SCEE Announces Full Year Results

ASX & media announcement

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Highlights

- **Underlying trading NPAT of $4.2m (before restructuring costs, write-downs and impairment charges)**
- **Statutory NPAT loss of $9.8m**
- **Fully franked final dividend of 2.7cps declared**
- **$44.6m cash and no debt at 30 June**
- **Restructuring initiatives implemented and overhead base significantly reduced**
- **Order book of $111m at 30 June (excludes recurring framework revenues and reimbursable awards forecast growth)**
- **Committed to targeting growth organically and through acquisition**
- **Evaluating expansion into new geographies and adjacent or complementary sectors**

Southern Cross Electrical Engineering Limited ("SCEE") today released its results for the year ended 30 June 2015 announcing a statutory loss after tax of $9.8m. After adjusting for restructuring costs, write-downs and impairment charges, the Company reported an underlying trading profit after tax of $4.2m.

2015 Full Year Results

The 2015 financial year saw a continuation of the challenging market conditions being faced by contractors in the resources sector with highly competitive tendering, lower margins and commercially focussed clients and a reduction of work in segments of the market.

In order to counter the impact of operating in these conditions the Board implemented a number of restructuring initiatives aimed at ensuring the business will be appropriately organised and efficient to operate in these market conditions. These measures included:

- a review of the organisation resulting in redundancies to effect a more streamlined structure;
- a reduction of the Company's property leases;
- the sale of plant and equipment that was surplus to forecast activity requirements;
- a review of the carrying values of assets resulting in write-downs to plant and equipment, inventory and project claims recognised in work in progress; and
- a write-down of the carrying value of goodwill from previous acquisitions.

The costs of these initiatives has been recognised in the current financial year resulting in a net loss after tax of $9.8m compared to a net profit after tax of $7.7m in 2014.

Excluding these costs, the Company made an underlying trading profit after tax of $4.2m as shown below:

	Statutory $m	Organisation restructuring $m	Asset write-downs and lease provisions $m	Claim write-downs $m	Impairment of goodwill $m	Underlying trading (unaudited) $m
Contract revenue	238.3			2.3		240.6
Contract expenses	(205.3)		0.3			(205.0)
Gross profit	**33.0**		**0.3**	**2.3**		**35.6**
Other (expense)/income	(1.0)		1.3			0.3
Employee benefits expenses	(15.9)	1.1				(14.8)
Occupancy expenses	(1.8)					(1.8)
Administration expenses	(4.7)					(4.7)
Other expenses	(1.0)					(1.0)
Depreciation expense	(6.8)					(6.8)
Amortisation	(0.1)					(0.1)
Restructuring and impairment	(11.0)	1.2	1.4		8.4	-
(Loss)/profit from operations	**(9.3)**	**2.3**	**3.0**	**2.3**	**8.4**	**6.7**
Net finance expense	(0.1)					(0.1)
(Loss)/profit before tax	**(9.4)**					**6.6**
Income tax expense	(0.4)	(0.7)	(0.6)	(0.7)	-	(2.4)
(Loss)/profit from continuing operations	**(9.8)**	**1.6**	**2.4**	**1.6**	**8.4**	**4.2**

Underlying trading revenue for the year was $240.6m representing a 10% increase from 2014.

SCEE entered the year operating at high activity levels as work was completed on the Rio Tinto Cape Lambert Port B Phase B and BHP Billiton Iron Ore Yarnima Power Station projects. Activity early in the second half of the year then slowed as a result of the completion of these key projects and a later than anticipated ramp up of new awards. Towards the end of the period there was a marked increase in mobilisations across projects, including CITIC Pacific Sino Iron and Roy Hill, which has continued into the 2016 financial year. At 30 June the order book stood at $111m, excluding recurring revenues under framework agreements and forecast growth of work under existing cost reimbursable contracts.

Underlying trading gross margins for the year were 14.8% compared to 20.1% in 2014. This is reflective of the lower margins being achieved by contractors in the current environment. The prior year gross margin benefited from strong performance in the early part of the year when several large lump sum projects, secured prior to the emergence of these tougher market conditions, were successfully closed out.

Underlying trading overheads as a percentage of revenue were 9.3% compared to 11.9% in 2014. Management has remained focussed on cost control throughout the period and, following the recent restructuring exercise, expects that overheads will reduce further in absolute terms in 2016.

After reporting a first half profit after tax of $4.1m the Company recorded only a small underlying trading profit after tax in the second half. Importantly this consisted of a loss of $1.4m in the third quarter but a return to profit of $1.5m in the fourth quarter as activity increased.

