SCEE Announces Record Result

Full year results for the year ended 30 June 2013

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ASX & media announcement

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Contact

SCEE HEAD OFFICE
41 Macedonia Street, Naval Base,
Perth 6165 Western Australia
T: +61 (0)8 9236 8300
F: +61 (0)8 9410 2504
E: scee@scee.com.au

Simon High
Managing Director
E: simon.high@scee.com.au

Chris Douglass
Chief Financial Officer &
Company Secretary
E: chris.douglass@scee.com.au

Colin Harper
Investor Relations Manager &
Company Secretary
E: colin.harper@scee.com.au

Highlights

- **Best financial result in SCEE's 35 year history**
- **Revenue up 26% to $278.0m**
- **NPAT up 27% to $17.3m**
- **Strong balance sheet with over $40m of cash**
- **Fully franked dividend up 20% to 2.70 cents per share**
- **Significant investment in systems and assets**
- **Record employee numbers**
- **KSJV formed to target LNG projects**
- **Continue to see opportunities for growth**

Electrical and Instrumentation contractor Southern Cross Electrical Engineering Limited ("SCEE") today released its full year results for the year ended 30 June 2013, reporting record revenue and profit figures in another year of growth.

The table below sets out the key financial information:

	Year ended 30 June 2013	Year ended 30 June 2012
Revenue	$278.0m	$220.0m
Gross profit	$61.3m	$43.4m
Gross margin percentage	22.1%	19.7%
Profit after income tax from continuing operations	$17.3m	$13.7m
Earnings per share (cents)	10.74	8.50
Final dividend per share declared (cents)	2.70	2.25

The increase in revenue was driven by significant contract wins early in the year. Rio Tinto's Cape Lambert Port B Phase A project was the largest award in the SCEE's history at over $100m, while the Anglogold Ashanti Tropicana Gold Project award was over $40m and the second portion of the Rio Tinto Yandi Sustaining Project was over $29m.

These projects ramped up in the second half and in the final quarter SCEE was operating at activity levels equating to over $400m of revenue on an annualised basis.

Both SCEE Infrastructure and SCEE Services achieved significant revenue growth in the year.

Gross margin for the year was 22.1% compared to 19.7% in 2012. While the increase is primarily attributable to the project mix, the plant and equipment investment program contributed to this by reducing the level of hired equipment utilised on projects.

The commercial close outs of the Thiess QCLNG Early Works and TSJV Lake Vermont projects continue to progress and are expected to be resolved at levels equal to or better than provided. However, risk for the coming year result remains until these close outs are achieved.

Overheads as a percentage of revenue were 11.1% in 2013, up from 9.9% in the prior year. The overhead base was proactively increased in order to prepare for and support the activity at Cape Lambert Port B Phase A and Tropicana. The later than anticipated award of these contracts resulted in a higher overhead level than planned of 12.3% of revenue in the first half but fell back to 10.2% of revenue in the second half as projects ramped up.

Profit after tax for the year was $17.3m, an increase of 27% from the prior year, and resulted in earnings per share of 10.74cps.

SCEE enters 2014 with a strong balance sheet, with cash at 30 June 2013 of $40.9m. Debt, which primarily relates to asset finance, was minimal at $4.6m. There were fixed asset additions in the year of $22.4m bringing the total spend over the past two years to $33.1m. This mostly reflects the culmination of a program to renew and expand our fleet of plant and equipment. Significant further capital expenditure is not anticipated in the coming year.

The Directors have declared a fully franked dividend of 2.70 cents per share, representing an increase of 20% on the prior year. The dividend strikes a balance between providing returns to shareholders while recognising the importance of retaining cash to support future growth.

Managing Director's comments

Commenting on the results SCEE Managing Director Simon High said "I am delighted to be able to report on another record financial result.

2013 has seen all parts of the business operating at historically high levels of activity, particularly in the second half of the year with the Cape Lambert Port B Phase A, Tropicana Gold and Yandi Sustaining projects all running concurrently.

This increase in activity was achieved without suffering a Lost Time Injury (LTI). This is our ninth consecutive LTI free year in Australia and is reflective of the emphasis our project teams place on executing their work in a manner that achieves zero harm.

Our goal in recent years has been to become recognised as a Tier One E&I contractor. While Tier One is not a clearly defined term it implies having first class people, processes, systems, plant and equipment and financial capacity. I am extremely pleased at the progress we have made in each of these areas during the course of the year.

Our employee numbers peaked in June at over 1,200, indicative of the high level of activity we are operating at as we enter 2014, and we had a record 78 apprentices enrolled in our apprenticeship program.

During the year we continued to invest in the systems and fixed assets required to sustain growth in the future. In September 2013 we will take tenancy of additional corporate office accommodation at our Naval Base premises to accommodate our increased workforce.

Outlook

We had an order book of $91.5m at 30 June 2013. This excludes revenues from recurring framework agreements.

In addition to the order book we remain in an advanced state of negotiation on a number of high value contracts, including large scale LNG work being tendered by KSJV. We also have framework agreements in place with key iron ore clients.

The environment in which we operate has changed considerably during the year. Falling commodity prices have resulted in a number of high profile resource projects being put on hold or cancelled. We have also seen clients becoming more commercially focussed on existing projects.

Despite the current uncertainty in the resources sector we continue to see opportunities for growth over the coming years.

The LNG sector presents a huge opportunity for growth with six Australian LNG plants having achieved Final Investment Decision (FID) and scheduled to be completed over the next three to five years. With up to $7 billion of E&I work to be performed on these plants, we are positioned to capitalise on this through KSJV, our joint venture with Kentech which we formed in December 2012.

The three East Coast LNG plants also have an upstream Coal Seam Gas (CSG) requirement in order to provide throughput for the plants. CSG offers a potential revenue stream for the duration of the plants' lives and not just for the construction phase. Having previously executed the QGC Early Works project we have demonstrated our capability and see significant opportunity in the sector.

Iron Ore remains a core business for SCEE. Despite the weakness in the sector we continue to see a pipeline of opportunities from the likely expansion of existing projects at Cape Lambert and Sino and potential new projects such as Roy Hill.

With the recent deferrals and cancellations of resource projects in Australia there will be increased competition to secure the work that goes ahead. Scale will become increasingly important with clients looking for contractors with sufficient operating and financial capacity. I am confident that our growth over the past two years has placed us firmly within this grouping.

While we continue to see a strong pipeline of construction work in Australia, particularly in the LNG sector, it is clear that we cannot rely solely on domestic construction as a long term growth strategy.

We see the growth of our recurring revenues as fundamental to the Company's future. We have established the SCEE Services brand and will be looking to increase its revenues considerably over the next three to five years through organic growth and by exploring acquisition opportunities.

A return to large scale international work offers an opportunity to supplement Australian revenues and we will continue to evaluate our options in this area."

About SCEE

SCEE is an emerging Tier One provider of specialised electrical and instrumentation services to Australia's resources sector.

Delivering life-of-project electrical infrastructure, construction and support services to its blue-chip customers for more than 30 years, SCEE also has a strong reputation for safety and excellence.

Our expertise and capacity enables us to undertake complex large-scale projects in harsh and remote environments.

Committed to our people with a strong focus on training and development, our track-record and collaborative, flexible approach has seen us continually expand our operations.

SCEE was established in 1978 and is listed on the Australian Securities Exchange under the code SXE.