SGH | Industrial Services, Media, Energy and Investments

24 August 2022

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PRESENTERS' NOTES

Seven Group Holdings Limited (ASX: SVW) attaches the speakers' notes for the FY22 Full Year Results Investor Presentation.

This release has been authorised to be given to ASX by the Managing Director & CEO of Seven Group Holdings Limited.

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Seven Group Holdings Limited is a leading Australian diversified operating and investment group with market leading businesses and investments in industrial services, media and energy. In industrial services, WesTrac is the sole authorised Caterpillar dealer in Western Australia, New South Wales and the Australian Capital Territory. WesTrac is one of Caterpillar's top dealers globally (by sales value). SGH owns Coates, Australia's largest nationwide industrial and general equipment hire business. SGH also has a 69.9% shareholding in Boral, an international building products and construction materials group. In energy, SGH has a 30.0% shareholding in Beach Energy and has interests in oil and gas projects in Australia and the United States. In media, SGH has a 38.9% shareholding in Seven West Media, one of Australia's largest multiple platform media companies, including the Seven Network, 7plus and The West Australian.

SGH FY22 Results Presentation
Speaker Notes
24 August 2022

Slide 1 – Ryan Stokes

Opening Title Slide

Good morning and welcome to Seven Group Holding's result presentation for the year ended 30 June 2022.

I'm Ryan Stokes, Managing Director and CEO, and joining me today is Richard Richards, Group CFO.

Slide 2 – Ryan Stokes

Group Overview - FY22 Highlights

I'm pleased to be reporting a strong Group result for the year, achieved through outstanding performances from the majority of our businesses.

Against a backdrop of robust customer demand, WesTrac and Coates delivered resilient earnings, which coupled with strength at Beach and SWM, delivered solid earnings growth for the Group.

It's been a busy year for SGH, we've been able to gain control of Boral, re-focus its portfolio on domestic construction materials, and repay the Bridge facility established to fund the acquisition.

All whilst maintaining focus and discipline in our other businesses, including managing inflationary pressures, which is reflected in EBIT margin expansion across most of the Group.

In terms of the continuing operating businesses, revenue of $8 billion is up 66 per cent, while EBIT of $987 million is up 25 per cent on a reported basis and 8.3 per cent on a pro-forma basis.

Though Boral's results were impacted by construction lockdowns, unseasonably wet weather, and energy costs they were able to grow revenue, highlighting the strong demand for their products and reinforcing the Boral opportunity.

Slide 3 – Ryan Stokes

Group Overview – SGH Advantage

Firstly I would like to give more context on our investment process, and how it's enabled us to deliver results. We focus on four things when evaluating our investments.

First, we look for businesses that operate in sectors with underlying momentum.

Second, we look for companies with market leading or privileged positions.

Third, we look for businesses with defensible positions, to offer a competitive advantage.

And finally, we look for opportunities where the Group can make a difference to deliver superior results.

The net outcome of this process is a resilient Group portfolio, with strong results and positive earnings outlook.

Slide 4 – Ryan Stokes

Group Overview – Earnings Growth

We continue to deliver strong earnings across our operated businesses, reflective of the resilience of the SGH portfolio.

FY22 Group underlying EBIT of $987 million, was up 25 per cent on a reported basis, and 8.3 per cent on a pro-forma basis.

Flowing into that result, our WesTrac business delivered EBIT of $426 million, up 6 per cent on strong support revenue.

At Coates, EBIT of $246 million is up 16 per cent, on strong revenue growth and operating leverage.

Boral's FY22 EBIT of $107 million was down 32 per cent, with impacts from extreme weather, unmitigated energy costs, and COVID related shutdowns.

And finally, the contributions from the Energy and Media segments were both very robust, up 50 per cent and 40 per cent respectively.

Slide 5 – Ryan Stokes

Group Overview – Key Financials

In terms of key financial metrics, trading revenue of $8 billion was up 66 per cent year on year, buoyed by strong customer demand and the consolidation of Boral.

