Half Year Results Announcement

ASX & media announcement
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Highlights

- **Revenue of $135.4m down 27% on prior 6 months impacted by later than anticipated award and execution of major resources projects**
- **EBITDA of $9.7m down 9%, EBIT of $7.3m down 9% and NPAT of $4.5m down 15% on prior 6 months**
- **Coronavirus continues to have impacts on productivity**
- **Acquisition of Trivantage Group completed in period**
- **Expecting significantly expanded H2 with works carried over from H1 and Trivantage contribution**
- **Targeting full year revenues of $420m**
- **Balance sheet remains strong with net cash of $53.3m and no debt**
- **Record order book of $500m**

Southern Cross Electrical Engineering Limited (ASX: SXE) today released its results for the half year ended 31 December 2020.

The first half of FY21 saw SCEE complete the strategic acquisition of Trivantage Group, a leading specialised electrical services provider to a range of sectors across Australia. The acquisition brings a transformational change in the breadth and depth of the group's recurring, services and maintenance offerings.

The acquisition was completed on 16 December 2020 and as such there was no material contribution from Trivantage in the results for the period.

Results for the half year ended 31 December 2020

Revenue for the half year was $135.4m, a decrease of 27% compared to the previous six months and 41% on the prior corresponding period.

Activity levels were reduced in the half due to the later than expected award of Rio Tinto Gudai-Darri works and the delayed execution of other resources projects into the second half of the year.

Key revenue contributors in the period by market sectors were as follows:

- Commercial – revenue for half year was $64m. Most of the 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 Wynyard Place and at Parramatta Square 3 & 4, where the works were completed, and continues at Parramatta Square 5 & 7.

- Resources – revenue for the half year was $32m. Work continued at the Kemerton Lithium Project in WA and Rio Tinto's Gove Operations in the Northern Territory and commenced at the recently awarded Rio Tinto Gudai-Darri iron ore project in WA. All three projects are expected to ramp up significantly in the second half.

- Infrastructure – revenue for the half year was $32m. Volumes were down on prior periods with the Westmead Hospital project in New South Wales now demobilised and the NBN construction roll-out largely completed early in the half. The Sydney Metro Pitt Street Station project is in the early stages and work continues at the Australian National University in Canberra and the RUData SYD053 data centre in Sydney.

Gross profit for the half year of $21.7m was down 5% on the prior six months and 9% on the prior corresponding period. Gross margin was 16% compared to 11% in the prior six months and 10% in the prior corresponding period.

Overheads were $12.2m compared to $10.3m in the prior six months which included $1.2m of the Trivantage acquisition-related costs of $1.9m being recognised in Administration Expenses in the period. Overheads in the prior corresponding period were $13.2m.

EBITDA for the half year of $9.7m was down 9% on the prior six months, EBIT of $7.3m was down 9% and NPAT of $4.5m was down 15%. Against the prior corresponding period EBITDA was down 11%, EBIT was down 13% and NPAT was down 18%.

In addition to the Trivantage acquisition costs noted above, the result also included the following one-off or unusual items:

- Jobkeeper receipts of $7.4m were recognised in the period as certain parts of the Group continued to qualify for the scheme;

- Coronavirus continued to have multiple minor but insidious impacts on productivity including inter-state travel restrictions, unproductive time, additional recruitment requirements, changes to methodologies and additional cleaning and PPE costs. Collectively these impacts have been evaluated as costing circa $2-3m in the period; and

- following the completion of the large-scale NBN construction roll-out in early FY21, the Datatel business has been restructured and refocussed to extend its existing capabilities to become the services and minor projects division of SCEE. This resulted in restructuring costs of $0.9m being incurred in the period.

Good working capital collection in the period meant that the balance sheet remains strong with cash of $53.3m and no debt at the end of the period compared to $55.3m at 30 June 2020. This was despite a net cash outflow for the Trivantage acquisition of $21.3m and the payment of $7.2m for the FY20 dividend.

The Decmil arbitration process is continuing with a conclusion expected this calendar year.

The acquisition of Trivantage in the period resulted in the addition of $6.6m of net tangible assets and $39.6m of goodwill and intangible assets onto the Group's balance sheet. The initial accounting for the acquisition has been provisionally determined at the end of the period. Should this assessment change prior to year-end, including in respect of the identification of any additional intangible assets which may by their nature be amortised over their useful life, then the goodwill arising on acquisition will be adjusted accordingly.

Capital expenditure for the period was $0.4m and is expected to remain at low levels.

Outlook

Order Book

The Group continues to win work across its core markets. Significant awards during the half year included the Rio Tinto Gudai-Darri project ($65m) and circa $40m of commercial and datacentre projects in Sydney and Canberra.

The Group now has a record order book of $500m, including a $60m contribution from the acquisition of Trivantage, with secured works well balanced across SCEE's three sectors.

There are currently over $700m of submitted tenders with clients pending decision and strong visibility of the Group's opportunity pipeline.

Markets

Resources

Resources activity has rebounded since the low levels of FY20. The pipeline is expected to continue to grow as commodity prices remain high. Significant opportunities are emerging in iron ore, lithium, and renewables developments alongside resources projects.

Current ongoing works at the Kemerton Lithium Plant, Rio Tinto Gudai-Darri and Rio Tinto Gove projects will be strong revenue contributors in the second half.

We continue to perform minor works projects at various Rio Tinto and BHP sites and at Sino Iron and Boddington Gold.

Commercial

The Commercial sector remains the largest component of the order book. Wynyard Place and the Ribbon Project are expected to be the largest revenue generators in the sector in the second half of the year.

The medium-term outlook for the sector remains strong as developments commence around new infrastructure hubs.

Infrastructure

Infrastructure will be a less significant contributor in FY21 as the WestConnex, RAAF Tindal and Westmead Hospital projects are largely completed. However, peak activity in the sector is still to come with significant investment sanctioned and electrical work generally later in cycle.

Works on the Pitt Street Metro project will ramp up in FY22 and we are bidding further opportunities on Sydney Metro and continue to target other hospital, transport and defence opportunities.

Full year expectations

A significantly expanded second half is expected as work carried over from H1 is delivered and the Trivantage contribution is added to the Group. Full year revenues of $420m are targeted.

Strategy

SCEE primarily sees itself as an electrical and associated services contractor diversified across the resources, commercial and infrastructure sectors.

Our growth strategy falls in two parts:

- To continue to deepen our presence and broaden our geographic diversity in those sectors, noting the strong outlooks for resources and infrastructure; and
- To grow our services, maintenance and recurring earnings offerings to complement our construction capabilities.

We will achieve this through both organic initiatives and by continuing to actively pursue acquisition opportunities.

CEO Comment

Commenting on the results, SCEE's CEO Graeme Dunn said "the first half of the year has seen us significantly expand the Group's capabilities and geographical presence through the acquisition of the Trivantage Group. The combination of this acquisition and a record order book means we are confident of delivering a much stronger second half result. Going forward, with a resurgent resources sector and strong infrastructure pipeline, we are well placed to execute our growth strategy."

Authorised for release by Graeme Dunn – SCEE Managing Director

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