Boral delivers on strategy with strong 8% growth in underlying profit after tax\(^1\) to $268m

Boral Limited (ASX: BLD) today reported an 8% increase in profit after tax before significant items\(^1\) to $268 million for the year ended 30 June 2016, in line with its strategy to transform the Company and lift performance across all geographies.

After significant items, Boral reported a net profit after tax of $256 million, in line with the prior year.

Boral’s CEO & Managing Director, Mike Kane, said that continued growth in earnings across the business reflects the benefits of Boral’s Fix, Execute, Transform program, which has shaped the Company’s priorities for the past four years and contributed to a significant profit uplift over that time.

“We have continued to improve our performance across our businesses in line with our strategy, managing our portfolio more efficiently and maintaining a strong balance sheet,” Mr Kane said.

“We have just reported a strong increase in Boral’s profit after tax before significant items to $268 million, even after factoring in $21 million of lower post-tax earnings from property sales.

“The continued growth in Boral’s earnings demonstrates the great work that has been done to improve our cost base, grow margins, and efficiently supply market demand, which continues to be strong in Australia and Asia, and is growing in the USA,” Mr Kane said.

Sales revenue from continuing operations of $4.3 billion was in line with the prior year as higher revenues associated with the housing markets in Australia and the USA offset the anticipated decline in revenues from resource-based and other major project activity, including LNG projects in Queensland, Western Australia and the Northern Territory.

On a reported basis, sales revenue of $4.3 billion was down by 2% on the prior year, due to the impact of equity accounting for the Boral CSR Bricks joint venture, formed on 1 May 2015.

Earnings before interest and tax (EBIT) before significant items increased 12% to $398 million despite lower property earnings. The EBIT growth was underpinned by improvements in margins, stronger housing activity in the US and continued strength in Australia.

A net loss of $12 million for significant items includes the favourable resolution of long-term tax matters offset by a A$45 million post-tax (A$51 million pre-tax) impairment of the earnout receivables recognised in February 2014 at commencement of the USG Boral JV. While the USD denominated earnouts are now unlikely to be achieved, due only to unfavourable currency movements, USG Boral is proving to be a highly successful joint venture and earnings targets remain on track in local currencies. It is also important to note that Boral banked a substantial A$60 million benefit at the time of the transaction due to currency movements between the transaction announcement and closing.

A fully franked final dividend of 11.5 cents per share was announced and will be paid on 26 September 2016, bringing the full year fully franked dividend to 22.5 cents, up 25% on last year.

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\(^1\) 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 7 of the Preliminary Financial Report. Non-IFRS information has not been subject to audit or review.
“Importantly, our commitment to deliver performance excellence also includes **delivering superior safety performance**,” Mr Kane said.

“In FY2016, Boral’s lost time injury frequency rate fell dramatically – down by 28 per cent to 1.3 lost time injuries per million hours worked, which is approaching best practice. Our recordable injury rate also showed a significant improvement, reducing by 27 per cent during the year. These figures reflect the commitment to make safety our number one priority across the business and I credit the excellent results to the ownership of safety by Boral employees globally.”

Commenting further on **Australian construction markets**, Mr Kane said that FY2016 was a transition year, managed remarkably well.

“Major roads and infrastructure projects are clearly ramping up with Boral securing supply to several major projects including NorthConnex in NSW, the Gateway Upgrade North in Queensland and the Airport Link in WA. As this sector has been gradually strengthening, the resource boom, including the major LNG projects has tapered off. Strong demand from housing activity however, has helped to ensure a smooth and broadly steady transition.”

Referring to a **divisional breakdown of the results**, Mr Kane reported the following:

- **Boral’s largest division – Construction Materials & Cement** delivered a solid **4% lift in EBIT before property earnings**. EBIT (including Property) of $293m was $8m lower than FY2015 with lower earnings from Property, as anticipated.

- **Building Products** delivered **$33 million of EBIT**, which was $3 million better than last year, due to improved pricing and operational performance, depreciation savings and a strong result from the Boral CSR Bricks joint venture, underpinned by strong East Coast housing activity more than offsetting the impact of declining housing activity in WA.

- The **USG Boral gypsum joint venture** delivered a **21% increase in post-tax equity income to $59 million** and a 27% lift in underlying EBIT to $179 million, reflecting strong growth in Australia, cost reduction benefits and continued penetration of premium Sheetrock® and adjacent products.

- In the USA, market recovery continued with **Boral USA delivering a positive A$44 million (US$32 million) EBIT** for the year compared with A$6 million (US$5 million) in the prior year. After returning to profitability in FY2015, the growth in earnings reflects Boral’s leverage to continued growth in US markets. A one-off property sale of US$7m also assisted the result.

Mr Kane said **Boral expects a solid performance with continued growth in FY2017**:  

- **Boral Australia**, which formed on 1 July 2016 when Construction Materials & Cement (CM&C) came together with the smaller Building Products division, will benefit from the strong pipeline of work in East Coast residential markets and the uplift in roads and infrastructure activity, which will benefit more in the second half of FY2017. **CM&C** is expected to deliver slightly higher EBIT compared with FY2016 (including property in both years), including benefits from price increases announced in certain markets to take effect from October and November, and this earnings growth should more than offset slightly lower earnings from **Building Products** as a result of weaker housing markets in WA and SA.

  While **Property** earnings will continue to contribute to the result in FY2017, the contribution from Property sales is currently expected to be lower than FY2016.

- **USG Boral** is expected to deliver further improvements underpinned by strong volumes in Australia and some volume improvements in Asia together with continued penetration of new Sheetrock® products, strong cost and price discipline and JV synergy realisation.

- **Boral USA** should report a further increase in earnings in FY2017 underpinned by continued market growth. At current market growth trajectories of 10% p.a. this would see around 1.26 million housing starts, broadly in line with external forecasters who on average are projecting approximately 1.3 million housing starts in FY2017.