ASX Announcement

24 February 2022

Media Release - Adbri Delivers Robust Full Year Result

We attach Media Release in relation to the Company’s financial result for the full year ended 31 December 2021.

Authorised for release by the Board.

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Media Release

24 February 2022

Adbri Delivers Robust Full Year Result

Leading construction materials and lime producer Adbri Limited ("Adbri" or "the Company") (ASX: ABC) today reported results for the full year ending 31 December 2021 (2021).

Results Summary

- Reported net profit after tax attributable to members (NPAT) of $116.7 million, up 25%
- Underlying NPAT[1] of $119.1 million, up 3%
- Revenue up 8% to $1,569.2 million due to volume growth in all products, other than lime
- Further pre-tax gross cost savings of $26.1 million achieved, exceeding target
- Balance sheet strength – gearing of 34.5% and leverage ratio 1.6x, well within banking covenants and Board's capital management target range
- Return on Funds Employed (ROFE) down marginally to 10.6%, which remains above cost of capital. Normalising for COVID and operational non-recurring costs of $16.2 million, ROFE increases to 11.6%
- Fully franked final dividend of 7.0 cents per share approved, taking total dividends for the full year to 12.5 cents per share. Payout ratio of 68.5% on underlying earnings

Financial Performance

The Company reported revenue of $1,569.2 million (2020: $1,454.2 million) with increased sales volumes experienced for all products other than lime. Strong sales demand was experienced across all sectors including residential, commercial, infrastructure and mining.

Reported NPAT attributable to members increased from $93.7 million to $116.7 million and includes property sale profits of $6.1 million after tax and non-recurring significant items totalling $2.4 million after tax. Underlying NPAT including property sales rose 3% to $119.1 million (2020: $115.6 million).

Commenting on the result, Adbri Managing Director & Chief Executive Officer, Nick Miller, said:

"We have delivered a robust financial result in 2021, reflecting our geographic and sector diversity and our team's disciplined focus on supporting our customers and executing our strategy. The result is particularly pleasing in the context of significant COVID related challenges and disruption during the year.

"Mining and construction demand remain buoyant while the construction materials sector is benefiting from a strong pipeline of infrastructure projects and residential construction approvals.

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[1] Underlying NPAT, Underlying EBIT, Underlying Return on Funds Employed are non-AIFRS measures reported to provide greater understanding of the Group's underlying business performance and exclude significant items. Full details of significant items are contained on Pages 69 and 70 of the 2021 Annual Report.

"We are progressing the roadmap for our aspiration to achieve net zero Greenhouse Gas emissions by 2050. An important element in achieving near term emissions reduction will be increasing the use of alternative fuels, including Refuse Derived Fuel (RDF) to substitute for gas at our Birkenhead facility in South Australia. In 2021, the Group achieved 2% reduction in emissions compared to 2020.

"We expect growth in underlying earnings, driven by increased contributions from cement, concrete, aggregates, masonry and joint ventures, as well as contributions from recently acquired assets such as Milbrae, Metro Quarry Group and Zanows, which remains subject to completion. Earnings from lime will reflect reduced volumes for Alcoa, although this will be partially offset by import substitution demand from the mining sector.

"Adbri remains in a robust financial position with resilient cash flow and a strong balance sheet. Investment grade credit metrics and available liquidity of $453.7 million ensure we remain well funded to continue with transformative strategic initiatives that drive improved asset performance and operational efficiency, supporting higher shareholder returns over the long term."

Operational Review

Cement and Lime

Growth was achieved in cement volumes during the year despite variable demand due to temporary government lockdowns that closed the construction sector in Victoria, New South Wales, South Australia and Northern Territory. Pleasingly, activity rebounded strongly when these restrictions were lifted.

Outside of lockdowns, demand from the infrastructure, commercial, residential construction and home renovation markets in all states saw cement volumes and revenues grow.

