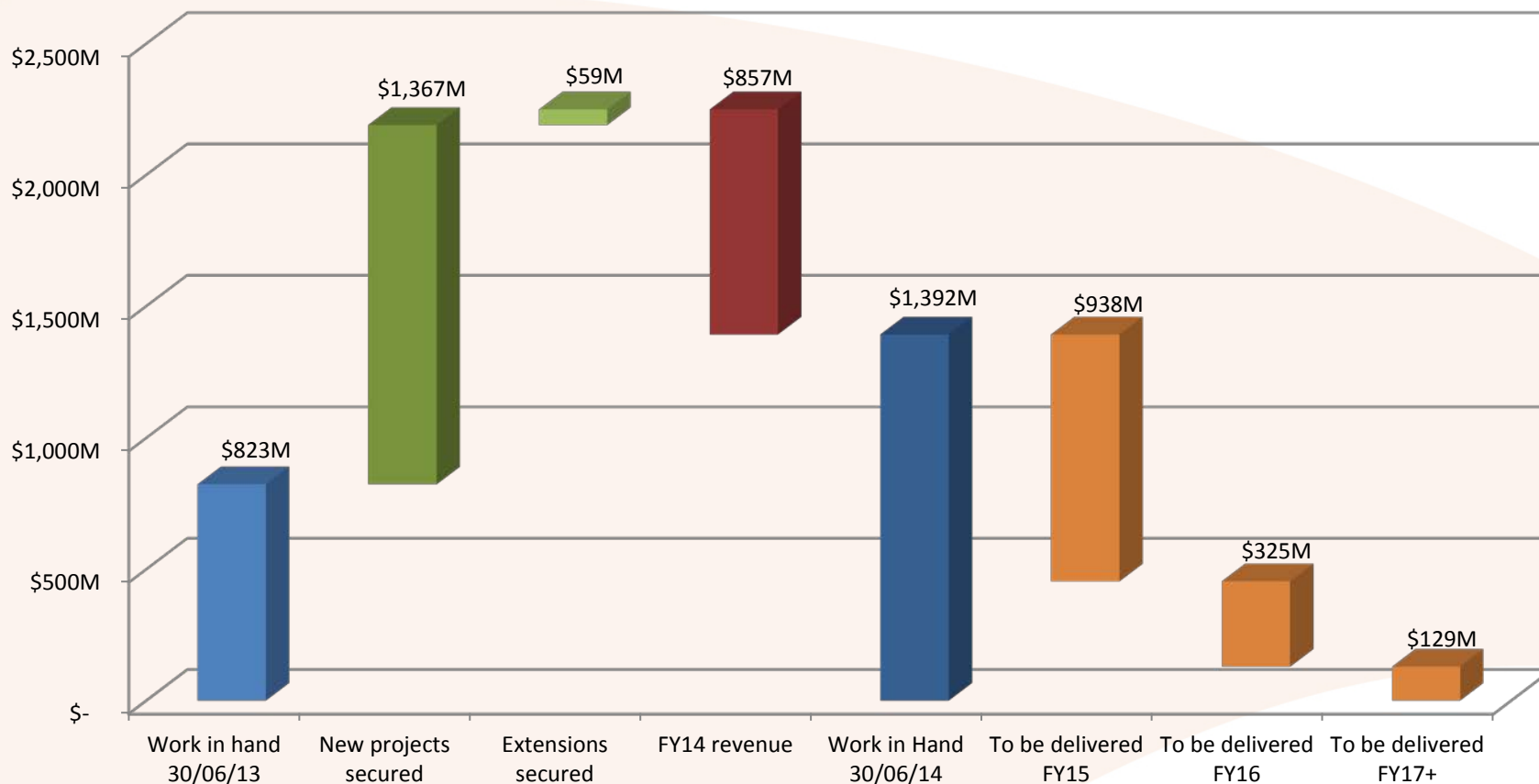


Work in hand – contracting

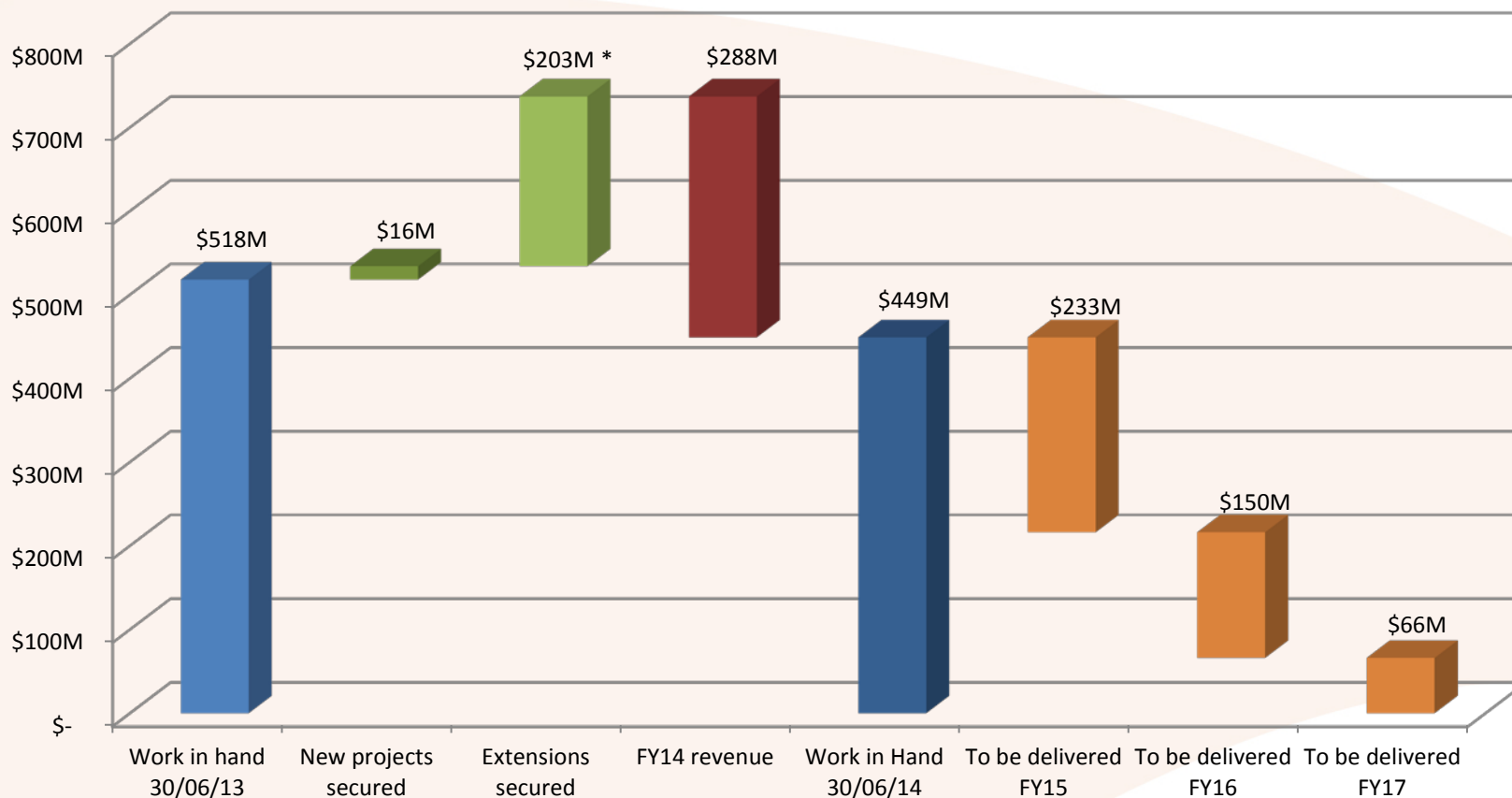
Region	Work in hand 30 June 2013	New projects secured FY14	Extensions secured FY14	FY14 Turnover	Work in hand 30 June 2014	To be delivered FY15	To be delivered FY16	To be delivered FY17+
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
QLD *	358	814	27	310	889	540	220	129
NSW *	319	310	13	352	290	240	50	-
VIC	98	243	17	150	208	153	55	-
SA	48	-	2	45	5	5	-	-
TOTAL	823	1,367	59	857	1,392	938	325	129

* Reflects region of management team – projects may be undertaken in other states / territories.

