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# Results Announcement for the half year ended 31 December 2016

15 February 2017

## Media Release



### **Boral continues to deliver its strategy and a further 9% year-on-year growth in underlying half-year profit after tax<sup>1</sup> to \$149 million**

Boral Limited (ASX: BLD) today reported a 9% increase in underlying **profit after tax before significant items<sup>1</sup> to \$149 million** for the half year ended 31 December 2016. The result reflects a solid performance in Australia combined with strong earnings growth from Boral USA and USG Boral.

**After significant items, Boral reported a net profit after tax of \$153 million, 12% ahead of the prior year.**

**Sales revenue of \$2.1 billion was down 5% on the prior year** as revenue growth from strong activity in Eastern Australia and growth in the USA was offset by the impact of equity accounting for US Bricks following the formation of the Meridian Brick joint venture on 1 November 2016, coupled with the completion of Barangaroo and LNG projects.

Earnings before interest and tax (**EBIT**) before significant items **increased 6% to \$211 million**. The EBIT growth was underpinned by stronger earnings from Boral USA and USG Boral. While there was also earnings growth delivered in key areas of Boral Australia, improvements were offset by the earnings impact of the sale of Boral's 40% share of the Boral CSR Bricks JV in November 2016, the decline in earnings from Boral's remaining bricks WA business and lower earnings associated with the completion of the LNG and Barangaroo projects.

A **net gain of \$4 million for significant items** includes a net benefit from divestments, including Boral's 40% share in Boral CSR Bricks and the formation of the Meridian Brick JV (USA), partially offset by transaction costs incurred in relation to the Headwaters Inc. acquisition.

A **fully franked interim dividend of 12.0 cents per share** was announced and will be paid on 10 March 2017. The payout ratio of 94% is a temporary shift from the Company's policy of paying out between 50% and 70% of earnings before significant items, subject to the Company's financial position, reflecting the Company's commitment to maintain the level of dividends while the Headwaters acquisition is being finalised.

**Boral's CEO & Managing Director, Mike Kane, said that Boral is continuing to perform and grow, with significant progress being made to deliver the Company's strategic priorities.**

"We have been positioning Boral for improved performance and growth, and it's delivering benefits, which we can see in the half year results.

"We have a terrific business in **Boral Australia** and while we experienced a challenging weather-impacted first quarter, we caught up in the second quarter to deliver a solid half-year result.

"With Australia's construction activity transitioning from resources to multi-residential and infrastructure, we are seeing benefits from the initial ramp-up of Australia's multi-year pipeline of major roads and infrastructure work, and we are capitalising on the continued strength of east coast residential markets. These increases in activity have broadly filled the earnings gaps following completion of LNG and Barangaroo projects and the WA market decline. We expect growing benefits from major infrastructure projects in the coming years.

<sup>1</sup> Profit before significant items is a non-IFRS measure reported to provide greater understanding of the Group's underlying business performance. Full details of significant items are contained in Note 6 of the Half Year Financial Report. Non-IFRS information has not been subject to audit or review.

**Boral Australia** delivered a solid result with a strong performance from the construction materials businesses. **EBIT including property earnings was \$164 million**, down 3% or \$5 million lower than 1H FY2016. Strong east coast volumes, pricing gains, margin improvements and higher property earnings were more than offset by the completion of LNG projects and Barangaroo as well as the WA market decline.

“Turning to **USG Boral**, the JV delivered an impressive 25% increase in earnings to Boral during the half year, reflecting its strength in manufacturing, distribution and technology across Australia, Asia and the Middle East. This outstanding business is delivering on its growth and performance promises,” said Mr Kane.

The **USG Boral joint venture delivered a 25% increase in post-tax equity income to \$40 million** and a 28% lift in underlying EBIT to \$117 million, reflecting strong growth in Australian and Korean markets, cost reduction benefits and continued penetration of premium Sheetrock® across all regions.

“From **Boral USA** we achieved a A\$13 million year-on-year increase in earnings, underpinned by modest but continuing market growth. The formation of the US Bricks JV – Meridian Brick – during the period, as well as the announced acquisition of Headwaters Inc, means that we are well on our way to transforming Boral to deliver better returns and value-creating growth,” said Mr Kane.

**Boral USA delivered a A\$13 million EBIT** for the half year compared with a breakeven result in the prior year, driven by the continuation of an improving US housing market. During the period the Meridian Brick JV was formed, with earnings from Bricks now reported on an equity basis.

“And looking at **Boral’s safety performance** for the half year, we delivered a further reduction in recordable injury frequency rate to 8.4 from 8.8 at the full year last year, and we reported a lost time injury frequency rate of 1.5 for the period. This performance is very credible and with safety remaining our number one priority across the business, we are committed to delivering further improvements,” added Mr Kane.

Boral’s **outlook for FY2017** remains largely unchanged, with **Boral’s EBIT expected to be higher than the EBIT delivered in FY2016**, with improved performance partially offset by the loss of EBIT of ~\$6.5 million associated with the divestment of Boral’s 40% share of Boral CSR Bricks in Nov-16.

On a divisional basis:

- **Boral Australia** expects to deliver higher EBIT in FY2017 compared with FY2016. With the strong recovery in Q2 from the rain impacts of Q1, we now expect FY2017 earnings to be broadly balanced between first and second halves, as benefits from volume and price gains offset the impacts of fewer working days in the second half. **Property** earnings will continue to contribute to the result in FY2017 with 2H FY2017 earnings expected to be broadly similar to the \$9 million EBIT delivered in 1H FY2017.
- **USG Boral** earnings are expected to continue to grow in FY2017. While 2H FY2017 earnings will be lower than 1H earnings due to normal seasonality impacts, continued solid year-on-year growth will be underpinned by volume and price growth in key markets, including ongoing penetration of Sheetrock® products, as well as continued synergy and cost benefits.
- **Boral USA** is expected to continue to grow earnings in FY2017 in line with the US market recovery. Earnings from the Meridian Brick JV and the emerging Trim and Siding businesses are expected to be around breakeven. Housing starts are expected to be ~1.25 million for FY2017, up around 10%, which is in line with the growth rate over the past 3 years.

“We remain confident that completion of the **Headwaters acquisition**, which has now received Headwaters Inc shareholder approval, will take place by around mid-2017. This acquisition will open new and attractive markets for Boral and allow us to deliver substantial value in the years ahead as we bring these two well-aligned businesses together,” Mr Kane concluded.

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