

# Interim Results Announcement

Half year ended 31 December 2014

25 February 2015

ASX & media  
announcement

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## Highlights

- Revenue of \$142.0m, up 28% on PCP
- NPAT of \$4.1m, down 34% on PCP
- Overheads down 8% on PCP and targeting further reductions
- Strong balance sheet with net cash of \$32.2m
- Order book of \$110m at 31 December 2014 with \$20m awarded subsequently
- Slower than anticipated ramp up of H2 projects
- Monitoring growth and acquisition opportunities

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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 2014.

The table below sets out the key financial information for the period:

	Half year 31 Dec 2014 \$m	Half year 31 Dec 2013 \$m
Contract revenue	142.0	110.7
Gross profit	22.2	26.0
Gross margin %	15.7%	23.5%
Profit after income tax from continuing operations	4.1	6.2
Earnings per share	2.5 cps	3.8 cps
Interim dividend per share declared	Nil	Nil

The six months ended 31 December 2014 saw a continuation of the challenging market conditions that emerged during 2013. The tender process to secure available work has become increasingly competitive and commodity price weakness has seen the postponement or cancellation of a number of capital projects.

Despite the tougher operating environment, activity levels over the period were high with revenue of \$142.0m compared to \$110.7m for the six months ended 31 December 2013. Key projects in the period included Rio Tinto Cape Lambert Port B Phase B, BHP Billiton Iron Ore Yarnima Power Station and the Bechtel Australia Pacific LNG project which is being performed by SCEE's LNG focused joint venture KSJV.

Gross margin for the period was 15.7% which was down slightly on the gross margins of 16.6% achieved in the second half of financial year 2014, but represented a significant decrease from the gross margin of

23.5% in the prior comparative period when several large lump sum projects secured prior to the emergence of these tougher market conditions were successfully closed out.

Net profit after income tax for the period was \$4.1m, down from \$6.2m in the prior comparative period.

Active management of overheads during the period resulted in an 8% reduction in overheads on the prior comparative period despite a 28% increase in revenue. In absolute terms, overheads reduced from \$13.9m in H1 2014 to \$12.8m in H1 2015. As a percentage of revenue overheads were 9% of revenue compared to 12.5% of revenue in the prior comparative period. Management remains focussed on ensuring that overheads are at an appropriate level to effectively support activity and anticipates that further cost reductions will be achieved.

The balance sheet remained strong throughout the period. Cash on hand at 31 December 2014 was \$34.0m with a further \$13.6m of trade debtors which had been due prior to the end of the period being received in the first week of January 2015. Debt at 31 December 2014 was minimal at \$1.8m and relates to asset finance leases.

Capital expenditure in the period was \$1.2m and is expected to remain at a low level in the near term. This follows significant capital spend in recent financial years on the renewal of SCEE's plant and equipment fleet and systems upgrades.

Operations in the period were performed without incurring a Lost Time Injury.

### **Outlook**

Current market conditions are expected to continue for the foreseeable future with clients remaining commercially focussed as they are faced with depressed commodity prices.

The pool of available construction work has reduced significantly, but there has been an increase in operations and maintenance and sustaining capital opportunities as capital projects are completed.

The order book at 31 December 2014 was \$110m, excluding work performed under recurring framework agreements. Subsequent to the period end additional orders of \$20m have been received.

Activity in early H2 2015 has been low as a result of the completion of key first half projects and a slower than anticipated ramp up of new awards.

Given these market conditions and the risk of further deterioration, full year NPAT is uncertain and is dependent on the winning and timing of award and execution of future orders, progress of current projects remaining in line with schedules and closing out existing commercial claims as currently forecast. In this context the Board does not consider it appropriate to give definitive full year earnings guidance at the present time.

SCEE has continued to monitor and evaluate acquisition opportunities during the period with consolidation in the sector expected.

### **Managing Director's Comments**

Commenting on the half year result, SCEE's Managing Director Simon High said "The first half of the 2015 financial year saw us operating at historically high activity levels with revenues up by 28% compared to the prior comparative period. However, market conditions throughout the period have been extremely challenging with margins remaining under pressure. As the pool of large scale projects has decreased the tender process to secure available work has become increasingly competitive with price the key driver for clients.

In order to counter this, efficiency measures aimed at reducing overheads have been in place for 18 months now and we have achieved a significant decrease with overheads in Q2 2015 22% lower than in Q1 2014. This remains a key focus area for management and we are targeting further reductions through ongoing review and restructuring.

At 31 December we had a healthy order book, including the CITIC Pacific Sino Iron Project where we were

awarded over \$80m of E&I works, and continue to experience high levels of tendering activity.

The balance sheet remained strong throughout the period which provides us with the capacity to capitalise on acquisition opportunities that may arise.

As previously notified to the ASX, I will be stepping down as Managing Director and Chief Executive Officer. A formal search process for a replacement is underway and I will remain in the role until such time as an appointment is made. I am confident that SCEE's strong management team will ensure continuity during the transitional period."

### **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.

### **Non-IFRS Financial Information**

SCEE's results are reported under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The Company discloses certain non-IFRS measures that are not prepared in accordance with IFRS and therefore considered non-IFRS financial measures. The non-IFRS measure should only be considered in addition to, and not as a substitute for, other measures of financial performance prepared in accordance with IFRS.

Overheads as disclosed in the results announcement above does not have any standard meaning prescribed by IFRS and therefore may not be comparable to overheads as presented by other companies. Overheads for the current and prior comparative period have been calculated as follows:

	<b>Half year 31 Dec 2014 \$m</b>	<b>Half year 31 Dec 2013 \$m</b>
Employee benefits expenses	8.8	9.7
Occupancy expenses	0.8	1.1
Administration expenses	2.7	2.4
Other expenses	0.5	0.7
<b>Overheads</b>	<b>12.8</b>	<b>13.9</b>