Lime volumes decreased as the Alcoa contract wound down, although the impact was far less than anticipated due to extended supply arrangements with Alcoa, which have now been contracted through to January 2023, combined with a large volume of new and extended contracts that diversify supply away from the alumina sector. A contract extension with Adbri's second-largest lime customer, South32, and agreements with Northern Star and Newmont Boddington reinforced Adbri's reputation for reliable domestic supply.

Unplanned one-off costs, such as the temporary extended closure of the Birkenhead facility for one of our largest scheduled maintenance programs and the Accolade's delayed return from Singapore after a major refurbishment, impacted margins. This, together with lower Alcoa lime volumes and increased shipping demurrage costs, led to an overall decrease in divisional earnings.

Concrete and Aggregates

Robust underlying housing and civil infrastructure market conditions, including the flow-on effects of previously secured infrastructure projects and the HomeBuilder grant program, drove increased volumes and together with tight cost controls facilitated modest price and margin increases for our Concrete and Aggregates business.

Concrete and aggregate volumes increased by 9% and 22% respectively, despite temporary construction industry restrictions in some markets and states due to the pandemic.

Strong underlying housing and civil markets led to higher concrete demand in Queensland, New South Wales and South Australia. Victoria was softer in early 2021 due to timing around key projects in metropolitan Melbourne and the impact of COVID restrictions on construction customers. However, demand accelerated later in the year.

Major civil and project works in South Australia, Queensland and the Northern Territory underpinned growth in demand for aggregates, with Adbri's vertically integrated business model providing customers with certainty of supply.

Masonry Products

The continued diversion of discretionary spending into home improvements generated a robust market for Adbri's masonry products in 2021.

Overall, sales revenue increased by 2% to $149 million as compared to the prior year, with growth driven by supply of tolled products to competitors in New South Wales and North Queensland and underpinned by our key markets of retail landscaping, commercial and civil construction products.

In the commercial and engineering segments, we experienced year-on-year demand growth of 14% and 2% respectively, despite lockdowns in New South Wales and Victoria. This demand was driven by commercial and government projects.

The Masonry division continued to expand Adbri's range of sustainable building and paving products, including concrete bricks.

Joint Ventures

The earnings contribution from Joint Ventures increased by $6.4 million to $33.3 million compared to the prior corresponding period.

Strong demand across the southeast Queensland construction sector, saw a 115% improvement in Sunstate's contribution to earnings.

ICL and Mawsons also increased their earnings contributions by 13% and 23% respectively, despite COVID related disruptions in the Victorian and NSW construction markets during the year.

Safety and Sustainability

We continue to focus on improving capability and our processes while retaining and attracting talent to deliver on our sustainable growth agenda.

Adbri's Safety Step Change program, developed in consultation with our employees, continues to help change behaviours and identify critical risk areas. During the year we made strong progress in safety lead indicators such as critical control audits and visible leadership. While disappointingly, our total recordable injury frequency rate (TRIFR) increased to 6.3 in 2021 from 5.6 in 2020, our TRIFR is 41% lower than in 2019. This short-term deterioration highlights that we need to remain vigilant and continue to work in support of our "Work Safe, Home Safe" vision.

In 2021, Adbri further reduced our total operational emissions by 2% compared with 2020. This represents a 4% reduction against our FY19 baseline and a 32% reduction since 2010.

We will release our Net Zero Emissions Roadmap before our AGM in 2022.

Strong Financial Position

Operating cash flow of $195.2 million was in line with expectations but lower than 2020 which benefitted from tax refunds.

Capex increased marginally to $140.5 million ($103.4 million stay-in-business capex and $34.5 million for development). Development projects included the purchase of a pugmill and road access works for the Scotchy Pocket quarry, upgrade of the Birkenhead drymix plant, and $14.1 million for the Kwinana Upgrade Project.

The Company injected $32.2 million into a new 50/50 joint venture to acquire the Metro Quarry Group's sand assets in Victoria.

