



Watpac Limited

31 December 2014
Half-Year Results Presentation

24 February 2015

Overview

Improved Contracting performance offset by weaker Mining & Civil

- Statutory Net Profit Before Tax \$8.5M, Net Profit After Tax \$6.2M
- Results reflect the diversification of earning base
 - Improved performance of Contracting businesses
 - Reduced contribution from the Mining & Civil business
- Aggregate work in hand of \$1.52B as at 31 December 2014
- Substantial liquidity and cash position
 - \$161.6M in cash and term deposits
 - \$25M undrawn working capital facility
 - Settlement of Waterloo property expected to provide \$38M in 2015 calendar year
 - Capital management initiatives under consideration by the board
- Stronger H2 results anticipated from Mining & Civil with relatively consistent H2 from Contracting

Financial highlights

		1HFY15 \$M	1HFY14 \$M	Variance \$M
Revenue	Turnover	\$595.0	\$609.3	\$(14.3)
Earnings	EBITDA	\$32.7	\$39.6	\$(6.9)
	EBIT	\$11.8	\$15.3	\$(3.5)
	NPBT	\$8.5	\$10.2	\$(1.7)
	NPAT	\$6.2	\$7.4	\$(1.2)
Shareholder Returns	EPS (cents)	3.30	4.00	(0.70)
	DPS (cents)	2.00	2.50	(0.50)
	Annualised post-tax return on equity	4.85%	5.82%	(0.97%)

- 1HFY15 statutory revenue down 2.3% on the previous corresponding period
- Operational revenue was broadly in line as previous period included \$10.2M of property sales
- Aggregate performance of operational businesses was broadly maintained, with statutory result showing a modest decline
- Growth in Contracting business was offset by reduced contribution from Mining and Civil business

Group financial performance

- Gross margin slightly lower - improved financial performance of Contracting businesses offset by market downturn in Mining & Civil segment
- Net financing costs have significantly reduced – a consequence of aggressive (and elective) debt amortisation on Mining & Civil PP&E
- Group overhead increase contained to circa 5%, notwithstanding several one-off costs were incurred

	1HFY15	1HFY14	Variance
	\$M	\$M	\$M
Revenue	595.0	609.3	(14.3)
Cost of sales	(557.6)	(569.4)	11.8
Gross margin	37.4	39.9	(2.5)
Other income / (expenses)	-	(0.1)	N/A
Net property asset income / (expenses)	(0.1)	0.6	(0.7)
Property holding costs expensed	(0.3)	(0.9)	0.6
Group overheads	(27.4)	(26.2)	(1.2)
Net financing expenses	(1.1)	(3.1)	2
Net profit before tax	8.5	10.2	(1.7)
Tax expense	(2.3)	(2.8)	0.5
Net profit after tax	6.2	7.4	(1.2)

Divisional financial performance

	Segment (\$M)					
	Contracting		Mining & Civil		Property	
	1HFY15	1HFY14	1HFY15	1HFY14	1HFY15	1HFY14
Revenue	450.8	448.4	143.7	147.7	0.4	10.2
Profit / (loss) before tax	15.8	10.0	2.4	9.1	(0.4)	(0.9)
Profit / (loss) before tax margin (%)	3.5%	2.2%	1.7%	6.2%	N/A	N/A

- Improved financial performance of the Group's Contracting segment consistent with improved market conditions across the construction sector generally
- Reduction in financial performance of Mining & Civil segment reflective of current state of resources sector and impact of falling commodity prices
- Improved comparative financial performance of Property segment reflective of property sales over the last 12 to 24 months reducing holding and overhead costs

Balance sheet

- Strong cash position of \$161.6M as at 31 December 2014
 - Effective cash management disciplines remained
 - Aggressive debt repayment profile (elective) given low deposit interest rate environment
- Net cash of \$105.7M (30 June 14 – \$115.4M)
- Modest reduction in property development inventory
 - Further reductions expected by 30 June 2015
- Continuing reduction in net plant and equipment investment aligns to market conditions
- Current ratio of 1.26 at balance date (1.18 at 30 June 2014)
 - Achieving strategy to enhance balance sheet strength

	31 December 2014	30 June 2014
	\$M	\$M
<u>Assets</u>		
Cash at bank and term deposits	161.6	190.2
Trade and other receivables	165.1	149.9
Inventory (property development)	41.1	41.3
Inventory (raw materials)	17.0	15.6
Plant and equipment	154.1	161.8
Intangible assets	27.7	27.7
Other assets	16.6	15.9
Total assets	583.2	602.4
<u>Liabilities</u>		
Creditors and payables	250.4	254.3
Interest bearing liabilities	55.9	74.8
Provisions	20.4	19.5
Total liabilities	326.7	348.6
Net assets	256.5	253.8

