Boral Limited (ASX: BLD) today reported a net profit after tax (NPAT) of $177 million excluding significant items for the year ended 30 June 2020. Significant items, including a net non-cash impairment, totalled $1,316 million, resulting in a statutory net loss after tax of $1,139 million, in line with the Company’s previous announcement.

Excluding the impact of the new IFRS leasing standard (AASB16) to show movements on a comparable basis, results for the year ended 30 June 2020, include:

- Reported sales revenue of $5,728 million down 2% on FY2019 and sales revenue from continuing operations of $5,671 million down 1%
- Earnings before interest, tax, depreciation & amortisation (EBITDA)¹ of $710 million down 30% and EBITDA¹ from continuing operations of $715 million down 29%, reflecting lower EBITDA from all three divisions
- Net profit after tax (NPAT) before significant items¹ of $181 million, down 57% on the prior year
- Operating cash flow of $537 million (versus $762 million in FY2019) including strong cash generation through targeted inventory reductions.

The Board has determined not to pay a final dividend for FY2020 given the significant uncertainty in the economic outlook and on the basis that Boral’s interim dividend of 9.5 cents per share paid on 15 April 2020 represents ~63% of full year earnings. This payout ratio is in line with Boral’s dividend policy to pay 50% to 70% of earnings before significant items, subject to the Company’s financial position.

Commenting on the FY2020 result, Boral’s new CEO & Managing Director, Zlatko Todorcevski, said:

“Boral’s FY2020 results reflect a particularly challenging year. Following the lower than expected first half result from Boral North America, Boral had a difficult start to the second half of FY2020.

“Boral Australia was impacted by bushfire and flood-related events in Australia, resulting in significantly lower volumes and higher costs. This was quickly followed by COVID-19 disruptions, resulting in higher costs and production curtailments, which substantially reduced earnings for all divisions.

“Overall, second half margins were substantially down, as flagged in the Company’s market update in May, due to lower sales and even lower production volumes together with an unfavourable shift in the sales mix and costs.

“Boral took decisive action in response to the uncertainty around COVID-19. Where demand was slowing and stock available, production was slowed to reduce cash costs and manage inventories. Targeted plant shuts and slowdowns were on top of a number of mandated full or partial temporary closures in the USA and several countries in Asia. Plant closures, production slowdowns and disruptions adversely impacted fixed cost recoveries although cash generation was strong.

“Efforts to preserve cash and strengthen liquidity resulted in $108 million of cash flows from inventory reductions. Boral has significant liquidity and undrawn committed facilities of close to $1.7 billion, up from $1.3 billion a year ago, strengthened by additional and extended debt financing facilities. Net debt of $2.2 billion was relatively stable.

“Safety performance was steady with a recordable injury frequency rate of 7.6. With a goal to deliver Zero Harm Today, we are preparing to roll out a refreshed safety program to deliver another step change improvement in safety outcomes.”
Boral Australia’s performance reflected a 19% decline in housing starts together with bushfire and flood disruptions. Revenue was down 5% and EBITDA1 of $447m was 25% lower reflecting lower pricing outcomes, higher costs and lower production. The results were also impacted by an adverse geographic and product mix shift with a substantial decline in higher-margin concrete and cement volumes and a higher share of more asphalt-intensive infrastructure work. Cost savings of $99m were delivered through structured improvement programs and strong Property earnings of $55m were achieved, in line with our plans and previous guidance. Excluding Property, EBITDA was down 30%.

Boral North America revenue was down 2% to US$1,566m and EBITDA1 was down 32% to US$188m with lower sales volumes, higher costs and ~80% of plants experiencing COVID-19 related volume impacts and disruptions in the second half of the year. Price gains in Fly Ash, synergies and an improved contribution from Meridian Brick only partially offset the impact of higher costs and lower volumes. For the USG Boral joint venture, underlying revenue was down 8% to $1,474m and EBITDA1 was down 25% to $190m reflecting housing downturns in South Korea and Australia, price declines in South Korea, and a significant impact from COVID-19 related plant closures and production slowdowns. Boral’s equity accounted post-tax earnings from USG Boral was down by 56% to $25m due to lower earnings and a higher effective tax rate relative to the prior year.

Commenting on the year ahead for FY2021, Mr Todorcevski said: “The business environment remains uncertain including continued disruptions due to COVID-19. With insufficient market visibility, Boral is unable to provide guidance for FY2021.”

Mr Todorcevski did however comment on early trading for FY2021 and Boral’s current priorities.

“We have started FY2021 with lower revenues but only slightly lower earnings relative to the same time last year. Overall, EBITDA margins in July recovered relative to 2HFY2020 and were broadly in line with 1HFY2020.

“We are experiencing less disruptions in most businesses, providing an opportunity for improved outcomes, however, there is potential for further disruptions and uncertainty remains. For example, it is unclear how long stage 4 lockdowns in Melbourne will continue. At this stage of the lockdown, concrete volumes in our Melbourne metro business are down ~20% relative to last year.

“In the USA, we are seeing a pleasing start to the year, with evidence of demand strengthening and July sales volumes improving relative to recent months. However, sales are still down year on year and there is considerable uncertainty around the economic recovery and the ongoing disruptions associated with COVID-19, including a high level of absenteeism in a number of businesses and the industry more broadly, which is impacting operations and lead times.

“We are focused on maintaining a safe and careful response to ongoing COVID-19 developments. We are positioned to flex production levels to align with demand and avoid unintended inventory builds, while ensuring we are able to support our customers.

“Our current focus is on recovering and strengthening margins, delivering strong cash flows, and realising benefits from divisional improvement initiatives.

“We are currently completing a review of Boral’s portfolio of businesses to assess the market outlook, competitive position and earnings potential of each business. I expect to announce in late October the outcomes of the review, as well as our future operating model and target capital structure, which will help to set future priorities and define the direction for longer term value creation.”

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1. NPAT and EBITDA before significant items are non-IFRS measures 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 2 of the preliminary final report.