The balance sheet remains strong supported by improved debtor days. Net debt increased by $65.3 million to $437.4 million at 31 December 2021, representing a leverage ratio of 1.6 times underlying EBITDA and gearing of 34.5%, while interest cover was 14.4 times underlying EBITDA. These key credit metrics remain investment grade and within the Board's target of 1-2 times EBITDA for leverage and 25-45% for gearing. Liquidity remains strong at $453.7 million. The Group's funding facilities were extended in early 2022, increasing the weighted average term from 3.5 years to 5.1 years, with a slight improvement in pricing.

The Board has declared a final ordinary dividend for the period ending 31 December 2021 of 7.0 cents per share, fully franked. Dividends for the full year 2021 totalled 12.5 cents per share, representing a payout ratio of 68.5% of underlying earnings within the Board's target range of 65-75%.

Strategic Initiatives

Strategic initiatives undertaken during the year included several significant acquisitions on the eastern seaboard that extended and complemented Adbri's vertically integrated footprint. These help us remain strongly positioned to continue capitalising on the increased demand for construction materials and provide increased pull-through of our higher value products.

In 2021, we continued our cost reduction program, exceeding our target to realise gross savings of $26.1 million through operational efficiencies, procurement and a more simplified organisational structure. Net cost out taking account of anticipated cost headwinds of $13.6 million, was $3.6 million better than expected. However, unanticipated COVID-related cost impacts of $14.4 million and non-recurring operational costs of $5.9 million, negatively impacted the result.

Our vertically integrated footprint and cost-competitive offering continued to position us strongly in the infrastructure sector with our targeted tendering approach delivering strong wins. Successes include the Bruce Highway Cooray to Curra upgrade, north of Brisbane, the Brisbane International Airport apron pavement rectification and the Western Access Road works at Tindal Airbase in the Northern Territory.

Construction commenced on the important Kwinana Upgrade Project in Western Australia. The Kwinana Upgrade Project will provide greater efficiencies in our Western Australian cement operations, with reduced electricity and diesel use, and lower emissions, compared to the existing operations.

Progress on the lime strategy included completion of a pre-feasibility study for a new kiln in Kalgoorlie and commencement of a definitive feasibility study, expected to take 12-18 months.

In December 2021, we completed the sale of our Hilltop land in Geelong. This forms a small part of Adbri's much broader strategy to realise significant value for shareholders by gradually developing and or divesting our surplus land portfolio.

Outlook

Operating a sustainable and safe business continues to be a fundamental part of Adbri's role as an industry leader. As part of this commitment, we will release our NZE Roadmap prior to the 2022 Annual General Meeting.

Favourable market conditions are expected to continue in the construction and resources sector.

Buoyant residential construction will underpin a strong order book until at least the middle of 2022, while multi-residential activity is also beginning to increase. Heightened activity in the commercial industrial segment, and our increasing exposure to the pipeline of infrastructure projects will support demand for construction materials, notwithstanding project delays caused by COVID related isolation measures, labour and supply chain challenges.

Growth in underlying earnings is expected, driven by increased contributions from cement, concrete, aggregates, masonry and joint ventures, as well as contributions from recently acquired assets such as Milbrae, Metro and Zanows (subject to completion). Earnings from lime will reflect reduced volumes for Alcoa, although this will be partially offset by import substitution demand from the mining sector.

Net proceeds from surplus land sales over next 12 months are expected to be at least $20 million.

Cost increases for items such as pallets, shipping, labour and west coast gas will be partially offset by the Group's ongoing cost reduction program, with incremental gross savings of more than $10 million targeted for 2022.

Excluding business acquisitions, 2022 capex investment in the order of $250-$300 million, including $150 million for Kwinana Upgrade Project, currently on track to meet mid-2023 schedule. Taking into consideration current information on inflationary pressures, the project is expected to be delivered at a cost in the order of $200 million.

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