Debt funding capacity

Facility	Facility limits	Drawn	Undrawn
Equipment Finance	\$125M	\$56M	\$69M
Revolving Credit	\$25M	\$-	\$25M
Bank Guarantee	\$100M	\$74M	\$26M
Surety Bonds	\$250M	\$88M	\$162M

- Core facility with syndicate of banks comprising ANZ, Bank of Queensland, BNP Paribas and HSBC increased to \$125M limit in October 2014. Facility comprises
 - \$100M Guarantee facility – increased by \$20M or 25% from original \$80M limit established May 2014
 - \$25M Revolving Credit facility currently drawn to nil
- Equipment Finance facility limits voluntarily reduced by approximately \$15M in 1HFY15
 - Reflects reduced new investment in plant & equipment
 - Drawn balance of \$56M represents 39% gearing level on PP&E carrying value
 - Majority of equipment finance debt matures within the next 24 months – expected refinancing in 2HFY15 to create more optimised capital funding structure
- Significant headroom remains in surety bond facilities
 - \$42M decrease in drawn balance in 1HFY15
 - Reflects return of securities on scale projects completed in past two years (including One Central Park) and enhanced market demand for bank guarantees as performance security

Dividend

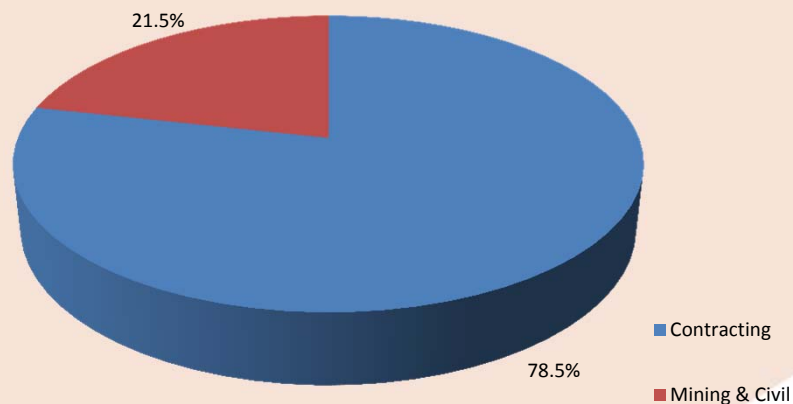
- Statutory net profit after tax has resulted in Directors declaring an interim unfranked dividend of 2.0 cents per share
- Interim dividend is unfranked due to Watpac having been in a tax loss position for the past two years and having insufficient franking credits to frank the payment
- In light of substantially improved liquidity position, and the expected further inflows from property assets sales, the Board has acknowledged a need to ensure the Group's capital structure remains appropriate
- Strong financial position of the Group has given rise to a suspension of the Watpac Dividend Reinvestment Plan with immediate effect

National work in hand position

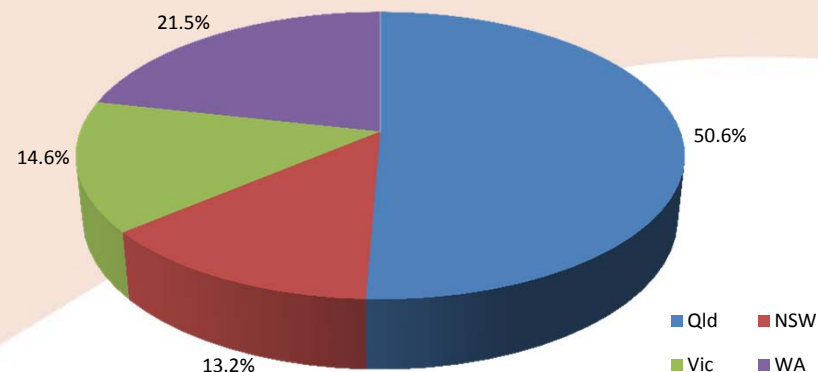
Region	Work in hand 30 June 2014	New projects secured 1HFY15	Extensions secured / scope adjustments 1HFY15	1HFY15 Turnover	Work in hand 31 December 2014 *	To be delivered 2HFY15	To be delivered FY16	To be delivered FY17+
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Contracting	1,392	193	61	451	1,195	539	525	131
Mining & Civil*	449	60	(38)	144	327	130	137	60
TOTAL	1,841	253	23	595	1,522	669	662	191

* Includes \$134M in 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.

