Boral announces half year results in line with recent guidance and announces progress on a value-creating growth strategy for USG Boral

Boral Limited (ASX: BLD) today reported a net profit after tax before amortisation (NPATA) & significant items of $224 million for the half year ended 31 December 2018, 6% lower than the first half last year.

Boral’s half year result reflects growth from Boral North America more than offset by lower earnings associated with divestments, and lower first half earnings from Boral Australia and USG Boral.

Boral’s half year results include:

- Net profit after tax (NPAT) before significant items of $200 million down 6% on 1H FY2018
- Statutory NPAT including significant items of $237 million up 37% on 1H FY2018
- Sales revenue of $2.99 billion up 2% on 1H FY2018, reflecting a modest revenue lift in Boral North America and Boral Australia
- First half earnings before interest, tax, depreciation & amortisation (EBITDA) before significant items of $485 million compared with $500 million last year, with the $15 million year on year difference in EBITDA equivalent to the reduced earnings due to the divestments of Denver Construction Materials and US Block; EBITDA was steady for continuing operations
- Half year Headwaters synergies of US$14 million against a full year target of US$25 million
- An interim dividend of 13.0 cents per share, up 4% on last year’s interim dividend.

Commenting on the half year result, Boral’s CEO & Managing Director, Mike Kane, said:

“Boral’s half year results reflect strong underlying businesses, which were impacted by adverse weather, particularly in North America, as well as project-related volume delays in Australia. We expect to deliver growth in the second half.

“Excellent safety improvements were delivered in the half year, with a lost time injury frequency rate of 1.1 compared with 1.6 for FY2018.”

Boral Australia delivered an EBITDA of $271 million, down 8% and EBITDA margins of 15% which were slightly softer. “Boral Australia benefited from growing infrastructure activity offsetting softer residential construction and improved pricing outcomes. However, project delays and phasing, and adverse weather in NSW in October translated into lower concrete volumes which contributed to a less favourable product mix in Australia relative to last year.”

Boral North America delivered a half year EBITDA of US$141 million, 9% above the prior year first half, with strong and improving EBITDA margins nearing 18%. “We remain pleased with the integration of the Headwaters acquisition, with further synergies of US$14 million delivered in the half year, adding to US$39 million already delivered, and on track for US$115 million in year 4. Performance was impacted by extreme rainfalls in key US states, which slowed volumes in most businesses. Underlying demand growth has been mixed, with Roofing particularly benefiting from strong growth markets. Price growth is encouraging and is substantially offsetting cost pressures.”

USG Boral delivered an underlying EBITDA of A$125 million (100% of the business), 16% lower than the same period last year with softer EBITDA margins of 15%. “Revenue growth in USG Boral was underpinned by Australia, China, Vietnam and India while lower earnings were largely attributed to South Korea’s cyclical housing decline that is underway in a highly competitive environment. USG Boral remains strong and contributed $25 million of equity income to Boral in the half.”

Footnotes appear at end of document
Commenting on Boral's outlook for the remainder of FY2019, Mr Kane said the Company expects higher EBITDA this year relative to last year underpinned by earnings growth in Boral North America.

“We expect that Boral Australia will deliver broadly similar EBITDA this year to FY2018 excluding Property in both years, with Property earnings to be around $30 million compared with $63 million in FY2018. Boral North America is expected to deliver EBITDA growth of approximately 15% in USD in FY2019 for continuing operations, reflecting volume growth, further synergy delivery and operational improvements. And USG Boral is expected to deliver slightly lower profits in FY2019 compared with FY2018. Across most businesses, higher volumes, together with business improvement initiatives will contribute to an expected second half skew.” added Mr Kane.

Progressing strategic options for USG Boral

On strategic matters, Boral announced that it is working with Knauf to progress a value-creating strategy for the USG Boral plasterboard business.

Boral has executed non-binding term sheets with Knauf, subject to valuations, negotiation and execution of definitive documents, and completion of the USG Knauf Merger Agreement, which could see Boral and Knauf form a new joint venture (JV) for its respective Asian plasterboard businesses.

Boral is also working with Knauf to consider the opportunity for Boral to acquire USG Boral’s Australasian4 plasterboard business returning Boral to 100% ownership in that region, subject to valuations and negotiation of definitive documents.

Boral has also entered into contractual arrangements with Knauf to preserve its right, but not an obligation, to call the remaining 50% of the existing USG Boral JV in the event that a transaction is not agreed to with Knauf. As such, the current valuation process underway with USG for the USG Boral business is continuing.

Knauf and Boral have also entered into contractual arrangements that provide a standstill, while negotiations are continuing, on any potential litigation by Boral against Knauf in relation to breach of the existing Shareholders Agreement should Knauf complete its merger with USG before reaching a definitive deal with Boral.

Commenting on the strategic growth opportunities for USG Boral, Mr Kane said:

“The USG Boral business is a highly attractive gypsum business with outstanding long term growth prospects.

“We are pleased to be working with Knauf to progress a value-creating strategy for the business, which could see an expanded footprint in Asia.

“Importantly though, in the absence of an acceptable agreement, Boral is under no compulsion to make further investment or complete a transaction. In this event we would remain a 50% owner of USG Boral. We will only invest in the business if it is value creating for Boral’s shareholders.”

In the event an investment is to be made by Boral, Boral’s strong preference is to use debt and proceeds from asset sales. A committed acquisition facility is in place.

Boral also announced changes to its senior leadership team in a separate ASX announcement today.

1 As outlined in Boral’s Trading Update and Revised Guidance announcement to the market on 4 February 2019.
2 Profit before amortisation and significant items is a non-IFRS measure reported to provide greater understanding of the Group’s underlying business performance. Non-IFRS information has not been subject to audit or review. Full details of significant items are contained in Note 6 of the Half Year Financial Report. In summary, a net profit of $36 million for significant items includes the gain on disposal of Denver Construction Materials and US Block, as well as additional Headwaters integration costs.
3 LTIFR is lost time injury frequency rate per million hours worked for employees and contractors.
4 Includes Australia, New Zealand, Papua New Guinea and islands in the South West Pacific.

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