We delivered profit growth, with underlying EBITDA of $1.5 billion, up 39 per cent, underlying EBIT up 25 per cent or 8.3 per cent pro-forma, and Statutory EBIT of $1.04 billion up 13 per cent.

The underlying NPAT from continuing operations was $577 million, up 14 per cent, while statutory NPAT of $607 million was down 4 per cent, impacted by one-off items, predominantly at Boral and SWM.

Our EBITDA cash conversion of 63 per cent was down 25 per cent, reflecting our decision to build inventory at WesTrac to support customer demand.

Finally, in line with our approach of stable and growing dividends over time, we have retained our final dividend at 23 cents per share, bringing our full year dividend to 46 cents per share fully franked.

Slide 6 – Ryan Stokes

Group Overview – People, Safety & Culture

While I'm pleased to highlight our financial performance for the year, it's just as important that we deliver on our people, safety, culture and ESG goals to strengthen the organisation.

Ensuring the 14,000 people working across the Group remain safe is our top priority, and to that end we continue to invest in safety systems and processes.

over the past five years we have made good progress in reducing the number of incidents across the Group.

Unfortunately, we saw an increase in safety incidents in the first half of the year. Addressing this, we launched various intervention programs in the second half, that have begun generating improvement in lead safety indicators.

Skilled and specialist labour shortages are an ongoing industry thematic. We have responded, by increasing our apprenticeship and trainee programs and flexing our workforce to create additional capacity and strengthen our development pipeline.

I'm also pleased to report strong progress towards our diversity goals, with an overall increase in female representation for the Group in FY22.

Slide 7 – Ryan Stokes

Group Overview - Sustainability

We've made progress on our sustainability journey over the past 12 months, releasing our first Sustainability Report, and setting interim targets on our path to net zero greenhouse gas emissions by 2040 for WesTrac and Coates.

The first steps along this path have been taken, with solar panels in operation at our WesTrac Port Hedland site, and the next tranche of solar and LED lighting installations now underway at eight additional sites.

In terms of how we support our customers, Coates has released its Greener Choices range to help customers on their ESG journeys, and Caterpillar has been leading the way in developing zero emission equipment solutions, in partnership with key WesTrac customers.

Slide 9 – Ryan Stokes

Industrial Services - WesTrac Highlights

WesTrac continues to benefit from strong customer demand across both mining and construction, with WA and NSW among the top performing CAT dealers globally.

In mining, production volume growth is expected to continue across our key commodity exposures well into this decade, driving customer activity, and supporting our market opportunity. In infrastructure, the project pipeline suggests strong demand for construction equipment will also continue.

With increasing fleet age, customer demand for support is expected to grow, not just for components, but increasingly for full machine rebuilds to further extend the life of their equipment.

Longer term, as we look to a progressive transition to electrified mining fleets, WesTrac is well positioned to benefit from CAT's market-leading products and partnerships with global mining leaders on zero emissions solutions.

Slide 10 – Ryan Stokes

Industrial Services - WesTrac Financials

WesTrac achieved revenue growth of 4 per cent for the year, buoyed by strong customer demand and growth in used equipment sales. EBIT margin also rose slightly to 11 per cent, reflecting our operating leverage. The net result of this was a 6 per cent increase in underlying EBIT to $426 million.

As touched on earlier, the Group made a strategic decision to build inventory in FY22, to support customer activity and mitigate supply chain disruptions, driven by the increase in demand.

WesTrac inventory has grown by $305 million during the year, and we've also seen a significant increase of machines and parts in transit, resulting in a reduction in operating cash flow to $121 million.

Ultimately this movement reflects positively on the outlook for WesTrac, with growth in inventory to support greater demand for both equipment and particularly support activity. We expect our cash conversion to return to historical levels over the next 18 months.

Slide 12 – Ryan Stokes

Industrial Services - Coates Highlights

Coates went from strength to strength, building on its position as the largest equipment rental company in Australia.