Work in hand by product type



Work in hand by region





Contracting Segment

Contracting Segment

- Comprises the Group's Construction and Specialty Services businesses
- Delivers quality construction services across a number of high profile projects in all states and territories in Australia, with the exception of Tasmania and Western Australia
- Despite broadly similar turnover, profit increased by 58% compared to 1HFY14

\$'M	1HFY15	1HFY14	\$ Change	% Change
Revenue	450.8	448.4	2.4	0.5%
Profit / (loss) before tax	15.8	10.0	5.8	58.0%
Profit / (loss) before tax margin (%)	3.5%	2.2%	N/A	1.3%

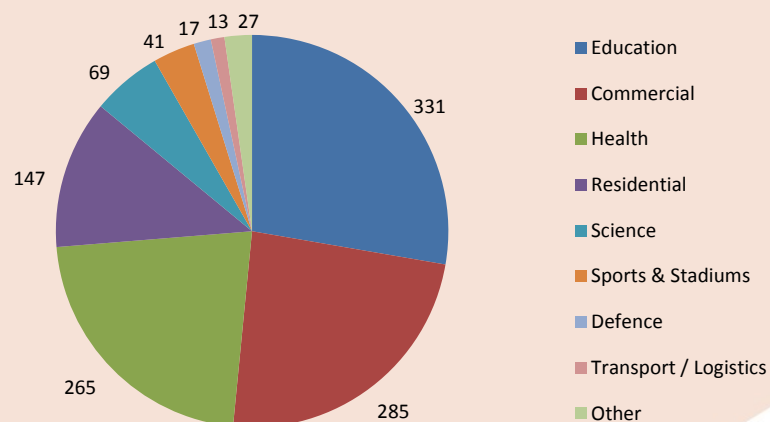
- Increase reflective of
 - successful project completion and key milestone achievements in 1HFY15
 - abnormally low 1HFY14 margin due to timing of project profit contributions
- Focus in 1HFY15 on the commencement of a number of significant and high-profile projects has reduced the Group's contracting work in hand position to \$1.2B at 31 December 2014

Contracting Work in hand

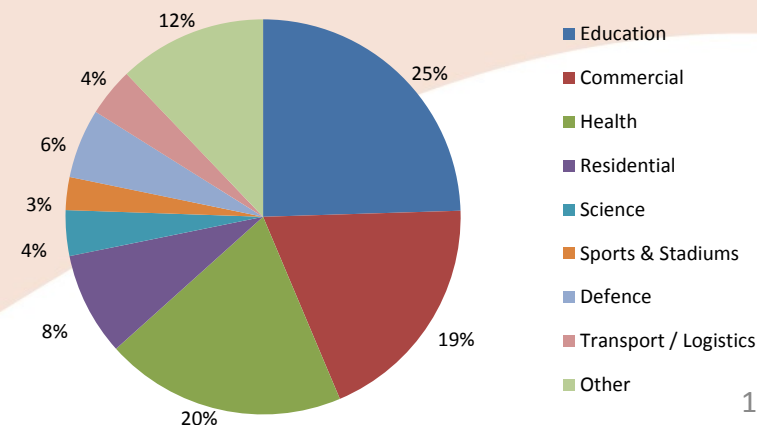
Region	Work in hand 30 June 2014	New projects secured 1HFY15	Extensions secured / scope adjustments 1HFY15	1HFY15 Turnover	Work in hand 31 December 2014	To be delivered 2HFY15	To be delivered FY16	To be delivered FY17+
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
QLD *	889	116	25	260	770	325	314	131
NSW *	290	-	19	108	201	86	115	-
VIC	208	77	17	79	223	127	96	-
SA	5	-	-	4	1	1	-	-
TOTAL	1,392	193	61	451	1,195	539	525	131

