

24 February 2022

DECMIL BUILDS REVENUE BASE IN 1H FY22

- Revenue increase of 37% to \$226.5 million (1H FY21: \$165.1 million)
- EBITDA
 - Statutory: \$1.5 million
 - Excluding provision: \$4.9 million
 - 1H FY21: \$5.6 million
 - Result affected by COVID-related restrictions (labour movement, labour availability, allocation of resources across state borders), supply chain issues, and provision for disputed contract
- Profit/loss
 - Statutory loss: \$4 million
 - Loss excluding provision: \$0.6 million
 - 1H FY21 profit: \$0.6 million
- Secured \$215 million of new contracts during the half, with ~\$460 million work in hand contracted and preferred for FY22 (30 June 2021: ~\$400 million)
- Set to capitalise on bolstered FY22 work in hand figure as COVID obstacles removed
- Significant progression in resolving legacy problem contracts, with Sunraysia reaching substantial completion
- Cash position of \$12.9 million at 31 December 2021 (30 June 2021: \$9.7 million), boosted by debt facility and capital raising during the half
- Order book of ~\$520 million contracted and preferred at 31 December 2021 (30 June 2021: ~\$570 million), set to expand
- FY22 revenue expected to be ~\$470 million

Decmil Group Limited (ASX: DCG) (“Decmil” or “the Company”) announces its interim financial results for the six-month period ending 31 December 2021 (1H FY22). Decmil reported a growth in revenue to \$226.5 million, underpinned by the Company consistently achieving key milestones across its contracts during the period. Margins and profitability were impacted by several factors related to COVID-19 restrictions and the decision to incur a provision with respect to a legal contractual dispute.

These factors encompass a tight labour market, broad supply chain inefficiencies affecting the procurement process for work materials, and the inability to effectively allocate key personnel and materials across Decmil’s projects due to state border restrictions.

Some projects were impacted more than others.

Decmil Chief Executive Officer Dickie Dique said: “During the half Decmil continued to successfully deliver for its clients and build its revenue base in line with our business revitalisation strategy, but margins were unfortunately impacted.

“However, with the east coast continuing to open and WA’s border reopening within the next week, we are addressing the issues that impacted our results in the first half and expect improved operational conditions in 2H FY22 and beyond.

“With a prime focus on enhancing margins, we are set to capitalise on these improving conditions with a strong work in hand pipeline for the remainder of FY22, and pleasingly a greater portion of our income is now repeat revenue as Decmil increasingly benefits from its inclusion in the Main Roads WA and Major Road Projects Victoria contractors panels.

“The Company is also well poised to continue its progression into new buoyant markets, securing contracts in the higher margin regional construction market and burgeoning hydrogen industry post half.”

Financial Performance & Position

Revenue of \$226.5 million for the 6 months ended December 2021 was 37% above the prior corresponding period. The rise in revenue was driven by Decmil consistently reaching key milestones across its healthy order book, despite challenging conditions.

However, as previously stated margins were impacted by several temporary factors related to COVID-19 restrictions. This resulted in an earnings before interest, tax, depreciation and amortisation (EBITDA) of \$1.5 million (1H FY21: \$5.6 million EBITDA), and a net loss after tax of \$4.0 million (1H FY21: \$0.6 million profit).

The Company has booked a \$3.4 million provision regarding an ongoing legal dispute, which is reflected in Decmil’s EBITDA and net loss after tax results. Decmil remains confident in its legal position and the provision has been implemented to remove any reasonable financial uncertainty regarding the dispute on the Company’s accounts in future reporting periods.

The Company has continued its focus on prudent cost management to position it optimally into 2H FY22 and beyond. For 1H FY22, overheads fell to \$13.0 million, down from \$13.4 million in the prior corresponding period.

In 1H FY22, Decmil completed a \$30 million debt and equity raising; comprising a \$20 million subordinated debt facility, \$10 million Share Placement and Share Purchase Plan. The funding mix minimises equity dilution, whilst ensuring a healthy balance sheet to deliver on the Company’s robust order book in FY22 and beyond. During 1H FY22 Decmil paid \$3.1 million in cash for surety bond repayments for the Sunraysia and Rapid Deployment Prisons projects. These surety bonds are now fully repaid.

Following attaining substantial completion for the Sunraysia Solar Farm project on 31 January 2022, Decmil received a \$6.1 million final milestone payment in February 2022. The milestone payment includes the deduction of full liquidated damages, which are being disputed by Decmil via a formal arbitration process.

Legacy Disputed Contracts Update

Disputed contracts continue to be systematically resolved, with the status of recently resolved disputes and outstanding disputes summarised below.

Sunraysia

On 8 December 2021, Decmil announced that Regulatory Testing of Sunraysia Solar Farm had been successfully completed.

Post-period, on 4 February 2022, the Company announced it achieved substantial completion of the EPC contract for the Sunraysia Solar Farm, following receipt of substantial completion certificate from the client.

The achievement of this milestone has facilitated a transition into the 5-year Operation and Maintenance Contract.

Additionally, the receipt of substantial completion resulted in a \$6.1 million final milestone payment to Decmil. The milestone payment includes a deduction of liquidated damages.

Arbitration proceedings of the dispute between Decmil and Sunraysia Solar Project trust (“SSF”) are now progressing following the substantial completion notice.

Department of Corrections, New Zealand

Decmil was pleased that in July 2021, the Company and the New Zealand Department of Corrections formally agreed to conclude their disputes regarding the Rapid Deployment Prisons project.

