Full Year Results Announcement

31 August 2020

ASX & media announcement
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Highlights

- **Third successive year of record revenues with FY20 revenue of $415.1m up 8%**
- **EBIT of $16.4m down 16% and NPAT of $10.9m down 14%**
- **Profitability impacted by Coronavirus disruption, lower average margins on now finished transport infrastructure projects and delay of some project scope into FY21**
- **Balance sheet remains strong with net cash of $55.3m and no debt**
- **Fully franked dividend of 3.0 cents per share**
- **Targeting FY21 revenues of $400m**
- **Order book of $440m includes over 80% of FY21 revenue target**
- **Over $900m of submitted tenders**
- **Continuing to pursue commercial close out of claims and variations**
- **Acquisition activity resumed following suspension in second half**

Southern Cross Electrical Engineering Limited (ASX: SXE) today released its preliminary unaudited results for the 2020 financial year.

The second half of FY20 brought the challenge of having to adapt to operating in a global pandemic. Against this backdrop SCEE has recorded its third successive year of record revenues, up 8% on the prior year to $415.1m.

However, profitability was negatively impacted by the Coronavirus-related disruption, as well as experiencing lower average margins on now finished transport infrastructure projects and the delay of some project scope into FY21. These items are discussed further below. EBIT for the year of $16.4m was down 16% on the prior year and net profit after tax of $10.9m was down 14%.

<u>Impact of Coronavirus</u>

SCEE's overarching policy since the commencement of the pandemic has been to follow government guidelines and react accordingly as and when they change. Consequently, measures to protect employee, and subcontractor, supplier and customer staff health and to reduce the likelihood of infection were implemented including various changes to working practices and roster and shift changes. Inter-state and intra-state travel restrictions had some initial impact on remote projects but have since been managed.

Construction work was designated early on as an essential service and has remained so throughout. As a result, SCEE's operations and activities have continued largely as planned. However, the second half result has been affected by the following items which, whilst individually not material, have had a significant impact on profitability in combination:

- Substantial acquisition costs were incurred in the year for which activity had to be suspended;
- The changes to working practices outlined above resulted in some loss of productivity, particularly at the early stages of the pandemic;
- Whilst no works were cancelled as a result of Coronavirus, some projects had mobilisation delayed at clients' request resulting in activity being deferred into the following FY21; and
- Levels of short-term "win and do" orders were lower than normal from March onwards.

The financial impact of the above has been partially offset by components of the Group qualifying for JobKeeper payments of $4.1m.

The business development pipeline is currently not showing any material impact from Coronavirus.

The pandemic remains a highly volatile situation and conditions may change. The Board and management continue to monitor this closely.

Results for the year ended 30 June 2020

Revenue for the year was $415.1m compared to $386.0m in the prior year, an increase of 8%.

SCEE now operates across the three broad sectors of Infrastructure, Commercial and Resources. Infrastructure now also includes works that in previous years SCEE presented separately as "Telecommunications & Datacentres" and "Industrial, Energy & Utilities". Key revenue contributors in the year for each sector were as follows:

- Infrastructure – revenue for the year was $196.0m compared to $183.3m in the prior year and remained the Group's largest sector. In transport infrastructure, work finished on the WestConnex M5 motorway tunnel project in New South Wales and the Northlink Central Section Project in WA and is ongoing at the Forrestfield Airport Link project in WA. In the health sector, the Westmead Hospital project in New South Wales is nearing completion and work commenced under the recently awarded maintenance panel arrangements with a number of Metropolitan Health Services in WA. In defence, the RAAF Tindal project in the Northern Territory has now finished. In telecommunications, NBN and carrier network construction and maintenance works continued across Australia. In energy and utilities, work continued under the Ergon Energy Queensland service agreement and was completed on the Agnew Wind Farm project in WA.
- Commercial – revenue for the year was $172.8m compared to $114.5m in the prior year. The majority of revenue in the sector continues to be generated in the New South Wales market on a range of large construction and fit-out projects including Parramatta Square 3 and 4 which are nearing completion, Wynyard Place, 231 Elizabeth Street and the Edmondson Square Town Centre Development.
- Resources – revenue for the year was $46.2m compared to $88.2m in the prior year as a result of large scale construction projects demobilising in the prior year and significant new projects at the Albemarle Kemerton Lithium Project in WA and Rio Tinto's Gove Operations in the Northern Territory not commencing until late in the current year. In particular, the Kemerton project saw planned scope deferred into FY21 impacting on the current full year result. The business continued to win and perform minor works projects for Rio Tinto and BHP and secure work under its framework agreements on the Sino Iron and Boddington Gold projects.

