# ASX Announcement

ADBRI
Building Australia since 1882

**25 August 2021**

# ADBRI DELIVERS STRONG FIRST HALF RESULT

## Financial Highlights

- Reported net profit after tax (NPAT) of $56.6 million, up 94.5% on 1H20.
- Underlying NPAT of $55.0 million, up 15.5% on 1H20 driven by improved demand for construction materials and delivery on cost initiatives.
- Revenue increased to $752.3 million, up 7.4% on 1H20 with robust demand, particularly on the eastern seaboard, driving higher volumes across all products.
- Cost-out program on track to deliver an expected $10.0 million in net annual savings.
- Underlying EBITDA margins improved from 17.5% to 17.7%, benefitting from disciplined implementation of cost efficiencies across the Group.
- Strong balance sheet and liquidity – gearing (net debt/equity) 33.3% and leverage ratio of 1.5 within Board's target range, while financial ratios well within banking covenants.
- A fully franked interim dividend of 5.5 cents per share, up from 4.75 cents per share in 1H20, has been approved representing a payout ratio of 65.3% of underlying earnings.

## Operational & Strategic Highlights

- Adbri announced its aspiration to be net zero of carbon emissions by 2050.
- Secured three-year contracts for the supply of lime to Northern Star and Newmont, in addition a formal agreement has been reached with Alcoa to supply lime to their Wagerup facility until the end of September 2021, with commercial discussions well advanced for continuation of supply until the end of January 2022.
- Our Mawsons joint venture has agreed to acquire the Milbrae concrete, aggregates and crushing business, adding 7 concrete plants and 13 quarries in regional NSW growth corridor, from 1 July 2021, subject to completion.
- Kwinana Upgrade underway – award of contracts will see project activity ramp-up in second half – delivering future reduced operating cost and more sustainable environmental footprint.
- Sale process commenced for Hilltop land site in Geelong, with anticipated execution in late 2021 or early 2022.
- Post period end, long-term gas deal with Senex was secured, locking in important portion of gas requirements in South Australia until 2029, as part of risk-based energy sourcing strategy.

Leading construction materials and lime producer Adbri Limited ("Adbri" or "the Group") (ASX: ABC) today announces its financial results for the half year ending 30 June 2021 (1H21).

Adbri delivered first half revenue of $752.3 million, up 7.4% on the prior corresponding period (1H20: $700.7 million) following an improvement in conditions, particularly in NSW and QLD which saw robust demand for construction materials, driving higher volumes across all products.

The Group recorded NPAT of $56.6 million, up 94.5% on 1H20 and underlying NPAT of $55.0 million, as a result of improved demand for construction materials and delivery on cost reduction initiatives.

Commenting on the first half result, Adbri Chief Executive Officer, Nick Miller, said:

*"Adbri delivered a robust first half financial performance for 2021 recording solid growth in revenue and profits with improving margins as demand for construction materials rebounded, supported by increased residential housing activity and infrastructure spending.*

*"We have made strong progress in executing on our strategic priorities and investment initiatives, while continuing to maintain a disciplined focus on managing our cost base. We have identified a number of further cost savings initiatives, including securing long-term low cost supply of natural gas in South Australia and increased use of Refuse Derived Fuel (RDF), which supports our aspiration to be net zero by 2050 and bottom line going forward.*

*"Sales volumes in July and August have been in line with or ahead of expectations across all markets, except NSW and SA due to lockdowns. However, earnings in the second half will be impacted by a reduction in lime volumes to Alcoa, the anticipated commencement of a competing cement import terminal in NSW and COVID-19 impacts including, limitations on construction activity and increased costs caused by the delayed return of the Accolade from its drydock in Singapore. A formal agreement has been reached with Alcoa to supply lime to their Wagerup facility until the end of September 2021, with commercial discussions well advanced for continuation of supply until the end of January 2022. We remain well positioned to benefit from increasing construction activity as a result of ongoing Government stimulus, while navigating continued uncertainty from the Delta strain of COVID-19."*

**Operational Review**

A detailed review of the Group's operating performance for the half is provided in the Appendix 4D lodged with the ASX. Overall, demand for the majority of Adbri's products improved during 1H21, compared to the prior comparative period. 1H20 volumes in New South Wales, Victoria and Queensland were impacted by bushfires, floods and smoke, and later, by disruption to construction activity caused by the initial reaction to the COVID-19 pandemic.

*Cement and Clinker sales volumes up 10.6% – with robust demand in east coast markets*

Cement and clinker sales volumes increased 10.6% driven by higher demand in east coast markets, the recommencement of cement supply to a key customer in South Australia and stronger mining volumes.

*Lime sales volumes up 3.4% – supported by non-alumina market growth*

Lime volumes increased 3.4% due to new supply contracts to customers such as Evolution's Mungari gold operation and expansion of supply to existing customers including Northern Star's Super Pit and Newmont's Boddington mine, displacing imported product.

