

# SCEE Announces Full Year Results

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## Highlights

- Revenue of \$218.2m
- Gross margins of 20.1%
- NPAT of \$7.7m
- Maintained fully franked dividend of 2.7cps
- Strong balance sheet with net cash of \$35.2m
- Order book of \$111m at 30 June 2014 with a further \$94m awarded since year end
- Continuing to evaluate growth and acquisition opportunities in a consolidating market

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Electrical and Instrumentation contractor Southern Cross Electrical Engineering Limited ("SCEE") today released its full year results for the year ended 30 June 2014.

The table below sets out the key financial information:

|  | Year ended<br>30 June 2014 | Year ended<br>30 June 2013 |
|--|----------------------------|----------------------------|
| Revenue  | \$218.2m                   | \$278.0m                   |
| Gross profit                                       | \$43.8m                    | \$61.3m                    |
| Gross margin percentage                            | 20.1%                      | 22.1%                      |
| Profit after income tax from continuing operations | \$7.7m                     | \$17.3m                    |
| Earnings per share (cents)                         | 4.8                        | 10.7                       |
| Final dividend per share declared (cents)          | 2.7                        | 2.7                        |

Revenue for the 2014 financial year was \$218.2m representing a 21% decrease from the record result reported in the 2013. Net profit after tax from continuing operations was \$7.7m compared to \$17.3m in the prior year.

SCEE entered the 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 during the first half of the year. The second half started slowly as a result of a timing gap between the completion of these key projects and the commencement of new awards but increased in the final quarter as activity ramped up on new projects including Rio Tinto Cape Lambert Port B Phase B and BHP Billiton Iron Ore's Yarnima Power Station.

Gross margins for the year were 20.1% compared to 22.1% in 2013. The second half margins were significantly lower than the first half and are reflective of the strong margin pressure now faced by contractors.

Overheads as a percentage of revenue were 11.9% compared to 11.1% in 2013. The Company's overhead base in the first half had been sized to support the high level of activity in the early part of the year. The later than anticipated award and start-up of key second half projects meant we carried certain costs as overhead for longer than expected. As large scale projects were completed steps were taken to reduce the overhead base accordingly. Significantly, the monthly overhead expense in the final month of the financial year was 27% lower than that of the first month. Management continues to actively manage the overhead base to ensure that it achieves an appropriate balance between cost control and operational effectiveness.

Net profit after tax for the year of \$7.7m resulted in earnings per share of 4.8 cents per share. The Board has declared a final fully franked dividend of 2.7 cents per share which maintains the dividend at the same absolute level per share as 2013.

The balance sheet remained strong throughout the year and at 30 June 2014 cash in hand was \$37.9m. A further \$10.9m of receivables that were due to be paid by a client in late June were received in early July. Debt was minimal at \$2.7m and relates to asset finance.

After making a large investment in plant, equipment and systems in the prior two years, capital expenditure was significantly reduced in 2014 with additions of \$4.3m. The requirement for capital expenditure is expected to remain low in 2015.

### **Managing Director's comments**

Commenting on the results SCEE Managing Director Simon High said "The 2014 financial year has been challenging for companies in the resources sector. After reporting a record financial result in the 2013 financial year we have seen the market in which we operate change significantly in a short period of time.

With a reduction in the volume of available work, particularly on large scale capital projects, tendering has become increasingly competitive with clients placing greater emphasis on the commercial aspects of the process. We are also seeing a notable increase in the time taken to bid, re-bid and then negotiate terms and conditions which in turn has resulted in delays in contracts being awarded.

We remain focussed on improving efficiencies in order to maximise returns from projects. We successfully implemented our new Enterprise Resource Planning and Project Controls systems during the year and our enlarged fleet of owned plant and equipment now enables us to minimise the costs incurred from hiring assets.

Performing our work safely remains our highest priority and I am delighted to report that we completed our 2014 operations without suffering a Lost Time Injury (LTI). This is the tenth consecutive year LTI free in Australia.

Our order book at 30 June 2013 was \$111m. This excludes recurring Services framework revenues which currently run at approximately \$2m per month. Since the year end we have secured \$94m of additional orders, including approximately \$80m of work at CITIC Pacific's Sino Iron project.

While the volume of large scale construction work has undoubtedly decreased from the peaks of recent years we expect that this will be replaced in part by an increase in operations and maintenance works as capital projects are completed and become operational, particularly in the Iron Ore and LNG sectors. Importantly for SCEE, the E&I component of total spend increases from 3-5% during the capital phase to 12-15% in the operating phase.

In the Iron Ore sector, securing work on the next phase of the CITIC Pacific Sino Iron project was significant and, together with the completion of Rio Tinto Cape Lambert Port B Phase B, provides a solid base of construction work for the 2015 financial year.

In the LNG sector it was disappointing not to have secured a greater share of the first wave of construction awards on the six Australian onshore LNG plants. However, with the significant volume of E&I works still to be performed across the projects and limited capacity to perform it, we remain hopeful of securing further work as the projects progress.

We are optimistic that we will start to see an improvement in the performance of our East Coast business in the coming year as a result of increased activity in the Coal Seam Gas and mineral processing sectors. We are also starting to see some signs of recovery in the thermal coal market.

Winning our first major power generation contract during the year was an important milestone and opens up the potential for further work in the sector.

We have seen a significant change to the client contracting model with the majority of large scale tenders now being released as integrated packages across a breadth of capabilities, and in particular combining SMP and E&I. This has resulted in SCEE increasingly partnering with other contractors during the tender process.

We are continuing to explore acquisitions that would provide SCEE with increased scale and competence and address the market move to integrated packages. As competition for work in the sector continues we see market consolidation as inevitable in the near to medium term and are actively keeping abreast of potential opportunities.

While I expect the resources sector to remain highly competitive I am confident that SCEE has the people, systems, processes and balance sheet strength to face the challenges that lie ahead in 2015. We will continue to focus on delivering the exceptional client service on which our reputation is based while also evaluating the growth opportunities that we expect will arise.”

#### **About SCEE**

SCEE is a leading 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 was listed on the Australian Securities Exchange in 2007 under the code SXE.