The key equipment activity metric, time utilisation, averaged 59.6 per cent over the year, which was up 7 per cent, reflecting strong customer demand and Coates' continuous improvement to fleet management.

The Coates fleet has an original replacement cost of $1.8 billion. The business is the major provider of end-to-end solutions in large scale activity, such as temporary works engineering and industrial shutdowns. At the other end of the market, Coates is progressing its partnership with Bunnings, which is increasing penetration into the trades segment.

Given the nature of its products, Coates is traditionally one of the first on-site in the early stages of construction and infrastructure activity. The observed increase in customer demand for these early-stage projects is a strong indicator of the infrastructure pipeline being delivered.

Slide 13 – Ryan Stokes

Industrial Services - Coates Financials

In terms of financial performance, Coates delivered a strong result, with revenue of $1 billion, up 7 per cent for the year.

The underlying EBIT margin expansion of 9 per cent was driven by operating leverage and disciplined pricing strategy, which resulted in a 16 per cent increase in EBIT to $246 million.

The business has also demonstrated uplift in Return on Capital Employed, which at 14 per cent is now at its highest level in ten years, demonstrating the quality of the business and its performance.

We remain confident in the outlook for Coates, with short to medium-term earnings supported by the continued strength in construction activity and infrastructure spending, while long-term earnings are expected to benefit from the growing infrastructure and renewables pipeline.

Slide 15 – Ryan Stokes

Industrial Services - Boral Highlights

FY22 was a year of change for Boral, successfully realigning the portfolio and simplifying its organisational structure. In short, building a better Boral.

Recognising the strength of Boral’s Australian construction materials business, we have refocused its portfolio on this sector, divesting non-core assets and returning excess capital to shareholders.

Other highlights of the year include the structural simplification of the organisation to improve efficiency and agility, the implementation of a more dynamic approach to pricing, and most recently, the appointment of a new CEO and MD, to accelerate Boral’s performance journey.

We see the business’ unique asset position in the construction materials sector as firmly aligned with SGH’s investment strategy, and we strongly believe that Boral’s profitability can be improved by the same operational discipline and strategic focus that has yielded success in our other Group businesses.

Slide 16 – Ryan Stokes

Industrial Services - Boral Financials

Boral's FY22 result was significantly impacted by extreme wet weather, unhedged energy price exposure and construction lockdowns. Despite these operating conditions, the business grew revenue from continuing operations to $3 billion, up 1 per cent year on year.

The underlying EBITDA from continuing operations excluding property was $325 million, down 15 per cent year-on-year on a pro-forma basis, reflecting the impact from externalities discussed earlier.

In terms of operational highlights, I am particularly proud of the improved penetration of Boral's low carbon concrete offering, which saw a +135 per cent sales increase in FY22. Boral expects to be a market leader in low-carbon concrete offerings, and FY22 demonstrated clear progress towards that goal.

Looking forward, we will continue our relentless focus on improving margins at Boral. This can be achieved through disciplined execution and a combination of structural simplification, pricing discipline, effective sales, and customer service. We remain confident in our ability to restore appropriate profitability to this iconic Australian company.

Slide 18 – Ryan Stokes

Energy - Beach Energy

Turning to Energy. We continue to see strategic value in the oil and gas sector, and see the current strength in energy prices as consistent with our long-term thematic of global energy shortages.

Against this backdrop, Beach delivered revenue of $1.8 billion, up 13 per cent, and underlying net profit after tax of $504.3 million, up 39 per cent.

The operational highlight for Beach was the successful delivery of the 7-well Otway offshore program, on time and on budget, with two wells from the program already connected to the Otway Gas Plant.

Beach is well positioned to capitalise on a tightening domestic gas market, with over 60 per cent of its gas expected to be uncontracted or re-priced by FY24, and a clear pathway to increasing long-term production.

Looking further forward, the Watsia development will provide the business exposure to a tightening global LNG market by FY24, at which point Beach will boast five production hubs supplying five distinct commodity markets.