*Concrete and Aggregates – sales volumes up as demand improved across most markets*

Concrete sales volumes increased 7.1% compared to 1H20, improving across all markets, with the exception of Victoria which was 13.5% lower mainly due to the delayed start-up of multi-residential projects. Aggregate sales volumes increased 22.3% reflecting the higher demand from concrete, supply to infrastructure projects in South Australia and the Northern Territory, and increased output from the Scotchy Pocket quarry, north of Brisbane.

*Concrete Products – reversion to normal trading*

Revenue from Concrete Products reduced 4.3%. Volumes improved marginally, however this was more than offset by a 2.4% decline in pricing, which was driven by lower retail sales, lower revenue from installations and lower demand for underground mining supports. Demand from the retail channel which experienced significant growth in 2020, has in part reverted to more normal trends in 2021.

Pleasingly, operational efficiencies, including lower cartage costs and centralisation of administration resources, more than offset the decline in revenue resulting in EBIT growth to $6.8 million.

*Joint Arrangements and Associates – earnings contribution increases across all JVs*

Increased demand in New South Wales and Victoria led to ICL's revenue increasing by 2.0%. Costs were well controlled, leading to an improvement in EBIT margins, delivering an increase in contribution to Adbri's earnings of 4.9% to $8.6 million.

Sunstate's contribution to earnings increased 200% due to higher volumes supported by improved residential demand, early stage spending on infrastructure projects and an increase in offtake by Adbri's joint venture partner.

Mawsons' contribution to earnings increased 16.7% to $3.5 million, supported by an increase in residential construction in regional Victoria and strong demand for our quarry products supplied to road and rail projects across the region.

The earnings contribution from Aalborg increased by $0.5 million to $0.4 million, with the prior corresponding period having been impacted by restrictions on production and exports from its Malaysian facility as a result of COVID-19.

**Strategic Progress**

Adbri made strong progress in the period executing on its strategic priorities and investment initiatives which are aimed at creating long-term shareholder value.

*Cost reduction and operational improvement*

The Group is focused on being the lowest cost producer serving the Australian domestic market. The efficient operation of our major assets, with a focus on reducing our carbon footprint, are priorities which require capital investment, leading to increased operational and financial performance in the long-term.

The Group has continued to implement its cost reduction program and is on track to deliver net savings of $10.0 million for 2021 through initiatives targeting: energy, procurement and operational efficiencies. The program builds on the $15.5 million in net savings realised last year.

As part of the major upgrade project to modernise Adbri's cement operations in Kwinana, the Group commenced procurement of long lead items and award of contracts during the period. The Kwinana Upgrade is a $199 million investment that is projected to deliver future cash cost savings of circa $19.0 million in its first full year of operation, on a more environmentally sustainable footprint.

In May 2021, the Group announced its aspiration to be net zero of carbon emissions by 2050 and is developing a roadmap to support its target. An important element of the roadmap will be increasing the substitution of gas in favour of RDF. The EPA has approved our Birkenhead facility in South Australia to use RDF for up to 45% of its kiln fuel requirement which will translate to further cost savings as well as delivering a reduction in carbon emissions from this facility.

After the period end, the Group announced a long-term gas deal with Senex, locking in an important portion of its gas requirements in South Australia. This, together with increased RDF usage and other favourable energy arrangements, is anticipated to deliver approximately $15.0 million in annualised savings compared to 2020 by 2025.

*Targeting downstream integration and diversification*

Adbri continues to identify opportunities to build-out its vertically integrated position to support its long-term growth.

The Group's Scotchy Pocket quarry, commissioned in 2020, continues to ramp-up to full capacity. Its proximity to growth markets on Queensland's Sunshine Coast supports its cost competitiveness, positioning the Group to participate in the infrastructure project tender pipeline.

Shortly after the period end, Adbri's Mawsons joint venture agreed to acquire the Milbrae business in regional New South Wales from 1 July 2021, subject to completion. This acquisition adds an additional seven concrete plants and 13 quarries in regional locations which are complementary to the Mawsons business.

Planning for the Badgerys Creek site near the Western Sydney Airport continues, with development approval for a concrete plant targeted for early 2022.

*Increased exposure to infrastructure*

Adbri's vertically integrated footprint and cost competitive offering has positioned the Group to secure new work in the infrastructure sector. Over the past 12 months, the Group has secured the following infrastructure projects:

- Bruce Highway Cooroy to Curra, Qld
- Camp Kerr Army Base Road Upgrade, Qld
- Brisbane Airport, International Apron Pavement Rectification, Qld
- Tramworks Replacement, Vic
- Osborne North Development Project, SA
- Tindal Airbase, NT
- Alice Springs Airport, NT
- US Ordinance Building, NT

Government stimulus at the local, state and federal level will provide strong demand support for construction materials well into the future with the infrastructure pipeline in contestable markets for Adbri, exceeding $130 billion over the next two years and over $300 billion over the next eight years.

This pipeline includes major projects such as Sydney Metro West, Western Sydney Airport, Sydney Airport, Western Sydney Airport Link M12 Connector, Port Botany Rail Duplication, North East Link, Melbourne Airport Link, Tindal Airbase, Coomera Connector and Main South Road duplication in South Australia.

