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ASX Media Release

Ausenco reports underlying EBITDA of $1.4 million; expects improvement in 2015

In line with recent guidance, Ausenco Limited (ASX: AAX) today reported revenue of $357.2 million, an underlying EBITDA profit of $1.4 million and a full year net loss after tax of $25.0 million.

Ausenco is already seeing improved results in all regions this year which, combined with the benefits of its structural changes and the weaker Australian dollar, are expected to improve the group's competiveness and earnings in 2015.

Financial summary:

- Achieved $29 million in controllable cost savings. On track to deliver a further $20 million in 2015
- Underlying EBIDTA of $1.4 million, before $4.5 million in redundancy costs, $2.3 million non-cash onerous lease provisions and $10 million goodwill impairment on APAC/Africa business
- Successful refinancing extensions of $33.1 million of borrowings with financiers
- Net gearing[1] of 16%, reflecting net debt of $43.1 million, well within target gearing levels
- Solid start to 2015 with many recent awards contributing to current $133 million work on hand and already delivered
- No full year dividend declared

Operational summary:

- Diversification of baseline revenues through growth in asset optimisation services, operations and maintenance solutions and oil & gas engineering services. These collectively generated 22% of 2014 revenues
- Market conditions remain challenging with improvements in many markets leading into 2015
- Growing interest from major resource companies advancing copper projects in response to anticipated copper supply shortfall in 2017/2018
- Weaker Australian dollar will translate to higher earnings and improved competiveness of the APAC/Africa business globally
- Change to regional reporting to reflect streamlined Americas organisational structure

$m	FY14	FY13	
Revenue from operations	357.2	453.9	↓
Underlying EBITDA	1.4	27.1	↓
Underlying EBITDA margin (%)	0.4%	6.0%	↓
Net (loss)/profit before tax	(29.5)	(40.9)	↑
Attributable (loss)/profit after tax	(25.0)	(35.2)	↑
Underlying earnings	(10.2)	6.8	↓
Basic earnings per share (cents)	(15.0)	(25.0)	↑
Net operating (out)/in cash flow	(9.2)	9.0	↓

[1] Net gearing ratio = net debt / (net debt + equity)
Attributable earnings and underlying earnings relate to profit attributable to shareholders of Ausenco.
Underlying EBITDA is defined and reconciled to reported earnings on page 4
EBITDA represents profit before tax, net finance items, depreciation and amortisation.
Underlying earnings excludes the same items, in after-tax terms, as are excluded from underlying EBITDA.

Ausenco CEO Zimi Meka said although market conditions were challenging in 2014, the company's geographic spread and strategic diversification had helped offset the decline in the level of new greenfield project developments.

“Demand for our asset optimisation, value engineering and operations and maintenance solutions was at record levels during the year and is expected to continue growing in 2015,” he said.

“We are expecting modest revenue growth in 2015 due to the good performance of those businesses and the anticipated start of a number of brownfield expansions and sustaining capital programs aimed at increasing productivity levels.

“The strategic expansion of our service offering to cover all phases of a project's lifecycle helped us win new business from companies seeking to improve the productivity of their assets and reduce operating costs during the year.

“Our North and South American businesses, which now account for 74% of our revenue, remain profitable and continue to offer the best prospects for growth.

"We continued our own cost reduction program, achieving $29 million in controllable operating costs reductions in 2014 with an additional $20 million of savings on track to be delivered into 2015.

“Combined with a lower Australian dollar, this not only improves the competiveness of Ausenco’s APAC/Africa business, but also results in higher translated earnings from our significant overseas base.

“This means we are now in a position to deliver significantly improved earnings as revenues grow in 2015 and beyond.”

Mr Meka said that the successful delivery of the Constancia copper project in Peru had reinforced Ausenco’s competitive offering and positioned the company well in the strategically important copper market.

“As a result, we have had an unprecedented level of interest in our service offering from major mining companies,” he said.

“Similarly, our successful delivery of the world’s longest iron ore slurry pipeline, covering a distance of 528 kilometres, at Minas Rio in Brazil has increased our standing in the broader energy, water and tailings pipeline markets where we are pursuing a number of potentially rewarding opportunities.”

Successful diversification strategy

Mr Meka said Ausenco’s long-term diversification strategy had provided an effective offset to the decline in revenue caused by the reduction in greenfield project work during the year.

“Our philosophy has always been focused on providing a base for future organic growth in both new business sectors and geographic regions, which is what we are now seeing,” Mr Meka said.

“The performance of our Canadian oil & gas business, which was enhanced by the 2013 acquisition of Projex Technologies, exceeded our 2014 projections. The business generated $41 million in revenues and is now working with 20% of Canada’s top oil & gas producers.

“Elsewhere in North America our infrastructure business also performed well and was able to win business in the Canadian public infrastructure sector where spending has remained relatively high. In British Columbia alone, where Ausenco has a recognised presence, annual infrastructure spending is around $5.9 billion.

“Ausenco’s 2012 purchase of Rylson, a leader in business improvement and asset management solutions, has also been key to winning substantial new business during 2014, particularly in South America.

“Geographically, while new awards in APAC/Africa remained relatively soft during the year due to the Ebola outbreak in West Africa and the cancellation or postponement of new project work, our Ports, Terminals and Transportation group in that region doubled in size and won more than 40 assignments in its first 18 months.”

Leadership restructure

In recognition of the growing significance of North and South America to Ausenco's future revenues, the company appointed Presidents for each region in late 2014, replacing the previous structure of a single President for both regions.