Gross margins for the year fell to 10.7% compared to 12.3% in the prior year, primarily due to the Coronavirus impacts discussed above and experiencing lower average margins on finished transport infrastructure projects resulting from delays and disruptions experienced performing this work.

Overheads were $23.4m, down 9% from $25.7m in the prior year due to the impact of efficiency initiatives introduced in the prior year and no Executive STI or LTI awards in the current year.

EBIT for the year was $16.4m, representing a 16% decrease on the EBIT of $19.4m in the prior year. Net profit after tax was $10.9m, down 14% compared to $12.7m in the prior year.

The balance sheet remained strong throughout the period. Net cash at 30 June 2020 increased slightly to $55.3m with no debt. The payment of the final $6.5m tranche of deferred Heyday acquisition consideration was offset by positive operating cashflows whilst the payment of the FY19 dividend was funded by an underwritten Dividend Reinvestment Plan.

During the year SCEE continued to pursue commercial close out of various finished resources and infrastructure projects for which claims and variations have been recognised in contract assets. The Decmil arbitration process, previously disclosed to the ASX, is now at the pleadings stage.

Capital expenditure for the year was $0.6m and is expected to remain at low levels.

The new leasing accounting standard AASB 16 Leases was adopted on 1 July 2019 and resulted in the recognition of $5.6m of right of use assets and $5.6m of lease liabilities in respect of operating leases. The impact that the new standard had on income statement was that EBITDA increased by $2.2m, EBIT increased by $0.1m and there was no change to NPAT.

The Directors have declared a fully franked dividend for the year ended 30 June 2019 of 3.0 cents per share, consistent with the prior year.

Outlook

Order Book

The Group continues to win work across its core markets. Significant awards during the year included the Albemarle Kemerton Lithium project ($65m), the Sydney Metro's Pitt Street Station integrated development ($40m) and the renewal of the Ergon Energy Queensland service agreement for a further five years ($40m).

The order book at 30 June 2020 was $440m, a similar level to the start of the period despite delivering record full year revenues. Over $330m of work is already secured for FY21 representing over 80% of the FY21 target of $400m.

There are currently over $900m of submitted tenders with clients pending decision.

Markets

Infrastructure

This market is primarily driven by government expenditure although some sectors have varying levels of private investment.

With significant investment sanctioned, peak activity is still to come with electrical work generally later in the cycle. Following the Coronavirus outbreak the Federal, NSW and WA governments have all announced the fast tracking of infrastructure projects which are expected to further grow the opportunity pipeline.

Having secured work on the Pitt Street Station during the year we see further opportunities presenting on Sydney Metro. There continues to be a significant pipeline of defence base and hospital work.

Commercial

Commercial remains the largest component of the order book with multiple base-builds and fit-outs in progress in Sydney and Canberra and activity is forecast to remain high in FY21. The current opportunity pipeline is not showing material impact from Coronavirus and significant commercial developments are expected around new infrastructure hubs including the Western Sydney Airport and new Sydney Metro stations. The Group is bidding its first commercial project in Brisbane.

Resources

As forecast, resources activity reached a low point in FY20. However, significant wins at the Kemerton Lithium Plant and Rio Tinto Gove have seen the order book almost double from a year ago. Mining commodity prices have held up well through the Coronavirus outbreak and the resources business development pipeline is increasingly strengthening. A number of tenders for significant iron ore and other opportunities have been submitted and are pending decisions.

Strategy

SCEE primarily sees itself as an electrical contractor. Historically focussed in resources, over the last five years we have implemented a strategy to diversify organically and acquisitively into a national Group operating across the three broad sectors of Infrastructure, Commercial and Resources.

Our growth strategy continues so as to deepen our presence in those sectors and broaden our geographic diversity. This includes particularly targeting maintenance and recurring earnings.

We are actively pursuing acquisition opportunities having suspended such activity at the start of the Coronavirus pandemic.

CEO Comment

Commenting on the results, SCEE's CEO Graeme Dunn said "FY20 saw SCEE deliver a third consecutive year of record revenues with growth of 8% on the prior year. While profit in the year was impacted by Coronavirus and other factors, the business remains in a strong position. The order book includes $330m already secured for FY21 which underpins over 80% of our 2021 revenue target and we continue to see a significant pipeline of opportunities across our sectors.

The Board remains committed to our diversification strategy and with over $55m of cash and no debt at 30 June 2020 we have funding available to progress this in the year ahead."

Authorised for release by Graeme Dunn – SCEE Managing Director

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