Contracting work in hand and delivery profile



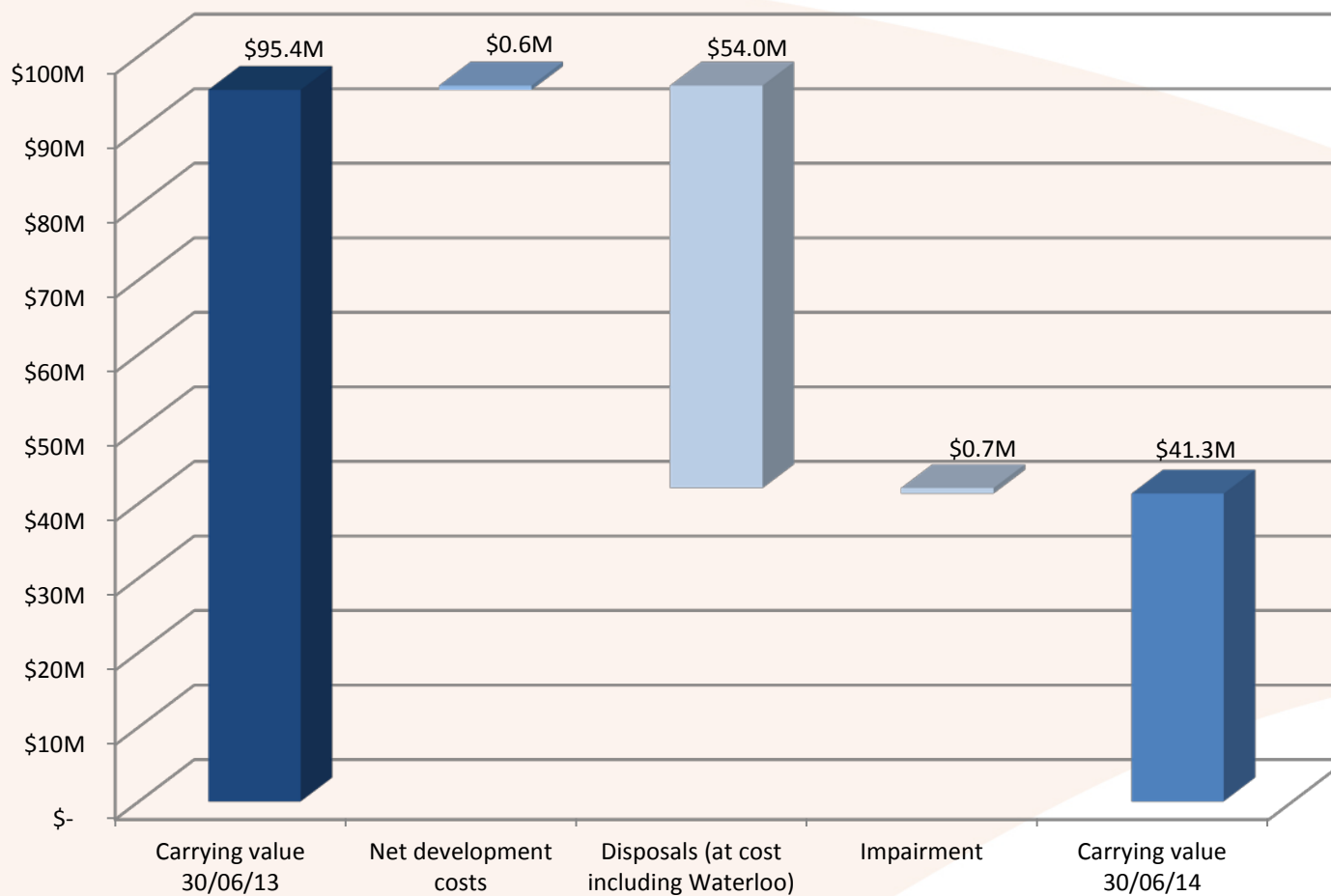
Mining & WA Civil work in hand and delivery



- Includes forecast turnover attributable to three year extension at Cockatoo Island negotiated in April 2014, performance of which is linked to the ongoing economic feasibility of the mine