*Maximising value from land holdings*

Adbri has continued to advance activities aimed at maximising shareholder value from a number of current, and future, surplus land assets, focussing on developing long-term annuity streams.

During the period, a request for proposal was issued with submissions being received from major reputable developers.  The Group is currently evaluating these proposals which indicate the presence of a substantial value creation opportunity, subject to rezoning, development and funding. Market conditions will impact values and timing of realisation, with greater certainty for near term projects.

The Group has commenced a sale process in relation to its Hilltop Land in Geelong, with a sale anticipated in late 2021 or early 2022.

*Transformation of the lime business*

During the period, the Group secured three-year contracts for the supply of 75,000 tonnes per annum (tpa) of lime to Northern Star and also 20,000 tpa of lime to Newmont's Boddington Gold Mine. In addition, a formal agreement has been reached with Alcoa to supply lime to their Wagerup facility until the end of September 2021, with commercial discussions well advanced for continuation of supply until the end of January 2022. Consequentially, kiln 5 is now expected to be mothballed in 4Q 2021.

Adbri continues to develop its options to increase its exposure to the quicklime market and will be better positioned to provide an update on its preferred strategy in late 2021. Meanwhile, the Group is progressing feasibility studies for several exciting prospects to support the growth of our Western Australian lime business including the development of lime kilns in Kalgoorlie and Bunbury; the reactivation of a lime kiln operation in Kwinana; and the development of our various associated land holdings.

## Strong Financial Position

Operating cash flow of $76.8 million declined $39.5 million compared to 1H20, largely due to the one-off benefit in the prior year of COVID-19 stimulus measures with the temporary deferral of GST and PAYG payments that boosted 1H20 cash flow by circa $30 million.  These measures reversed in 2H20 following payment of the deferred liabilities and were not repeated in 1H21.

Capital expenditure declined relative to the prior comparative period, decreasing from $73.2 million to $67.6 million and was split between stay-in-business capital of $51.8 million and development capital of $15.8 million.

Net debt of $411.9 million represents a leverage ratio of 1.5 times underlying EBITDA and 33.3% gearing. Both credit metrics are within the mid-range of the Board's target range and reflect the strong balance sheet of the Group.

The Board has approved a fully franked interim dividend of 5.5 cents per share, up from 4.75 cents in 1H20, representing a payout ratio of 65.3% of underlying earnings.

## Outlook

Government stimulus measures are anticipated to benefit demand for construction materials in 2H21. The Company has shown resilience, with sales volumes in line with, or ahead of, Company expectations during July and August across all jurisdictions except New South Wales and South Australia, which were both interrupted by COVID-19 restrictions.

The Group's cost-out program is likely to deliver slightly better than anticipated savings due to securing of low-cost energy contracts, which will benefit the second half as well as earnings well into the future. The Group's cost programs are targeted to deliver approximately $100 million(1),(2) in gross cost savings over the next five years, exclusive of cost headwinds.

(1) Assumptions based on Management's assessment current at the date of this document which may change subject to risks and uncertainties including, but not limited to, Government licensing and regulations, market supply and demand, availability of kiln/calciner fuels and supplementary cementitious materials, changing market conditions, costs and pricing, completion of capital projects and availability of funding.

(2) Gross cost efficiencies are exclusive of cost headwinds and do not represent a forecast.

Earnings in the second half of the year are traditionally higher than the first half due to seasonality. However, 2H21 earnings will be impacted by the reduction of lime volumes to Alcoa, the anticipated commencement of a competing cement import terminal in NSW and COVID-19 impacts including, limitations on construction activity and increased costs caused by the delayed return of the Accolade from its drydock in Singapore.

Capital expenditure will increase in 2H21 as the Group advances investment in its Kwinana and Accolade projects with full year expenditure expected to be approximately $200 million.

Surplus land sales are anticipated to deliver $20-$30 million in proceeds over the next two years, including the Geelong Hilltop land which is expected to be sold in late 2021 or early 2022.

The uncertainty brought about by the Delta strain of COVID-19 makes it difficult to provide any further update on the Group’s financial outlook at this time.

Authorised for release by the Board.

-ENDS-

## About Adbri

Adbri is a leading Australian construction and building materials company listed on the ASX. Established in 1882 and formerly known as Adelaide Brighton, Adbri has grown into a vertically integrated manufacturer and distributor of cement, lime, concrete, aggregates, concrete products and industrial minerals to customers in the residential and non-residential construction, infrastructure, alumina production and mining sector. The Group employs more than 1,500 people across Australia and, with its joint ventures, operates 57 quarries and 102 concrete plants supporting its portfolio of 22 brands.

## For further information please contact:


**Darryl Hughes**
General Manager, Corporate Finance and Investor Relations
+61 417 814 290
darryl.hughes@adbri.com.au

**Jon Snowball**
+61 477 946 068
jon@domestiqueconsulting.com.au

**Lauren Thompson**
+61 438 954 729
lauren@domestiqueconsulting.com.au

Domestique
Media Advisor