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18 August 2017

STU/NZX announcement

Steel & Tube maintains earnings while investing for future

FY17 Full Year Results to 30 June 2017

Steel & Tube Limited (NZX:STU) has announced its FY17 full year results to 30 June 2017, reporting revenue of $511.4 million, Earnings Before Interest and Tax (EBIT) of $31.1 million and a Net Profit After Tax of $20.0 million.

After excluding the non-recurring gain of $6.3 million on sale of property in FY16, FY17 EBIT was up 2% on the prior year and profit was up 3.1%.

The year on year increase reflects positive contributions from strategic acquisitions over the past four years and a continuing focus on margin management and cost efficiencies. Several of the Group's businesses delivered record or near record revenue and EBIT performances in the year.

Steel & Tube Chair, Susan Paterson, said there was much to be positive about, however, a number of external and internal factors impacted on the final result for the year which fell below the high expectations the company had set for itself.

"Over the last five years, Steel & Tube has established strong foundations through multiple strategic initiatives including business acquisitions, the ongoing optimisation and investment in facilities, and organisational change.

"Along with the rollout of a new ERP system (business process management software) across the business, these initiatives enable a much improved customer offering, reduce costs within the business, improve health and safety and position the company to lift capability and better execute its strategy. Steel & Tube is now in a position where it can gain significant operational leverage from its investments."

The Board has declared a fully imputed final dividend of 7.0 cents per share, taking full year dividends to 16.0 cents per share.

Strategic Initiatives

Steel & Tube continues to build on its successful One Company philosophy to add value to customers and create a modern and innovative company that leverages its unique capabilities, including an unrivalled product range and nationwide footprint.

An $80 million acquisition programme over the past four years has seen the stable of Steel & Tube businesses grow, and costs and working capital have increased in line with the company's expansion. One Company synergies have yielded performance improvements to all parts of the business, noticeably the acquisitions. Cost management continues to be a focus and initiatives in FY17 are enabling some cost synergies to be realised, with further overhead cost savings expected in FY18.

The next phase of facility upgrades is in progress with the opening of a purpose built facility in Dunedin in FY17, and the optimisation of Christchurch facilities into distribution and processing hubs which will open in FY18. The lease-back model is proving successful and an opportunity exists to further optimise S&T's property footprint.

The completion of the facility upgrades, and the ERP and other IT initiatives, will end a $32 million capital reinvigoration programme, which along with the acquisitions, has been funded by operating cash flows and debt. The focus is now on strengthening the balance sheet, including capturing working capital benefits from the company's significant scale and ERP investments.

CEO of Steel & Tube, Dave Taylor said: "Steel & Tube remains New Zealand's leading distributor and manufacturer of steel solutions. Our One Company approach has seen Steel & Tube modernise and become more efficient, with best-in-class acquisitions expanding our offer. Going forward, we will have an increasing focus on initiatives that leverage our unique capabilities and deliver better value to our customers through a more effective supply chain."

Operational Performance

Steel & Tube has two operating groups – Infrastructure and Distribution - that operate across three sectors. The Construction sector continues to be buoyant, however is intensely competitive, with limited resources in some areas leading to project delays impacting on subcontractors. The Manufacturing sector remains resilient with activity levels approaching pre-GFC levels, and commodity prices continue to firm for the Rural sector, leading to increasing pay-outs, improving confidence and renewed investment.

MSL and S&T Plastics both completed their first full year of contribution, following acquisition in FY16, with MSL delivering record revenues and strong EBIT.

Investment into the S&T Plastics plant in FY17 resulted in the securing of large contracts, valued at approximately $27 million, which have commenced and are expected to run through the 2017 and early 2018 calendar years. Teething issues with the manufacturing process resulted in higher scrap rates than expected, which reduced FY17 EBIT by $ 2.0 million. These issues are being addressed and scrap rates are expected to reduce considerably over coming months.

The acquisition of Composite Floor Decks Limited (CFDL) was successfully completed in October 2016, extending Steel & Tube's capability in this area. The business has performed in line with expectations even though external project delays have pushed some expected activity into the new financial year, impacting on FY17 results.

Price increases following the uplift in raw material and finished steel prices, and supply chain efficiencies, delivered a margin lift of almost 2 per cent. Management continue to monitor the balance between pricing and market share closely to achieve an optimum outcome.

The construction industry remains highly competitive and reinforcing prices are at multi-year lows despite construction activity, reducing margins and impacting on the Reinforcing business' returns.

Two reinforcing contracts have proven to be more complicated and costly than anticipated, with costs and a $1.0 million provision included in FY17. Management's focus is on mitigating additional costs and improving the Reinforcing business' service delivery and profitability.

Steel & Tube continues to work with the Commerce Commission to reach an appropriate resolution regarding the application of testing methodologies for seismic mesh, and, as a leading industry participant, supports changes for a more robust regulatory framework. The company is confident about the performance characteristics of its seismic mesh and Steel & Tube stands behind its products. Following a Group-wide review, quality resources have been strengthened and quality management processes have and continue to be enhanced.

Dave commented: "Steel & Tube is well positioned to undertake a step change in the implementation of our strategy to deliver superior value to customers and shareholders, through further integration of acquired businesses, reducing working capital and increasing operational leverage across a leaner asset base."

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Note for editors:

Steel & Tube is New Zealand's leading supplier and distributor of steel products and services. We import, distribute and manufacture around 58,000 steel products – from nuts, bolts, nails, piping, roofing, seismic mesh and farm fencing, to the largest structural steel products used in commercial construction, such as purlins, girts, joists and universal beams. From our head office in Petone, we support a network of 56 processing and distribution facilities in locations across the country. Our key industry sectors include commercial, infrastructure and residential construction, manufacturing, heavy and light engineering, energy, viticulture and rural.