Slide 19 – Ryan Stokes

Energy – SGH Energy

SGH Energy took FID on the Crux development, alongside JV partner, Shell, in May. The pathway is clear for the development of this vital backfill resource for the Prelude FLNG facility.

The business holds a 15.5 per cent share in the project, importantly, with the right to market its produced gas volumes. With a supply gap in global LNG markets forecast to widen to more than 15mtpa by FY25, Crux represents significant value for the business, whether developed by SGH Energy or divested via a sale process currently underway.

Slide 21 – Ryan Stokes

Media - Seven West Media

Seven West Media continued their successful transformation in FY22, with revenue and SGH's share of EBIT up 21 per cent and 52 per cent, respectively. Seven West now boasts the largest and #1 total television network, the #1 BVOD service and the fastest growing print and digital media brands in the country.

The business successfully executed its strategy to grow and strengthen in FY22, through content leadership, digital transformation, strengthening its balance sheet, and the acquisition of Prime Media, which has extended Seven's reach to over 90 per cent of Australians.

The company is now well positioned to capitalise on broadcast ratings and earnings momentum carried into FY23, and has announced an on-market buyback of up to 10 per cent of shares on issue over the coming year.

I will now hand over to Richard to take you through the Group's financials. Richard.

Slide 23 – Richard Richards

Profit and Loss

Thank you, Ryan and good morning.

Slide 23 provides both the statutory and underlying NPAT for the year.

I refer you to the Annual Report for the detailed statutory presentation. We do not propose to talk to discontinued operations given they have now been disposed.

The financial result for the year reflects the outperformance of the majority of our businesses.

Revenue of $8bn was up 66 per cent supported by the consolidation of Boral. To aid comprehension, we have outlined the comparative year on a pro-forma basis in the Appendix, generating a pro-forma FY21 underlying EBIT of $911m. This highlights the Group's effective earning growth assuming Boral's continuing operations were fully consolidated in the comparative year.

Comparing to the pro-forma, SGH Group revenue is up 3 per cent, demonstrating the resilience of the three key thematics of mining production, infrastructure investment and energy, which when coupled with disciplined management, delivered underlying EBIT of $987million up 8.3 per cent on a proforma basis.

The Group's underlying net finance costs increased 61 per cent to $254 million, reflecting the cost of the $3.2 billion bridge facility and swaps and includes Boral's net funding costs of $84m and SGH funding costs of $170 million.

The Group's underlying effective tax rate remained constant at 22 per cent, reflecting the proportion of equity-accounted earnings and fully franked dividends in the overall Group result.

Adding the profit from discontinued operations of $109 million less net Significant Items of $79 million delivers a Statutory NPAT of $607 million, down 4 per cent, of which $558 million is attributable to SGH shareholders.

Slide 24 – Richard Richards

Significant Items

Significant Items relating to the investment in Boral includes the $757 million gain on the revaluation on acquisition, effectively offset by the impairment of Boral goodwill of $728 million.

IFRS required SGH to fair value the consideration paid to acquire Boral, which effectively gets reflected in the recognition of goodwill. As a result of the performance of Boral during the year, SGH was required to test its acquisition goodwill, which includes this fair value adjustment, against Boral's cash flow model resulting in the recognition of a $728 million impairment.

The Group also recognised directly incurred acquisition costs of $8 million, net amortisation of fair value adjustments of $6 million and Boral transformation project costs of $73 million, principally relating to restructuring and IT systems impairment.

Consistent with Boral, their property segment net loss of $2 million, after eliminating the $7.6 million profit on properties fair valued on acquisition, has also been excluded from underlying earnings.

Seven West includes a $4 million share of their significant items, which principally relate to the reversal of onerous provisions less Prime acquisition adjustments, offset by an $83 million mark-to-market impairment loss of our investment, based on the share price at 30 June, and $10 million of dilution losses on award of equity incentives.

Other Significant Items include $55 million of profit on discontinued operations, and below the line we recognised $12 million of Bridge establishment costs.

A tax benefit of $28 million was also recognised, relating to the abovementioned significant items.