Property investment

Property asset carrying value movement



Property assets represented a book value of 22.3 cents per share at 30 June 2014

Property assets anticipated realisation

Property	FY15		FY16		FY17	
	1H	2H	1H	2H	1H	2H
Aquarium Avenue						
Coolum Beach Retail						
Coolum Industrial 146						
Coolum Industrial 5&6						
Kingston Industrial						
Ocean Blue						
Rosedale						
Rue de Chapel						
Total anticipated realisation						

- The Board remains committed to divesting Watpac's \$41M property asset portfolio in a timely manner, whilst maximising value.
- With no property debt, all proceeds from property asset sales will continue to be recycled back into the Group's existing core businesses to fund further growth – particularly in construction.
- The Waterloo site was derecognised as a property asset in FY14 and is now classified as a receivable, to be settled in two stages by no later than June 2016.

Inside the organisation

Board of Directors

- Board rejuvenation remains a key priority.
- On 28 August 2013, Mr Brad Bowton was appointed as an independent Non-Executive Director.
 - Mr Bowton is a leading corporate strategist who brings to the role more than 20 years' experience in senior advisory and management consulting roles, specialising in strategic development and operational performance improvement.
- Mr Kevin Seymour retired as a Director of Watpac in September 2013.
- On 12 February 2014, Mr Garret Dixon was appointed as an independent Non-Executive Director.
 - Mr Dixon has a wealth of experience in the mining, transport and contracting industries, having worked on senior project and executive roles for the Federal Government and major mine owners and operators in the iron ore, gold and bauxite commodities markets.

WATERLOO · HOTEL

Outlook

Construction outlook

- The business continues to deliver quality construction services across a number of high profile projects across QLD, NSW, VIC, SA and NT.
- A number of significant project awards in FY14 increased the Group's contracting work in hand position to \$1.4B at 30 June 2014.
- Composition of the construction forward order book is weighted to projects in Qld but a number of opportunities and capacity exists in other regions.
- Focus in FY15 on maintaining market share in Qld and growth in the NSW and Vic construction markets.
- Equity capital required for growth has been identified and allocated.
 - Watpac is only one of a few listed public companies in Australia that undertake traditional construction activities.
 - Access to debt and capital market a clear competitive advantage.
- As work volumes increase, so does risk of rising cost pressures in subcontract market.
 - Issue being critically monitored in pre and post contract award risk management practices.
- Further strategic planning to be undertaken in FY15 to ensure Group can capitalise on rising construction market in Australia.

National Mining & WA Civil outlook

- National approach with strong credentials in mining iron ore, gold and mineral sands.
- Supplemented by Civil operations in WA.
- Working with clients to achieve optimal project outcomes remains a key business objective.
- Downturn in resources sector resulting in margin pressures.
 - Focus on operational efficiencies and dynamic approach to capital management.
- Continue to participate in tendering activities
 - \$29M contract with Hanking Gold awarded August 2014
 - Investigating other opportunities with existing clients a number one priority
- Further focus in FY15 on implementing strategies to enhance work-winning capabilities.

Contract	Client	Commodity
Nullagine	Nullagine Iron Ore Joint Venture (managed by BC Iron)	Iron Ore
Mt Magnet	Ramelius Resources	Gold
WRP	Iluka Resources	Mineral Sands
Cockatoo Island	Pluton Resources	Iron Ore
Tutunup South	Iluka Resources	Mineral Sands
Cornishman *	Hanking Gold	Gold

* Awarded August 2014

Property outlook

- Book value of remaining property portfolio valued at approximately \$41M as at 30 June 2014.
- Group is committed to divesting property asset portfolio in a timely manner, whilst maximising value for Watpac shareholders.
- With no property debt, all proceeds from future sales will continued to be redeployed into existing core businesses.

Major Assets	Location	Property Type
Rue de Chapel retail units	Chapel Street, Melbourne	Completed retail units
Centra Park Industrial Estate	Coolum, Sunshine Coast	Development site – industrial
72 Aquarium Avenue	Hemmant, Brisbane	Development site – industrial
Coolum Beach Retail	Coolum, Sunshine Coast	Completed retail units

Questions

