

ASX Release

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SGH DELIVERS 1H FY23 EARNINGS GROWTH, UPGRADES GUIDANCE
Seven Group Holdings (SGH) (ASX:SVW)

- Revenue¹ from continuing operations of \$4,607m, up 16%
- EBITDA of \$842m, up 12%
- EBIT of \$595m, up 16%
- WesTrac EBIT of \$254m, up 21%
- Coates EBIT of \$149m, up 25%
- Boral EBIT of \$95m, up 23%
- Boral holding increased to 72.6%, up 3% during the period
- Interim dividend of 23 cents per share, fully franked
- FY23 Group guidance upgraded to “Low to mid-teen per cent EBIT growth”

¹All references to financial metrics are underlying results, unless otherwise stated

Seven Group Holdings (SGH) today reported a strong financial result for the six months ended 31 December 2022, with revenue of \$4.6 billion up 16%, and EBIT of \$595 million up 16%. Supported by robust activity in the resources, infrastructure and construction sectors, the Group’s Industrial Services businesses delivered material growth. Earnings per share (EPS) from continuing operations for the year was \$0.94, up 18%.

Ryan Stokes, Managing Director and Chief Executive Officer said:

“The result highlights the quality of SGH’s Industrial Services businesses and the “core plus” nature of the Group portfolio, with solid momentum and earnings growth of more than 20% at WesTrac, Coates and Boral. The results for the half were supported by continued strength in customer activity across the resources, construction, and infrastructure sectors.”

“I am proud of the commitment shown by all our people. With a focus on disciplined execution, and against a backdrop of persistently high cost-inflation, we have been able to increase profit margins, while supporting our customers through demanding conditions.”

“The earnings growth at Boral was particularly pleasing, showing clear progress along its performance journey. With the executive leadership team now in place and the new operating model being deployed, we expect to further drive operational and financial improvement to deliver the full potential of one of Australia’s great industrial businesses.”

“The growth in infrastructure and construction activity, coupled with the outlook for resources, supports our confidence in the opportunity for our Industrial Services businesses. The supply of energy, particularly domestic gas, remains an important issue to support economic activity. We see elevated demand and pricing in the energy sector that should support Beach and SGH Energy. Our media interests with Seven West are well placed, securing key content and digital rights to underpin its leading position in free to air television.”

“The safety of our people and customers remains the highest priority for the Group, and we are pleased to report a 16% decline in Total Recordable Injury Frequency Rate compared with this time last year.”

“Following the strength of the first-half result and based on the activity outlook for the second half, we are lifting our FY23 Group earnings guidance to low – mid-teen per cent EBIT growth.”



Key Financials

Group Results (\$m)	1H FY23	1H FY22	Change (%)
Statutory Revenue	\$4,607	\$4,839	(5%)
Statutory NPAT	\$350	\$1,222	(71%)
Underlying NPAT	\$361	\$410	(12%)
Underlying EPS	94c	101c	(7%)
Fully franked dividend per share	23c	23c	0%
Underlying Results (\$m)	1H FY23	1H FY22	Change (%)
Group Revenue	\$4,607	\$3,956	16%
Group EBITDA	\$842	\$749	12%
WesTrac EBIT	\$254	\$210	21%
Coates EBIT	\$149	\$119	25%
Boral EBIT	\$95	\$78	23%
Energy EBIT	\$57	\$66	(14%)
Media EBIT	\$50	\$51	(2%)
Other EBIT	(\$10)	(\$13)	23%
Group EBIT	\$595	\$511	16%

WesTrac

WesTrac delivered 1H FY23 revenue of \$2,296 million, up 20% on growth across product support and machine sales. Machine sales grew 33%, supported by strong customer demand and deliveries, while product support growth of 13% was driven by increases in volume and price.

EBIT of \$254 million was up 21%, benefitting from stronger sales, pricing traction, and disciplined execution that helped support increasing operational leverage to deliver EBIT margin expansion of 14bp to 11.1%.

Labour scarcity remained an issue as customer demand increased over the half, and WesTrac successfully increased its full-time equivalent workforce by 7% to meet this opportunity. The business continues to invest in training and development, with 285 WesTrac apprentices employed and 185 customer apprentices in the WesTrac apprentice program.

While supply chain constraints moderated over the half, elevated customer activity and demand made it necessary to maintain working capital at higher than historic levels to support customer deliveries. Though the business will continue to invest to support growth and customers, we expect working capital and operating cash conversion to normalise over the medium term.

Coates

Coates 1H FY23 revenue of \$575 million, up 16%, was driven by growth across key geographies and strong customer activity, particularly in relation to infrastructure. EBIT of \$149 million was up 25%, benefitting from effective pricing traction, increasing utilisation of fleet, cost focus, and technology improvements that supported increasing operational leverage.

Coates delivered improvement across all major operating metrics, including fleet time utilisation (TU) at 61.7%, ROCE increased 264bp to 15.7%, and EBIT margin expansion of 183bp to 25.9%.