Slide 25 – Richard Richards

Business Unit Earnings from continuing operations

Slide 25 details the underlying EBIT result across each segment, providing a reconciliation to statutory EBIT after allocation of the significant items.

WesTrac's earnings were up $25 million or 6 per cent, reflecting product support growth of 8 per cent, on strong customer demand to support aging mining fleets. Capital sales were down 3.5 per cent. This delivered margin expansion with operating leverage offsetting inflationary impacts.

Coates successfully navigated the headwinds of construction lock downs and weather, delivering 7 per cent revenue and 16 per cent earnings growth, demonstrating their continued focus on costs and margin expansion. Their $1.8bn original cost fleet sets Coates up to benefit from the growing pipeline of projects moving into execution.

Boral's market position, heavily weighted to the east coast, resulted in them being more significantly impacted by construction lock downs and weather, albeit still delivering revenue growth of 1 per cent, whilst earnings excluding property was down 32 per cent, impacted by increased energy costs and inflationary pressure across their supply chain. The 180 per cent increase on prior year EBIT reflects the change from equity accounting to full consolidation in FY22.

The contribution from Energy was up 50 per cent, reflecting stronger oil price and strong customer nominations from new Otway wells. Media performed strongly, up 40 per cent, with SWM leveraging their renewed content to deliver ratings leadership and digital growth.

Investment income was down $5 million, reflecting reduced dividend income from the investment portfolio, and corporate costs were up $1.5 million principally as a result of inflation.

Slide 26 – Richard Richards

Cash Flow

Underlying operating cash flow was $1,017m, an increase of 14.9 per cent on prior year, with underlying EBITDA cash conversion contracting from 84 per cent to 63 per cent, reflecting the investment in net working capital in WesTrac to support demand growth and manage supply chain disruptions.

This investment ensured WesTrac could continue to meet latent customer demand, and we expect this working capital to return to historical levels over the next 18 months.

Operating cash flow has supported us to reinvest in new fleet within Coates, which totalled $162 million on a net basis, impacted by supply chain disruption limiting new fleet inductions.

In response, Coates slowed their normal program of disposals, albeit continuing to generate POSAs.

Other capital expenditure included $90 million in WesTrac, primarily supporting their capacity expansion program and rental fleet investment, with $313 million from continuing operations in Boral, reflecting their investment in strengthening their network positions.

Investing cash flow also included Boral proceeds from the sale of discontinued businesses of $4 billion, offset by $1.2 billion cash invested in Boral prior to obtaining control. Production and development expenditure reflects the Crux investment during the year.

Acquisitions of subsidiaries and net cash acquired of $553 million, reflects the net cash acquired of $638 million, less amounts paid for shares up to 7 July of $78 million.

Financing cash flows include a $3.4 billion increase in net borrowings, offset by the $2.2 billion acquisition of Boral's non-controlling interests post change of control. The $1.1 billion capital return reflects the $889 million distributed to NCI and the Boral share buy-back settled post change of control.

The proceeds from borrowing increase included the $905 million Coates USPP used to retire the bridge acquisition facility.

Closing net debt of $4.4 billion comprises $357 million net debt in Boral after their capital return, and $4 billion of net debt in SGH ex-Boral.

Slide 27 – Richard Richards

Balance Sheet

Slide 27 provides a summary of the SGH balance sheet, reflecting the consolidation of Boral. Group net assets of $4.3 billion increased by 5.4 per cent from June 21, which includes the NCI of $666 million post capital return. The $509 million decrease referable to members reflects underlying net profit of $488 million, reduced by $167 million of ordinary dividends and $808 million of acquisitions of minority interests post change in control.

Trade receivables for WesTrac and Coates increased by $77 million, reflecting a slight deterioration in DSO, coupled increased account sales in June. Other receivables increased $112 million reflecting equity settled swap collateral.

WesTrac's net inventories has increased by $306 million, reflecting the investment made in both parts and machines to mitigate supply chain shortages and support future sales demand.

Other current assets include a $78 million increase in WesTrac's machines in transit.