Simon Cmrlec - previously President, APAC/Africa - is now President North America and Andrew Pickford, a former CEO of Tarong Energy who also spent two years based in Chile as General Manager of Xstrata Plc's Commercial Copper Project Development Unit, has joined the company as President South America. Nick Bell, Vice President Business Development and Marketing, has taken on the additional role of Acting President, APAC/Africa.

"This restructure not only flattens our organisational structure and improves our ability to respond to opportunities more quickly and flexibly, but also recognises the growing importance and increasingly diverse nature of the opportunities in both regions," Mr Meka said.

"I would also like to acknowledge the enormous contribution to Ausenco made by Ed Meka who has elected to leave Ausenco to pursue a new career direction rather than take an executive role in the enhanced structure."

Outlook

Mr Meka said Ausenco anticipated 2015 revenues at or above levels achieved in 2014, with EBITDA expected to be materially greater due to the impact of the substantial cost reduction programs completed over the past 18 months.

"We see a number of good growth opportunities in 2015 across several geographies, industries and commodities," he said.

"In particular, a likely shortage of copper in 2017 has resulted in a growing number of well advanced enquiries by major resource companies looking to expand copper production, particularly in South America where Ausenco now has a strong reputation following its successful work on the Constancia copper project in Peru.

"There are also strong prospects for our infrastructure business in North America in municipal infrastructure, pipelines and resources like bauxite, copper and nickel.

"We expect any impact of the lower oil price will to a large degree be mitigated by the nature of our services in the North American oil & gas business, where our focus remains on brownfield and operational efficiency work.

"We have maintained a strong pipeline of early stage work and expect this will lead to project delivery opportunities in the future."

BUSINESS SUMMARY

Safety and Sustainability performance

Ausenco made encouraging progress towards its goal of zero harm across all of its worksites during the year. The company reported a Total Recordable Injury Frequency Rate (TRIFR) of 2.14, the lowest in the company's history and a 42% decline on 2013's result.

This outcome was particularly significant given the record 20.5 million man-hours managed for the year.

Notably, Ausenco's Constancia project recorded 7.7 million man-hours Lost Time Injury (LTI) free despite the challenging operating environment in the Peruvian Andes.

Ausenco maintained its commitment to making a positive and sustainable difference to the communities in which it works during 2014. During the year the company donated funds to support the activities of the Ausenco Foundation, helping in areas such as children's education in Kenya, sustainable agriculture in India and a range of humanitarian and assistance initiatives in the countries we operate in.

Capital management

The company's gross cash position at 31 December 2014 was $22.5 million. Reflecting a more conservative capital management approach, the Board has not paid any dividends in 2014.

Net debt increased during the year from $24.7 million to $43.1 million, with the net gearing ratio increasing to 16.0% from 8.7%, well within the Board's target gearing levels.

After scheduled borrowings repayments of $8.8 million during the year, total borrowings at year-end had increased by $3.3 million to $65.6 million. This reflects an increase of $2.1 million attributable to a lower Australian dollar offsetting higher proceeds from borrowings of $5.4 million.

After the extension to the current borrowing facilities, 85% of Ausenco's total borrowings are denominated in Canadian and US dollars. This provides a natural hedge to adverse foreign currency movements considering that 88% of the group's revenues are denominated in currencies other than Australian dollars.

In November 2014, ANZ and NAB agreed to extend to January 2016 the repayment timeline associated with the $33.1 million of the drawn debt facilities denominated in Canadian dollars. The existing amortising United States dollar borrowings of $22.7 million will continue until May 2016.

As part of the arrangements, ANZ and NAB agreed to modified financial covenants to be satisfied in 2015, as well as a review in mid-2015 of an extension of the facility terms beyond the 2016 dates.

Underlying results comparison

Ausenco's 2014 results were affected by a number of one-off costs totalling $16.8 million, compared with $48.9 million of costs in 2013. In order to present the results in a transparent manner, and to allow comparison with 2013 performance, Ausenco has reported underlying EBITDA and Net Profit After Tax (NPAT). The differences between underlying EBITDA and NPAT and reported EBITDA and NPAT are detailed in the table below.

	EBITDA		NPAT	
$'m	**2014**	**2013**	**2014**	**2013**
Underlying results	**1.4**	**27.1**	**(7.7)**	**6.8**
Redundancy costs	(4.5)	(10.7)	(3.2)	(7.5)
Onerous leases	(2.3)	-	(1.6)	-
Trade receivable write-offs	-	(8.2)	-	(5.8)
Work In Progress write-offs	-	(7.7)	-	(5.4)
Underperforming contracts	-	(8.8)	-	(6.2)
Acquisition related costs	-	(1.0)	-	(0.7)
Goodwill impairment	(10.0)	(12.5)	(10.0)	(12.5)
Accelerated amortisation	-	-	-	(3.2)
Forfeiture of foreign tax credits	-	-	-	(0.8)
Reported results	**(15.4)**	**(21.8)**	**(25.0)**	**(35.2)**

ENDS

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About Ausenco

Ausenco is a global, diversified engineering, construction and project management company providing services in Minerals & Metals, Process Infrastructure, Program Management, Environment & Sustainability and Oil & Gas. We deliver new and better ways to add value to our clients' projects no matter how demanding and we deliver results in some of the world's most challenging environments. Listed on the ASX in 2006, our growth strategy is focused on sector, solution and geographic expansion. We operate from 31 offices in 19 countries.