To ensure the business effectively captures the infrastructure opportunity, Coates continued to roll out its Hub & Spoke branch model, driving efficiency and scalability, while executing a disciplined expansion of its hire fleet. The original cost of fleet exited 1H FY23 at \$1.83 billion, up 2.7%, and is expected to increase to ~\$1.90 billion in 2H FY23.

Boral

Strong customer activity and demand for Boral's products saw 1H FY23 sales volumes increase by 4%, and revenue increase by 12% to \$1,681 million. Combined with pricing actions and traction, and ongoing cost-out, EBIT margins rose 50bp to 5.7%, resulting in EBIT of \$95 million, up 23%.

With the executive management team now in place, in 2H FY23 the business will focus on embedding the revised operating model, safety, customer service, sales effectiveness, commercial discipline and cost control, driving operating leverage and ultimately improving the returns from the quality assets that exist within Boral.

Reflecting the Group's confidence in Boral, SGH increased its shareholding in the business by 3% to 72.6% in 1H FY23 at \$2.90 per share.

Energy

Beach Energy (30% owned) saw underlying NPAT decline 10% on lower production coupled with margin compression. However, production from the Otway basin continues to ramp up, increasing 36% compared to 1H FY22, as the connection of recently drilled production wells continues on schedule.

Construction progressed at Waitsia in the Perth basin. The joint venture has executed agreements with Webuild to complete the development, with first gas targeted by the end of CY23.

Beach remains in a net cash position with a strong free cash flow outlook. The business has announced a new dividend policy, targeting a payout ratio of 40 - 50% of pre-growth free cash flow.

The Crux project (SGH 15.5%) is now in execution phase, with fabrication underway and first LNG expected in FY27. The divestment consideration is ongoing, as discussions continue with parties in Due Diligence.

Media

Seven West Media (39.3% owned) retained its market leading position, with the #1 national ratings share in CY22. Despite a reduced ad market, Seven West maintained revenue largely flat at \$815 million, though saw a 9% decline in underlying EBIT. The focus on strengthening the balance sheet continued with a 13% reduction in adjusted net debt to \$223m, representing less than 1x EBITDA.

The business continues to grow its digital content and earnings, with digital EBITDA up 30% (ex Olympics). Seven West signed strategic content deals over the half, including with NBC Universal and marquee sports rights with AFL and Cricket Australia, on enhanced terms that include streaming rights.

Capital Management

The Group issued a \$250 million Exchangeable Bond over Boral in 1H FY23, effectively refinancing the majority of the Group's existing Convertible Note at attractive funding rates.

The Corporate Syndicated Loan Facility Tranche B was amended, extending the maturity to September 2027. The tranche was also increased by \$50 million to \$950 million, whilst maintaining investment grade pricing. These financings highlight the market support for the SGH capital structure.

The Group's adjusted Net Debt to EBITDA (leverage) reduced from 2.8x to 2.7x HoH. The Group is targeting a further reduction in leverage to 2.5x over the next 12 - 18 months. As at December 31, 46% of the Group's drawn debt was at fixed rates, and the effective Group borrowing cost was 4.9%.

Cash Flow and Dividends

Group operating cashflow of \$574 million was up 23%, supported by a \$202 million cashflow increase at WesTrac, on increased earnings and favourable movement in new machines and parts. Group EBITDA cash conversion of 68% was up 9% (relative).

In line with our policy of stable and growing dividends over time, SGH has retained its interim dividend at 23 cents per share, fully franked.

Outlook

SGH carries earnings momentum into 2H FY23, and has upgraded FY23 EBIT guidance.

WesTrac is expected to benefit from a robust delivery pipeline and customer activity, supporting increased guidance of “mid-teen per cent EBIT growth in FY23”. At Coates, continued strength in infrastructure activity and asset utilisation supports increased guidance of “high-teen per cent EBIT growth in FY23”.

Boral expects 2H FY23 EBIT to be broadly in line with 1H FY23.

Beach has narrowed their full-year production guidance to 19 – 20.5 million barrels of oil equivalent.

SWM expects to grow total TV share in 2H FY23, against a mid to high single-digit advertising market decline, targeting \$15-20m of cost-out.

Following a strong first-half financial result, SGH has increased its full-year Group earnings guidance to “low to mid-teen per cent EBIT growth in FY23”.

This release has been authorised to be given to ASX by the Board of Seven Group Holdings Limited.

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Seven Group Holdings Ltd SGH (ASX:SVW) 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 WA, NSW and ACT. WesTrac is one of Caterpillar's top dealers globally. SGH owns Coates, Australia's largest nationwide industrial and general equipment hire business. SGH also has a 72.6% shareholding in Boral (ASX:BLD), a leading construction materials group. In energy, SGH has a 30.0% shareholding in Beach Energy (ASX:BPT) and has interests in energy assets in Australia and the United States. In media, SGH has a 39.3% shareholding in Seven West Media (ASX:SWM), one of Australia's largest multiple platform media companies, including the Seven Network, 7plus and The West Australian.