
22 August 2022

Media Release - Adbri First Half 2022 Results and Outlook

We attach Media Release in relation to the Company's financial result for the half year ended 30 June 2022.

Authorised for release by the Board.

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ADBRI FIRST HALF 2022 RESULTS AND OUTLOOK

Leading construction materials and lime producer Adbri Limited (“Adbri” or “the Company”) (ASX: ABC) today reported results for the half year ended 30 June 2022 (1H22).

Financial Headlines

- Revenue increased to \$812.4 million, up 8.0% on 1H21 driven primarily by strong construction and mining sector demand and improved pricing across most products
- Statutory NPAT decreased 15.0% to \$48.1 million
- Underlying NPAT¹ decreased 1.3% to \$54.3 million on 1H21. 1H22 was impacted by operational challenges associated with extreme wet weather events on the east coast of Australia; anticipated lower lime volumes; higher raw materials, shipping, transport, power and fuel costs; partially offset by out-of-cycle price increases and profit on property, plant and equipment sales
- Underlying net profit after tax, excluding property profits² on the compulsory sale of the Rosehill land of \$8.1 million after tax, totalled \$46.2 million
- Cost-out program delivered \$7.5 million in gross savings for 1H22, only partially offsetting inflationary pressures
- Robust balance sheet and liquidity during period of significant capital investment to drive future returns – gearing³ of 43.2% and leverage ratio⁴ of 2.0 times
- Fully franked interim dividend of 5.0 cents per share, down from 5.5 cents per share in 1H21, equating to 70.6% dividend payout ratio of underlying earnings excluding property profits

Operating and Strategic Headlines

- Safety performance, TRIFR⁵ of 6.4, an 8.6% improvement on 1H21, but up 1.6% from 31 December 2021. Improvement in lead indicators demonstrates proactive safety culture
- Sale volumes increased across many of our product lines as strong demand continued in the construction and mining sectors, despite significant disruption due to severe weather events on the east coast of Australia
- Completion and integration of key acquisitions extending our vertically integrated footprint
- Launch of Net Zero Emissions Roadmap, including new medium-term 2030 targets
- Infrastructure growth journey continues with a 29% win ratio on tenders bid in 1H22 and awarded. Order book increased by circa 30% since 31 December 2021
- Moorebank and Kewdale surplus land sales processes initiated. Rosehill land compulsorily acquired.
- Kwinana Upgrade circa 25% complete (with procurement approximately 75% committed) and on schedule for commissioning in mid-2023. Taking into consideration known inflationary and supply chain pressures, the project cost is expected to be circa 15% higher than originally forecast

¹ Includes property profits and excludes significant items. Property profits relate to gain on Rosehill land compulsorily acquired and excludes post-tax gain on disposal of plant and equipment of \$5.9 million, which is included in statutory and underlying profit. Significant items are non-recurring items of revenue and expenses such as restructuring, rationalisation and acquisition costs.

² Property profits relate to gain on Rosehill land compulsorily acquired and excludes \$5.9 million post-tax gain on plant and equipment disposal, which is included in statutory and underlying profit

³ Gearing – net debt/equity. Net debt is calculated as total borrowings less cash and cash equivalents. Lease liabilities recognised under AASB 16 are excluded from net debt.

⁴ Leverage ratio - net debt/rolling 12 month underlying EBITDA (includes property profits and excludes significant items).

⁵ Total Reportable Injury Frequency Rate (TRIFR) is the number of recordable injuries per million man hours worked. Adbri's TRIFR includes employees and contractors

A detailed review of operations and market demand is provided in the Appendix 4D.

Adbri's Managing Director and Chief Executive Officer, Nick Miller, said:

"We have delivered another period of top line growth, with increasing volumes across the majority of our product lines as strong demand continued in the construction and mining sectors, despite significant disruption to the business as a result of severe weather events on the east coast of Australia.

The Company has actively managed its pricing strategy to partially mitigate significant inflationary pressures while continuing to execute our cost reduction program to deliver savings and protect earnings.

Adbri enters the second half in a robust financial position to advance key strategic initiatives including the Kwinana Upgrade project, the Kalgoorlie kiln definitive feasibility study and the performance of recent acquisitions.

We expect growth in underlying earnings for 2H22, driven by increased contributions from cement, concrete, aggregates, masonry, joint ventures and recent business acquisitions, subject to weather, inflationary headwinds and traction with out-of-cycle pricing."

Safety and sustainability

Adbri's commitment to providing a safe workplace is unwavering. Our 1H22 TRIFR was 6.4, an 8.6% improvement on 1H21, but up 1.6% from December 2021. Our lead indicators continued to show promising results with a 67.0% increase in visible leadership walks on 1H21.

In May 2022, Adbri released its Net Zero Emissions Roadmap that set new medium-term emissions reduction targets for cement, lime and electricity, working towards the goal of net zero emissions by 2050. The Roadmap prioritises three key actions: to reduce emissions; create new products; and collaborate with key partners. During 1H22, we have engaged key stakeholders on the Roadmap and are building our capability to implement emissions reduction initiatives. Our collaboration with key partners, including Calix and the HILT CRC has continued during the half. We have also joined a new collaboration with AGL on a green hydrogen energy hub study in South Australia.

