

Interim Results Announcement

Half year ended 31 December 2013

25 February 2014

ASX & media
announcement

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Highlights

- Revenue of \$110.7m
- NPAT of \$6.2m up from \$4.3m in the previous corresponding period
- Maintaining strong balance sheet
- Successful delivery and close out of key contracts
- Order book of \$97.6m at 31 January 2014 with a further \$52m in advanced stages of negotiations

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Electrical and Instrumentation contractor Southern Cross Electrical Engineering Limited ("SCEE") today released its interim financial results for the half year ended 31 December 2013.

The table below sets out the key financial information for the half year ended 31 December 2013:

	Half year 31 Dec 2013 \$m	Half year 31 Dec 2012 \$m
Contract revenue	110.7	120.6
Gross profit	26.0	24.0
Gross margin %	23.5%	19.9%
Profit after income tax from continuing operations	6.2	4.3
Earnings per share	3.8 cps	2.7 cps
Interim dividend per share declared	Nil	Nil

For the six months ended 31 December 2013 SCEE has reported a net profit after income tax of \$6.2m, a 45% increase on the previous corresponding period.

SCEE entered the 2014 financial year operating at high activity levels as work continued on the Rio Tinto Cape Lambert Port B Phase A and AngloGold Ashanti Tropicana Gold projects. Both projects were successfully completed and closed out during the period.

Revenue for the period was \$110.7m compared to \$120.6m in the previous corresponding period with activity slowing towards the end of the current period as a result of a timing gap between the completion of these key projects and the commencement of new awards.

Gross margin for the period was 23.5% compared to a full year gross margin of 22.1% in the 2013 financial

year, with the increase predominantly attributable to the project mix with a high volume of work under large scale lump sum contracts being successfully completed. A financial benefit was also realised from the recent plant and equipment investment program with a reduction in the requirement for hired equipment.

Overheads for the period were \$13.9m compared to \$14.8m in the prior comparative period. As a percentage of revenue overheads were 12.5% (FY 2013: 11.1%). The overhead was sized to support the high activity levels in the early part of the period. Management continues to monitor the overhead base to ensure that it strikes an appropriate balance between cost control and operational effectiveness.

SCEE maintained a strong balance sheet throughout the period and ended December with cash on hand of \$31.3m. In addition there was a further \$33.8m of short term receivables, a significant increase on the 30 June 2013 balance of \$18.6m, due to key projects being commercially closed out and invoiced at the end of the period.

Debt at 31 December 2013 was minimal at \$3.6m and relates primarily to the financing of prior period asset acquisitions.

Capital expenditure of \$3.9m in the current period was significantly lower than in the recent prior periods. Over \$30m was invested in financial years 2012 and 2013 in order to expand and renew the asset fleet to a level capable of supporting current and forecast activity levels. A significant portion of the current period spend was on SCEE's systems development program which continued during the period with the SCEEtrak suite of project controls being implemented and the new Enterprise Resource Planning system going live.

In September SCEE's LNG focussed joint venture, KSJV, secured its first award from Bechtel to perform electrical installation services works at the Australia Pacific LNG project on Curtis Island, Queensland and commenced mobilisation and initial works during the period.

At 31 January 2014 the order book stood at \$97.6m, excluding work performed under recurring framework agreements, with a further \$52m of orders in advanced stages of negotiations.

The Directors have not declared an interim dividend for the six months ended 31 December 2013.

Managing Director's comments and outlook

Commenting on the results SCEE Managing Director Simon High said "I am pleased that we have been able to deliver a solid financial result in difficult market conditions.

Our ability to execute and close out the large scale Rio Tinto Cape Lambert Phase A and AngloGold Ashanti Tropicana Gold projects on time and on budget was key to this achievement.

That these projects, with a combined executed value in excess of \$180million, ran concurrently and saw us operating at historically high levels of activity is evidence of SCEE's recent growth into a contractor of scale and a testament to the investment we have made in our people, systems and processes.

Performing our work safely remains SCEE's highest priority and we are pleased to report that we carried out our operations in the period without incurring a Lost Time Injury (LTI) and are over nine years LTI free in Australia.

During the period we saw a continuation of the tightening market conditions that were evident towards the end of financial year 2013. Clients have become increasingly cost focussed and, as competition to secure the available work grows, contractors are coming under margin pressure.

In this environment the ability to execute our work safely, efficiently and cost effectively is of paramount importance. To that end we will continue to see a tangible benefit from our investment in project management systems and through having the capacity to utilise our own plant and equipment fleet rather than incur the cost of hired assets.

Our order book is healthy and, with further work in advanced stages of negotiations, provides good visibility into the second half of the year. Securing E&I works on Phase B of Rio Tinto's Cape Lambert Port B expansion was extremely pleasing and reflective of the quality of client service provided during our work on Phase A.

We continue to see a pipeline of opportunities, particularly in the iron ore sector, but we are seeing a move

away from the large scale projects that have been prevalent in recent years to smaller expansion and sustaining capital projects. We expect this will result in a change from the previously favoured EPCM model of contracting to a design and construct or EPC model. SCEE remains flexible in its approach to tendering and we continue to evaluate potential alliances that will allow us to provide clients with an integrated service offering.

While it was disappointing to miss out on the Wheatstone LNG awards we believe that significant opportunity remains for KSJV in the LNG sector, with the large volume of E&I work still to be performed on Australia's onshore LNG projects requiring additional capacity in order to meet delivery targets. Having secured our first award and demonstrated our capabilities, we are optimistic that LNG can become a key revenue contributor going forward.

The growth of recurring revenues from operations and maintenance and sustaining capital works continues to be a key strategic objective. We have framework agreements with key clients in both areas and will be looking to build on the solid platform we have already established through organic growth and by exploring acquisition.

Having withdrawn from large scale international work in recent periods in order to focus on the management of our domestic growth we have now resumed selective tendering on targeted overseas projects and continue to evaluate our international strategy.

While we are undoubtedly facing a more challenging operating environment we are doing so from a strong financial base and with proven operational processes and systems. We believe this provides us with the capacity to take advantage of growth opportunities that will arise."

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 global operations

SCEE was established in 1978 and was listed on the Australian Securities Exchange in 2007 under the code SXE.