Non-current other financial assets declined $274 million for the year to $163 million, primarily due to disposal of the majority of the investment portfolio, as well as decline in the value of the Group's private equity investment.

Derivative financial instruments movement reflects the impact of lower FX rates on cross-currency IR swaps, with a similar offsetting movement in the A$ value of US notes.

Outside the initial recognition of Boral's PPE of $2.2 billion, PP&E increased by $136 million in WesTrac and Coates, reflecting the level of investment exceeding depreciation.

The $2.1 billion increase in net debt reflects the completion of Boral's acquisition.

Most other balance sheet movements effectively represent the consolidation of Boral and are therefore not of themselves informative. To aid an understanding of how the balance sheet has changed, we have included a pro-forma 30 June balance sheet in the appendix.

Slide 28 – Richard Richards

Capital and Liquidity Management

It was the strength of our capital structure which allowed us to deploy a further $3.6 billion into Boral. Our lenders firstly provided us with a $6.2 billion acquisition bridge facility, of which we utilised $3 billion.

To effectively refinance the Group, in January we completed a $905 million private placement with 10 year average duration within Coates.

The ability to debt fund the Boral acquisition clearly demonstrates the flexibility achieved within the Groups funding structures and following the $3 billion Boral capital return, the Bridge facility was fully repaid.

The Group was pleased to have on-going significant support of our partner lenders, which was clearly demonstrated by the introduction of a new $280 million Tranche C of our syndicated facility, closing April with a five-year term.

The facility maturity profile across SGH demonstrates our diverse access to debt markets. Our facilities now provide an average tenor of 4.2 years with the drawn component having a maturity of 4.6 years.

At 30 June, the Group had ~$2.3 billion in undrawn facilities and cash. Across the Group, 50 per cent of our debt is fixed, and our weighted average cost of debt is a little over 4.0 per cent.

Subsequent to 30 June, Boral completed a tender offer to repurchase US$300 million of its 144A notes maturing in May 2028. This was completed on 12 July at a 3.4 per cent discount, and will deliver interest savings of approximately US$11 million per annum and a $14 million gain in the year.

Whilst net debt is approximately $1.9 billion higher than prior to the takeover, the additional earnings over FY23 should see debt metrics returning close to their historical levels.

On a consolidated basis, Net Debt / EBITDA is currently 2.8x, adjusting for the positive mark to market on debt related derivatives and cash collateral against swaps. It is expected to trend lower over the year as operating cash flow improves and earnings are enhanced through a focus on Boral performance.

The Group has maintained its final dividend, declaring a fully franked dividend of 23 cents per share. This decision reflects the confidence in the outlook for the key business, with a focus on further deleveraging the Group.

I will now hand you back to Ryan.

Slide 30 – Ryan Stokes

Group Outlook – Guidance and Priorities

Thank you, Richard.

Now moving on to our outlook. The Group is carrying strong earnings momentum, and we have a positive outlook across all of our businesses.

In FY23, WesTrac is expected to benefit from strong customer activity and an ageing mining fleet, driving growth in support sales and a robust pipeline of committed new equipment deliveries.

Boral and Coates stand to benefit from strength in the infrastructure and construction activity pipeline.

For Coates the robust customer activity and demand for solutions give us confidence in the outlook for FY23.

At Boral, the performance journey is set to accelerate with a strong focus on pricing discipline and margin improvement.

At Beach, elevated energy pricing and demand supports a strong earnings outlook, particularly when combined with increasing levels of repricing and uncontracted gas volumes.

Seven West is expected to capitalise on their position as the number one total TV network in Australia, growing revenue share and increasing digital earnings.

Finally, at a Group level, we are expecting high single-digit to low double-digit underlying EBIT growth in FY23, underpinned by the quality of our businesses.

Slide 31 – Ryan Stokes

Appendix and Disclaimer

To finish things off, we've included some background information on the Group in the Appendix.

At this point we would like to thank you for listening in to the presentation and take any questions you may have.

Thank you.