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

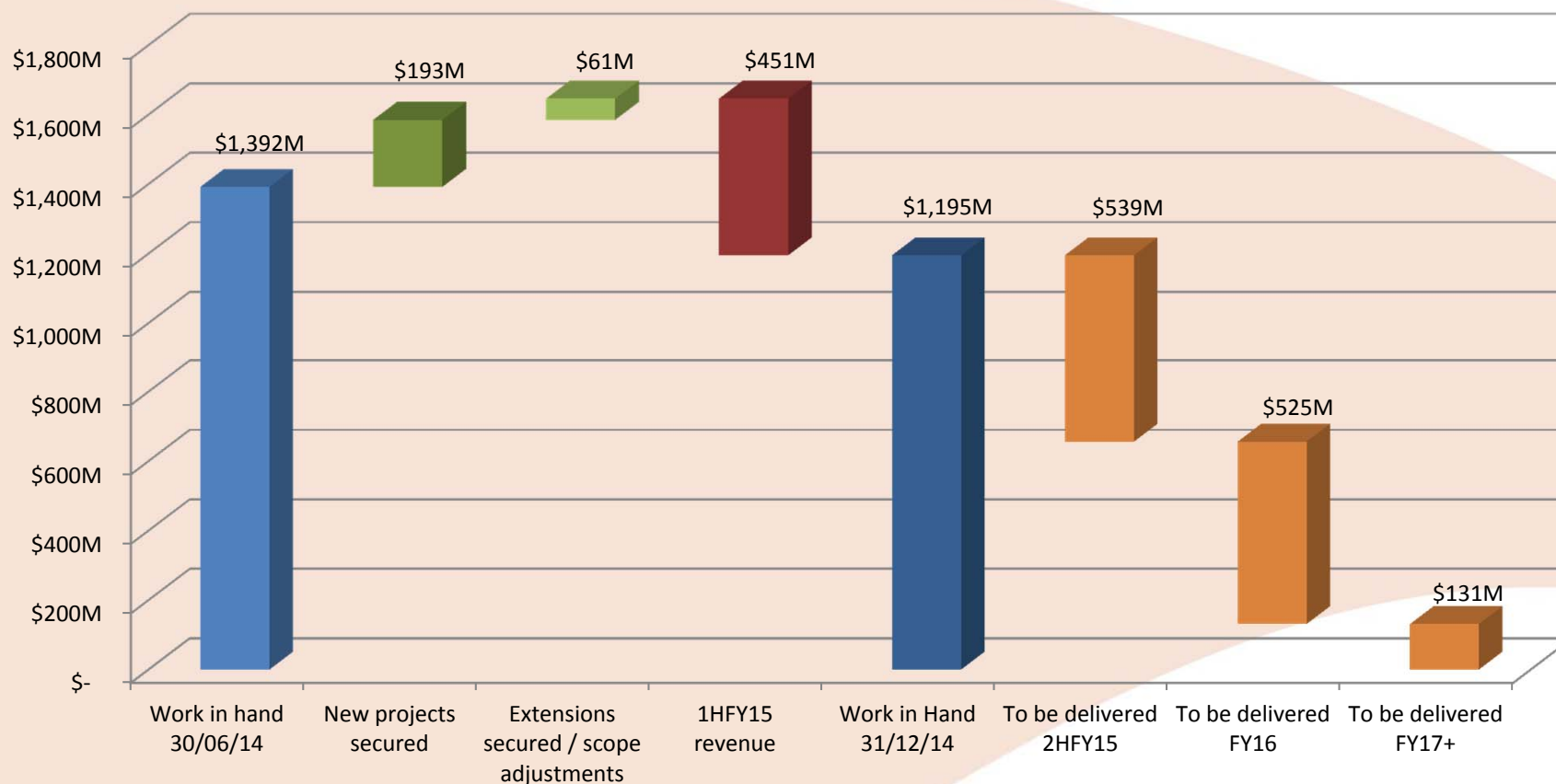
Work in hand (\$M) by Industry Sector



Original Contract Value (%) by Industry Sector



Contracting work in hand and delivery profile



Contracting outlook

- National delivery business model with composition of the forward order book weighted to projects in Qld
 - The result of current desired mix of work and return opportunities
- 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 – endorsed through \$20M increase in bank guarantee facility limit in 1HFY15
- Key strengths
 - A strong balance sheet and surplus available funding lines
 - A focus on building strong stakeholder relationships
 - Collaborative and innovative work methods
 - Unsurpassed credentials in the national construction sector across all types of projects
- Key focuses – cost leadership, repeat clients, less competitive tendering, targeted work types