Strategic initiatives

During the half, Adbri continued to execute against our strategic priorities to deliver business improvement and growth.

Reduce cost and improve operational efficiency

- The cost reduction program has delivered \$7.5 million in gross savings for the period, only partially offsetting inflationary pressures
- Alternative fuel use at our Birkenhead cement facility increased, with the substitution rate at 39% (up from 35% in FY21), reducing reliance on natural gas and exposure to the energy market
- The Kwinana Upgrade was 25% complete at 30 June. Committed procurement is approximately 75% complete, with commissioning on schedule for mid-2023. Taking into consideration known inflationary and supply chain pressures, the project cost is expected to be circa 15% higher than originally forecast

Transform the lime business

- Continued execution of the lime recovery strategy, building volumes from new and existing customers
- Lime volumes for the half were 446kt, indicating an annual run rate in the order of 890kt
- Lime pricing is expected to grow as customers, previously reliant on imports, turn to domestic manufacturers
- The definitive feasibility study for the Kalgoorlie kiln is progressing, with mine planning and front-end engineering design underway, and on track for completion in 1H23

Grow concrete and aggregates

- Completed Zanows' concrete and quarries acquisition in South East Queensland in April
- Integration of Milbrae operations in regional NSW into the Mawsons Joint Venture progressing
- B&A Sands acquisition in Victoria now providing security of sand supply
- Earnings contribution from new acquisitions was lower than expected, however improvement is anticipated in H2

Enhance capability in infrastructure

- Completion of the Brisbane International Airport apron concrete works, our first major airside project in recent times and a key part of our expansion into the infrastructure sector
- Initial supply of 230,000 tonnes of quarry material and 2,000 cubic metres of concrete to the Northern Territory RAAF Base Tindal project, with significant volumes to continue
- Our win ratio was 29% on tenders submitted in 1H22 and awarded
- Our infrastructure order book has increased by circa 30% since 31 December 2021

Actively manage land holdings

- Rosehill sale completed as part of the Government's compulsory land acquisition program, while a small parcel of land at Kewdale, Western Australia is anticipated to be settled in 2H22
- The sale of the Moorebank masonry site in NSW, which was decommissioned in 1H22, has commenced
- Rehabilitation of the Batesford quarry in Victoria is progressing in parallel with assessment of development options with the local council and potential partners

Solid financial position

Operating cash flow of \$68.0 million declined \$8.8 million compared to 1H21, mainly driven by lower earnings and higher working capital levels resulting from higher revenue. Debtors have been well managed with only a slight increase in debtor days compared to June 2021 and a reduction in bad debts.

Capital expenditure increased relative to 1H21, from \$67.6 million to \$115.1 million, with spend split between stay-in-business capital of \$67.8 million and development capital of \$47.3 million.

Proceeds received from Sydney Metro for the compulsory acquisition of the Rosehill concrete plant and property totalled \$37.5 million.

Net debt increased by \$116.5 million over the reporting period to \$553.9 million at 30 June 2022, representing a leverage ratio of 2.0 times underlying EBITDA and gearing of 43.2%. These key credit metrics remain investment grade and within banking covenants.

The Group's funding facilities were extended in early 2022, increasing the weighted average term to 4.6 years, with a slight improvement in pricing.

The Board has announced a fully franked interim dividend of 5.0 cents per share, representing a payout ratio of 70.6% of underlying earnings excluding property profits, which is within the Board's target range.

2022 Outlook

The current uncertain economic and operating environment makes it difficult to provide quantitative guidance at this time. Subject to these uncertainties, demand for our products from the residential, infrastructure, commercial and mining sectors is expected to remain strong in 2H22. Further out-of-cycle price increases will assist Adbri in actively managing inflationary pressures, with pricing traction key to our ability to deliver.

We anticipate strong demand for cement, although building and project completion timelines are being extended due to materials and labour shortages.

Lime volumes are anticipated to be stable in H2 versus H1. Lime pricing is expected to improve with new customers seeking reliable domestic supply due to supply chain disruptions experienced by importers.

Demand is expected to remain strong for concrete and aggregates to the end of the year, and if weather abates in NSW, will be buoyed by the commencement of delayed projects and flood recovery works. Softness in retail spending is expected to impact masonry demand, with increased interest rates impacting household discretionary spend.

Gross cost savings of circa \$10.0 million for the year, will only partially offset ongoing cost headwinds in areas including pallets, shipping, labour, power, fuel and raw material prices.

Excluding business acquisitions, 2022 capex investment is estimated to be approximately \$300.0 million, including circa 40% for the Kwinana Upgrade project.

Proceeds from land sales for Rosehill and Kewdale are expected to be in excess of \$20.0 million for the year, with the compulsory acquisition of Rosehill now complete. The sales processes for Kewdale and Moorebank are progressing.

We expect growth in underlying earnings for 2H22, driven by increased contributions from cement, concrete, aggregates, masonry, joint ventures and recent business acquisitions, subject to weather, inflationary headwinds and traction with out-of-cycle pricing. This reflects the benefits of Adbri's resilient and diversified business model, position as a local manufacturer and strong market demand.

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