The balance sheet remained strong throughout the year and at 30 June 2015 the Company had a cash balance of $44.6m. In addition, all asset finance debt was paid out prior to the year end leaving the Company debt free.

During the year significant progress was made in settling outstanding project claims. This resulted in a write-down of WIP with an NPAT impact of $1.6m but the imminent receipt of the settlement amounts will further increase the underlying cash balance. In particular, all claims relating to projects that operationally completed in previous calendar years were settled before year end.

The Board, as always, will continue to assess recoverability of claims and consequently adjust carrying values when appropriate, but following these write-downs has enhanced confidence regarding the collectability of the carrying values of current WIP and Debtors.

Plant, equipment and systems with a book value of $3.3m were deemed to be surplus to requirements for expected activity levels and were written off or made available for sale. A loss on disposal totalling $2.2m before tax was recognised in the current year. There will be a significant decrease in our annual depreciation charge in 2016 as a result of this rationalisation. Capital expenditure is expected to remain low in the near term.

The assessment of the carrying value of goodwill from prior acquisitions resulted in a write-down of $8.4m with the value in use of the respective cash generating units being impacted by the current market environment.

The Board has declared a final fully franked dividend for the year of 2.7 cents per share which maintains the dividend at the same absolute level as 2013 and 2014. The franking account balance on hand at 30 June 2015 was $12.0m.

Managing Director's Comment and Outlook

Commenting on the full year results SCEE's Interim Managing Director and CEO Chris Douglass said "Whilst it was disappointing to report a loss in 2015, we entered the new financial year at high activity levels and are trading profitably with a strong balance sheet and healthy order book. Having implemented our restructuring initiatives during the year, the Company is more appropriately sized and structured to operate efficiently in the current market conditions. The Board remains committed to growing the company and we have surplus cash available to take advantage of opportunities that arise.

Current Activity and Order Book

The volume of activity at CITIC Pacific Sino Iron is now significantly increased and we continue to work at Curtis Island for Bechtel on the Australia Pacific LNG project through KSJV. We have also recently commenced work at Roy Hill both for Decmil and directly to Samsung. The group workforce currently totals around 1,000 employees and recruitment is continuing.

All current projects are progressing well and are profitable.

Our order book at 30 June 2015 was $111m which is a similar level to the start of the year. In addition to this we estimate that we will perform approximately a further $30m of work under existing cost reimbursable contracts which has not been included in the year end order book. These figures also exclude recurring revenues which run at approximately $2m per month.

Markets

Tendering activity remains high across the business but market conditions continue to be challenging in the domestic resources construction sector. These conditions are expected to continue for the foreseeable future as clients are faced with depressed commodity prices.

The pipeline of large scale construction work in most segments has decreased significantly as a result. We expect this to be offset to some extent by an increase in operations and maintenance and sustaining capital opportunities as capital projects are completed.

Iron Ore remains a core commodity for the Company and we expect this to continue to provide the majority of our revenues in 2016. We have existing construction work on the CITIC Pacific Sino Iron and Roy Hill projects and continue to build our relationship with BHP Billiton Iron Ore under our sustaining capital framework agreement. We also have a long standing relationship with Rio Tinto. We continue to target increased operations and maintenance work and have recently been awarded a framework agreement for

this work at an iron ore project.

In the LNG sector we have ongoing work for Bechtel on Curtis Island through KSJV. With multiple Australian LNG plants currently in construction we expect to see the requirement for electrical contractors on these projects hit its peak during 2016 and continue through into 2017. We remain hopeful that KSJV can secure work on more of these other projects.

During the year we performed some work on Queensland Coal Seam Gas projects. We continue to see opportunity for growth in this sector as once the LNG projects become operational there is a continued requirement for new gas supply to provide throughput to the plants.

We expect the coal market to remain depressed in the near term and view metals and minerals as a spot market and will tender opportunities as they arise.

Internationally we are tendering for work through our Peruvian subsidiary and we are currently evaluating a number of other overseas opportunities.

Strategy

The Board has recognised that with the volume of available work in the domestic resources construction sector expected to remain low in the near to medium term, the Company will need to look beyond its historic core market as a resources focussed E&I construction player.

We have been, and are, exploring the entry into other potential revenue streams, both geographical and in other adjacent or complementary sectors. Management is monitoring and evaluating organic and merger and acquisition opportunities that are consistent with this strategy.

We will continue to manage overheads to ensure that the business is appropriately sized for activity levels and increasing revenue from operational maintenance and sustaining capital programs remains a core strategic target."

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