Mining & Civil Segment

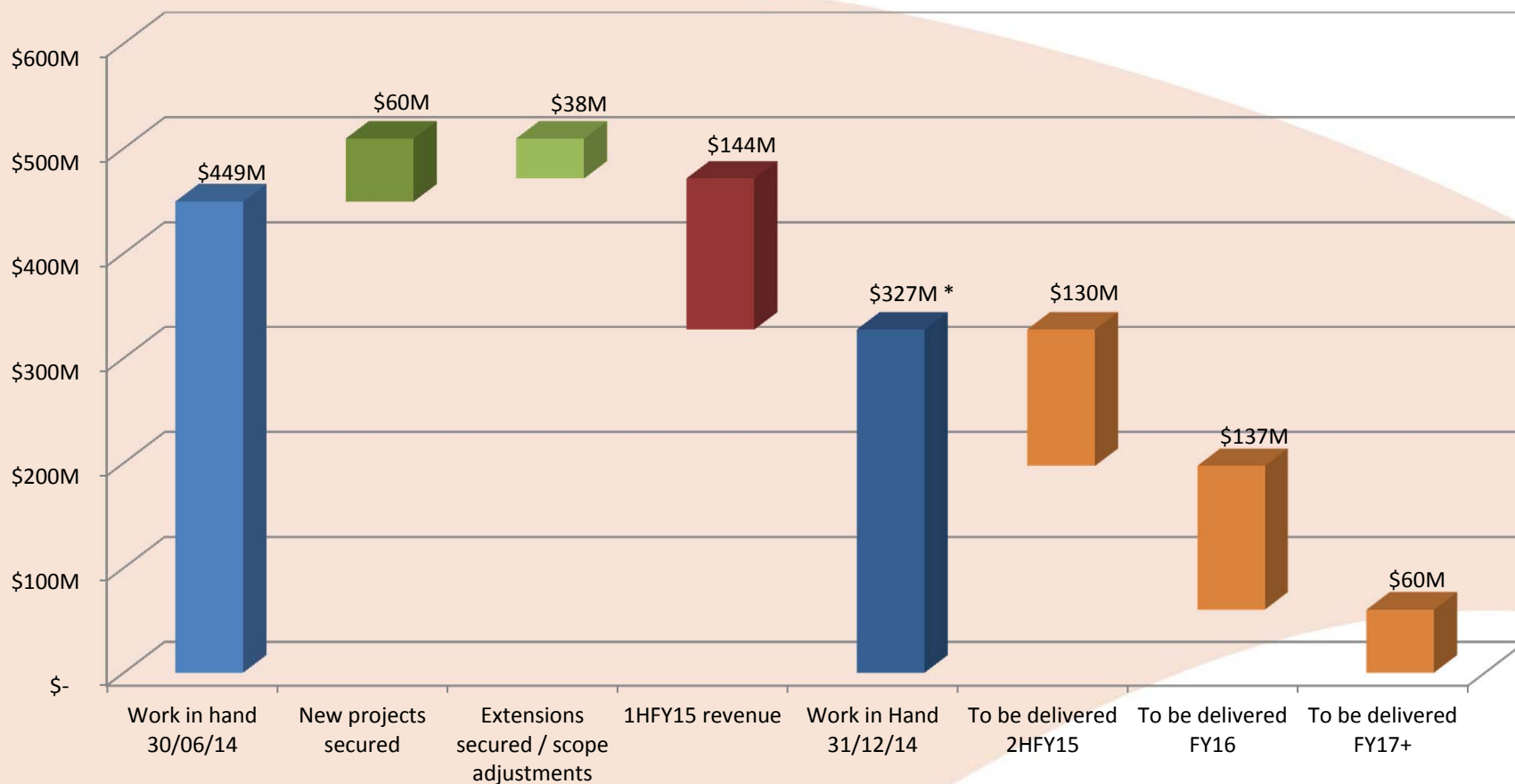
Mining & Civil Segment

- Provides contract mining services for small to medium projects throughout Australia and civil infrastructure activities in Western Australia
- National approach to all activities with strong credentials in mining iron ore, gold and mineral sands, and civil works activities
- 1HFY15 pre-tax profit declined by \$6.7M compared to 1HFY14

\$M	1HFY15	1HFY14	\$ Change	% Change
Revenue	143.7	147.7	(4.0)	(2.7)%
Profit / (loss) before tax	2.4	9.1	(6.7)	(73.6)%
Profit / (loss) before tax margin (%)	1.7%	6.2%	N/A	(4.5)%

- Resources sector downturn has resulted in reduced profitability for all operators in the sector
- Result also affected by accounting treatment on Cockatoo Island mining contract with approximately \$14M in entitlement having not yet been brought to account
- Despite market conditions, all mining and civil projects produced a positive gross profit in 1HFY15

