SEDGMAN

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Sedgman delivering on diversification strategy

Highlights

- Full year underlying NPAT breaks even, with a positive second half
- Full year reported NPAT loss of $7.7 million in line with guidance
- Net cash flow from operations of $10.8 million
- Strong balance sheet with net cash of $76.5 million
- Success of diversification strategy positions Sedgman for market upturn
  - Mungari Gold Project delivered on time and within budget
  - Awarded Aurora Gold Project with Graña y Montero
  - Expansion into Operations consulting
- Fully-franked final dividend declared of 2 cps

Leading resource sector services company Sedgman Limited (ASX:SDM) today announced an Underlying Net Profit After Tax (NPAT) of $0.0 million for the year ended 30 June 2014. Sedgman's reported NPAT loss of $7.7 million was in line with previous guidance.

Results were impacted by reduced project and operations activity, restructuring costs, recognition of an onerous contract for office leases, the write off of tax assets in foreign jurisdictions as well as the impairment of a number of long term debtors.

Chief Executive Officer and Managing Director Peter Watson said that despite challenging market conditions the underlying business remains strong. "We have realigned our cost base which has resulted in a 10% reduction in overhead costs, progressed our diversification strategy and restructured the business to strengthen our competitive position."

The Company's order book remains solid with $385 million of contracted work at 30 June 2014, compared with $350 million at the previous year end.

	Financial Year	
	2014	2013
Combined sales revenue[1]	$355.9m	$435.4m
Underlying EBITA[2]	$3.9m	$27.5m
Underlying EBITA margin[2]	1.1%	6.3%
Reported NPAT	$(7.7)m	$9.4m
Underlying NPAT[2]	$0.0m	$18.6m
Operating cash flow	$10.8m	$36.1m
Reported earnings per share	(3.4) cents	4.3 cents
Dividend per share	4.0	5.0

[1] Combined sales revenue represents revenue from services (including Sedgman's share of revenue from joint ventures) and changes in construction work in progress as stated in the consolidated statement of profit and loss. It is noted this is a non-statutory item which has not been audited or reviewed.

[2] Excludes onerous contract rental lease cost $3.7m pre-tax, amortisation of intangible assets resulting from prior acquisitions (non-operational) $1.1m pre-tax, redundancy costs $1.7m pre-tax, and also for NPAT & EPS (underlying), the write off of tax assets in foreign jurisdictions $3.1m. It is noted these are non-statutory items which have not been audited or reviewed.

Business Unit review

Combined sales revenue for the **Projects business** of $221.1 million, decreased by $22.8 million as a number of significant projects undertaken in FY2013 were not replaced in FY2014. Australian coal projects continued to be deferred as a result of declining long-term coal price forecasts and the high value of the Australian dollar.

The commodity diversification strategy continues building momentum following the successful EPC delivery of the Mungari Gold Project in Western Australia in April of this year and the commencement of the Aurora Gold Project in Guyana, South America announced in May 2014 (this project is scheduled to reach commercial production by mid-2015).

Underlying EBITA for the Projects business was negative $7.2 million. This was driven by reduced margins reflecting lower utilisation of Projects staff as a result of the continued slowdown in study and engineering activity, particularly in the first half of the year, and provision for a number of long term debtors. Improvement in the second half contributed to a more diverse pipeline of work opportunities, supported by clients seeking EPC contracts to provide improved project delivery assurance.

Combined sales revenue for the **Operations business** of $134.8 million decreased by $56.6 million compared to the prior year, which was in line with management expectations. Five operating sites managed in 2013 on behalf of clients have either been shut down or transitioned back to owner operation.

Operations underlying EBITA was $11.1 million. Margins have been maintained at 8.3% as the Operations business improved productivity, and focused on cost control through continuous improvement.

Responding to market conditions

In the near term the Company expects the resources sector will continue to be competitive with subdued capital expenditure by mining companies. In response to this overhead costs have been reduced and an extensive business review undertaken.

The business has been restructured around the Create, Build, Operate business model to drive efficiency. A horizontal Sector/Services delivery model has been introduced to capitalise on well-established work share platforms to maximise utilisation across the Company globally.

Sedgman's regional offices will have strong technical capability to present local strength during the business development and early 'Create' phases of project definition and project initiation. This will be supported with specialist global resource engineering, design and procurement capability in the 'Build' and 'Operate' project phases.

This business model will enhance local market competitiveness and leverage acknowledged strengths in project delivery. We are confident that it will deliver advantages financially and in quality and performance delivery.

While large scale capex projects will continue to be deferred, Sedgman's recognised strength in EPC delivery will create opportunities in small to medium size capital projects which require cost and time assurance and certainty of performance.

Winning the Company's first major iron ore project through the Thiess Sedgman Projects joint venture, Fortescue's Solomon Mine contract, was a significant milestone and opens up the potential for further work in iron ore.

Sedgman's Operations Consulting service is gaining traction in the market as clients recognise the Company's unique skill set to provide value by leveraging its operations knowledge together with first class process engineering capability. This service offering is particularly relevant in the current environment as clients streamline operations to focus only on their core capabilities.

Outlook

Mr Watson said that whilst new capital spend in the global minerals sector remains subdued there are signs of improving market conditions.

“We remain more committed than ever to our strategy of diversification across commodities and to our core business in the global minerals sector.

“We have a thirty five year history of delivering EPC projects on time and on budget, and the steps we have taken to streamline our business will provide a strong platform for future growth and help us to capitalise on opportunities in FY2015.

“I am confident of leading Sedgman into its next growth phase and delivering value for our clients and our shareholders.”

About Sedgman

Sedgman Limited (ASX: SDM) provides solutions to the global resources industry. Our services range from concept, pre-feasibility and design through to construction, commissioning, operations, maintenance and asset management.

Established in 1979, Sedgman listed on the ASX in June 2006 and has approximately 700 employees. Headquartered in Brisbane, Australia with offices in Perth, Townsville, Newcastle and Mackay, Sedgman has international offices in Beijing, Shanghai, Ulaanbaatar, Santiago, Vancouver and Johannesburg, Sedgman delivers projects and operations across Australia, Africa, Asia and the Americas.

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