Importantly, the resolution of the dispute resulted in no adverse impact to Decmil’s balance sheet or bottom line. The parties mutually agreed to make no further comment.

Southern Cross Electrical Engineering

Arbitration proceedings are continuing.

Operations

Decmil was able to deliver on existing contracts during 1H FY22 and secured new work after targeting lower risk projects with blue chip customers across a diverse range of sectors in Australia.

Operational highlights for the six months ended 31 December 2021 include:

Safety

- Exceptional safety performance with one lost time injury for the period resulting in a lost time injury frequency rate (LTIFR) of 0.8 and a total recordable injury frequency rate (TRIFR) of 3.3.

Infrastructure

- Award of \$88.7 million contract by Major Road Projects Victoria for the Barwon Heads Road Upgrade Work Package 1, with work on site commenced in September 2021 and scheduled for completion in 2023. The contract was previously preferred.
- Award of a \$25 million contract for the design and construction of phase two of the Albany Ring Road for the Western Australian Government. Works for phase one commenced on site in September 2020 and has been progressing well, with Decmil remaining preferred for the balance of the \$95 million phase two works expected to be awarded in 2022.
- Award of \$28.2 million Roy Hill-Munjina Bridge 5413 road over rail infrastructure project with Main Roads Western Australia.
- Award of \$23.3 million contract by Main Roads WA post-period for the construction of the Mitchell Freeway Principal Shared Path from Civic Place to Reid Highway. The Contract was awarded through the State-wide Road Construction Panel, which Decmil was approved to join in FY21.
- Award of \$7 million Great Eastern Highway Coates Gully projects as part of Main Roads Western Australia Panel Works Program.
- Award of \$8 million Peninsular Development Road project at Archer River for the Queensland Department of Transport.
- Continued positive progress of \$300 million Gippsland Line Upgrade contract to the VicConnect Alliance, an alliance between Rail Projects Victoria, UGL and Arup. Decmil’s share of the rail infrastructure contract is \$120 million and commenced on site in April 2021.

ASX Announcement

- Successful practical completion of the \$110 million Plenty Road Stage 2 project for Major Road Projects Victoria.
- Successful practical completion of the \$400 million Mordialloc Freeway project for Major Road Projects Victoria with JV partner McConnell Dowell. Decmil's share of the project was \$160 million.

Resources

- Award of \$7 million Christmas Creek Hydrogen Refuelling Station for Fortescue Metals Group post-period, marking Decmil's entry into the emerging space.
- Award of \$4 million contract for the construction of surface water management measures on the Cloudbreak mine site for Chichester Metals Pty Ltd. The project achieved practical completion on schedule during the half year.
- The \$39 million of non-process infrastructure works at the Mesa A and Mesa J iron ore mines in the Pilbara region of Western Australia for Rio Tinto are well progressed, with practical completion at Mesa A expected in the coming weeks and Mesa J later in CY22.

Construction

- Award of a \$18.1 million contract from the Town of Port Hedland post-period to construct a new Port Hedland Community Centre building complex.

Energy

- Award of a \$21 million contract for balance of plant works at the Crookwell Windfarm for GPG in New South Wales. Together with the \$51 million Ryan Corner Windfarm, also for GPG, site access to the Windfarms is expected to be granted in 1H CY22 for on-site construction to commence.
- Regulatory Testing of the \$277 million Sunraysia Solar Farm successfully completed in December 2021, with Decmil achieving substantial completion on 31 January 2022.

Homeground Gladstone

- Occupancy levels were strong in the first half of FY22 at Homeground Gladstone, with many clients of the village completing maintenance works that were previously deferred due to the COVID-19 impact of various lockdowns that previously inhibited their ability to access FIFO workers.
- Between July 2021 and December 2021, average occupancy was 17.1%
- Bookings are weaker for the second half with occupancy expected to be lower than the first half.
- Safety performance at Homeground Gladstone was exceptional, with LTIFR of 0 and TRIFR of 0.
- During the period a number of COVID-19 affected individuals were accommodated within the facility and appropriately isolated. This was successfully managed in such a manner that there were no further COVID-19 transmissions within the facility.

Strategy and Outlook

Decmil is anticipating revenue to reach ~\$470 million for FY22 in tandem with improved margins in the second half.

Subsequently, Decmil expects it will come under its original FY22 projection of approximately \$500 million revenue. As previously outlined, the Company's 1H FY22 results were impacted by several challenges which had a negative impact on its financial results. However, with the reopening of state and international borders ramping up, Decmil anticipates that these issues will ameliorate to a significant extent during the remainder of FY22.

ASX Announcement

Additionally, after a prolonged period of subdued activity at the Company's Homeground Gladstone asset, occupancy has been steadily rising as FIFO maintenance works in the region ramps up after COVID restrictions. The operation is expected to return to profitability during FY22 with a strong outlook in FY23.

The Company has an order book of ~\$520 million contracted and preferred, to FY24. This is set to expand over the long-term as the Company advances its progression into new growth markets.

This ASX release was authorised by the Decmil Group Limited Board.

About Decmil:

Decmil Group Limited (DGL) offers a diversified range of services to the Australian resources and infrastructure industries. Companies within the group specialise in engineering and construction; accommodation services; and maintenance. Listed on the Australian Securities Exchange (ASX Code: DCG), Decmil's goal is to maximise returns from our operations to deliver value to our shareholders, clients and other stakeholders.

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