Mining & 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

Mining & Civil outlook

- Despite resources sector downturn, new project awards in 1HFY15 include
 - \$29M mining services contract with Hanking Gold
 - \$17M tailings storage facility civil contract with Sirius Resources
 - \$8M spillway remedial civil works for WA Water Corporation
- Project awards the result of innovative work methods and a collaborative approach to working with clients
- Despite new contracts, market conditions create margin pressures and present a risk to
 - Future work levels
 - Achieving targeted return on equity metrics
- Watpac remains focused on
 - Cost competitive solutions and operational efficiencies
 - Future development of new work-winning capabilities and strategies

Mining Contracts	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
Capel	Iluka Resources	Mineral Sands

Property Segment



Property Segment

- Book value of remaining property portfolio valued at approximately \$41.1M as at 31 December 2014
- Property segment recorded a pre-tax loss of \$0.4M for 1HFY15, a 55% improvement from 1HFY14

\$'M	1HFY15	1HFY14	\$ Change	% Change
Revenue	0.4	10.2	(9.8)	(96.1)
Profit / (loss) before tax	(0.4)	(0.9)	0.5	55.5

- Improved comparative financial performance reflective of property sales over the last 12 to 24 months reducing holding and overhead costs

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

Property Outlook

Property	0 to 12 months		12 to 24 months		24 to 36 months	
	2HFY15	1HFY16	2HFY16	1HFY17	2HFY17	1HFY18
Aquarium Avenue						
Coolum Beach Retail						
Coolum Industrial 146						
Coolum Industrial 5&6						
Kingston Industrial						
Ocean Blue						
Rochedale						
Rue de Chapel						
Property developments assets anticipated realisation	\$27.5M		\$7.0M		\$6.6M	

- Group is committed to divesting Watpac's \$41.1M property development asset portfolio in a timely manner without sacrificing shareholder value
- Continued focus on ensuring all current approved uses and schemes remain appropriate to maximise value
- At 31 December 2014, property assets represented a book value of 22 cents per share
- With no property debt, all proceeds from property asset settlements will continue to be recycled back into the Group's existing core businesses

The background of the slide is a photograph of a large stadium, likely the Melbourne Cricket Ground, taken from a low angle on the field. The stands are filled with red seats, and the stadium's iconic arched roof structure is visible. Two large floodlights stand tall on either side of the field. The entire image is overlaid with a semi-transparent orange filter.

Group outlook & summary

Group outlook & summary

- 1HFY15 performance reflects strong contribution from Contracting segment with Mining & Civil hampered by difficult conditions for the sector
- Solid pipeline of work in hand across a broad range of industries
- Committed to ongoing capital recycling programme for property assets to maximise shareholder value
- Improved market conditions in construction sector enhances forward work opportunities – focus on repeat clients, less competitive tendering and targeted work types
- Downturn in mining sector a risk to future work volumes and achieving targeted return metrics – focus on cost competitive solutions and operational excellence
- Strong balance sheet further enhanced in 1HFY15 – capital management initiatives under consideration
- On track to deliver FY15 NPAT broadly in line with \$17.8M statutory result delivered in FY14

Appendix – Valuation equation

Valuation equation

	Contracting	Mining & Civil	Property	Unallocated	Total
	\$M	\$M	\$M	\$M	\$M
1H FY15 net profit before tax	15.8	2.4	(0.4)	(9.3)	8.5
Tax benefit / (expense)	(4.3)	(0.6)	0.1	2.5	(2.3)
1H FY15 net profit after tax	11.5	1.8	(0.3)	(6.8)	6.2
Market guidance – FY15 net profit after tax					Approx. 17.8
Plant & Equipment (net of debt)	5.8	87.3	-	5.1	98.2
Property development inventory assets	-	-	41.1	-	41.1
Balance – tangible assets	-	-	-	89.5	89.5
Tangible assets	5.8	87.3	41.1	94.6	228.8
	<i>Cents per share</i>	<i>Cents per share</i>	<i>Cents per share</i>	<i>Cents per share</i>	<i>Cents per share</i>
Tangible assets	3.1	46.1	21.7	50.0	120.9

- Contracting businesses and the Mining and Civil business both remain profitable
- Watpac share price was 73 cents as at 20 February 2015 representing a 40% discount to the Group's net tangible assets backing per share
- Watpac's current market capitalisation as at 20 February 2015 was \$138M



Questions

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 Interim Financial Report for the six month period ended 31 December 2014 which has been reviewed 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.