Boom Logistics Limited Announcement

Tuesday 5th February 2008
ASX code BOL

First half 2008 Preliminary Result and FY2008 Outlook

BOOM Logistics (ASX: BOL) today announced a preliminary underlying net operating profit after tax ("NPAT") for the first half of FY2008 of $15.3 million, a reduction of 22% compared to the previous corresponding period. The result is still subject to final audit review, which should be completed over the next week.

In November 2007, the company advised it expected a result in the range of $17-18 million, however the slow down in customer requirements leading into Christmas was more pronounced than anticipated, leading to the lower result.

Compared to last year's first half result, revenue was up 19% to $202.4 million and EBITDA was up 6% to $51.0 million.

The operating result for the half is however impacted by one off $4.0 million of pre-tax ($2.9 million post-tax) non cash accounting adjustments predominantly representing additional depreciation relating to a prior period error as well as the impairment of some assets. Accordingly, the preliminary reported profit after tax for the period is $12.4 million. In addition, management have assessed that a prior period restatement of $12.5 million pre-tax ($8.8 million post-tax) will be required in respect of the asset adjustments. The circumstances that give rise to these adjustments are described in more detail under "Accounting Adjustments" below.

There is expected to be an improvement in operating margins in the access equipment market, with a lessening in competitive pressures already evident early in the second half. A delayed start in post New Year activity combined with an expected three month hiatus in the Bowen Basin, however, is expected to reduce profitability across the broader business and the company expects to deliver a full year NPAT in the range of $29-30 million before the non cash accounting adjustments that impact the first half reported profit.

As at 31 December 2007, the company's net debt equated to $256.2 million, reflecting a gearing position (net debt/equity) of 90%. A significant proportion (88%) of the company's debt is fixed at attractive interest rates and the company is under no requirement to refinance any debt in the near term.

Based on the preliminary result, the company expects to pay an interim dividend in line with company policy of distributing 50% of NPAT. This would currently be calculated at 4.5 cents per share fully franked.

Review of Operations

In the first half of 2007/08, BOOM Logistics produced an underlying net operating profit after tax of $15.3 million. The company had earlier indicated an expected result in the $17-18 million range, subject to timing of the usual pre Christmas slowdown. The profit result was derived from increased revenues of 19% and increased EBITDA of 6% over the previous corresponding period.

The operating result for the first half reduces to $12.4 million after making non cash accounting adjustments to reflect impairment of assets and additional depreciation charges.

Demand for BOOM Logistics lifting solutions continued to strengthen during the half year despite an earlier than expected slowdown in customer requirements through the latter part of December. The increase in activity however was generated at lower margins due to a combination of factors.

Input costs for labour, fuel and consumables were generally higher across the business particularly in and around company operations in the resources industry reflecting supply constraints in this sector. Margins in these businesses were dampened by the time lag between the onset of increased costs and cost recovery through the Company's various contractual arrangements. Increased turnover among staff and management also contributed to the cost and performance outcome.

Margin erosion also resulted from an increased need to cross hire equipment to cater for the tendency for contracted clients to engage in intermittent short term intense maintenance activity rather than a more measured regular maintenance approach where equipment supply can be pre-planned.

Margins in the Qld crane business have been adversely impacted by the need to cross hire cranes to substitute for equipment undergoing 10yr refurbishment works. A legislated change in Queensland has made it mandatory that all cranes in excess of ten years of age undergo a major inspection and rebuild. This legislation exceeds the industry standards endorsed by other States and equipment manufacturer recommendations. Boom has been proactive in ensuring that the Company complies with the 1 February 2008 date at which this legislation becomes effective.

The BOOM Sherrin equipment hire business was impacted by price erosion in the access equipment hire market due to excess equipment availability and increased competition.

The James Equipment business produced strong sales growth however a change in revenue mix saw a higher proportion of sales from lower margin used equipment. Higher margin new equipment sales continue to be restricted by supply constraints from crane manufacturers globally. There is a worldwide shortage of new large capacity Tadano cranes with direct impact on BOOM's Tadano sales.

The long lead-time in securing new cranes also increased the company's repair and maintenance costs as cranes that would normally have been traded in were kept in service pending new equipment delivery.

A number of steps are in progress to deal with margin erosion:

- There is an urgent focus on reducing fixed costs across the business.
- Cost recovery adjustments under existing service contracts is receiving priority.
- Consolidation of processes and business systems across the various business units. This is part of phase 2 of business integration across the group.
- Improved equipment deployment across the group to optimise equipment utilisation. This is a key function of the recently appointed National Fleet Manager.

Accounting Adjustments

The Company has completed a detailed review of fleet assets across the group following the recent appointment of a National Fleet Manager. A primary aim of this review was to optimise fleet utilisation and adjust allocation of resources across business units. This work identified some redundant assets with a minor accounting impact but picked up a material error in depreciation charges related to assets acquired in the August 2005 purchase of Sherrin Hire. Assets were transferred to the Company's fixed asset register at the correct independent valuation but "useful lives" were incorrectly set at this time. This error has resulted in under depreciation of these assets during the intervening period. In consequence the Company has made prior period adjustments to its accounts to correct for this error with some impact applying to the first half result. It should be emphasised that these are non cash accounting adjustments that have no impact on the integrity of the underlying operational business or the Company's funding capacity. It should also be noted that this issue is limited to no more than 4% of the Company's total fixed asset base which is currently $400 million.

Business Outlook

The underlying Boom business model remains robust. Boom is the largest provider of crane services in the strong growth states of Queensland and Western Australia and demand for lifting solutions remains strong despite the issues that have affected margins during the first half. The tower crane assets are fully deployed at present and general client activity across all aspects of the Group is strong. Competitive pressures in the access equipment market have also lessened early in the second half. The FY2007 acquisitions of James Equipment and Moorland Hire have also performed well in the first half, with this performance forecast to continue.

Recent severe flooding in the Queensland Bowen Basin will impact on second half performance. This area of our business accounts for approximately 9% of Group income and we are expecting that disruptions to activity will apply for the entire first Quarter of calendar 2008. Assets are being temporarily redeployed where possible to minimise the business impact but inevitably the Company will incur carrying costs as well as foregone income. Once operating access is regained there will be heightened activity as work begins to restore mining operations and Boom lifting services will be an important component of this activity. The challenge for the Company is to ensure that we have sufficient assets in place to minimise cross hire and this is receiving appropriate attention.

The 10 year rebuild, although an impost on current year performance, has effectively brought forward scheduled crane maintenance and results in a refurbished Queensland fleet well positioned to service the expected surge in recovery and maintenance activity once flood disruptions abate.

Despite the temporary dislocation to our Queensland activities the broader business is well positioned with a range of recently completed service contract extensions and renewals covering clients such as Bluescope Steel; Alcoa WA; Iluka WA; BMA Queensland; Rio Tinto East Coast operations and Tenix. The Company has also picked up several project infrastructure support contracts including Bluewater Power; the Gateway extension and APM.

In looking ahead to the full year result, the Company expects to deliver a NPAT in a range of $29-30 million. This forecast takes account of a three month hiatus in Bowen basin activity and the delayed start in post New Year activity across the business. Measures to address margin erosion will begin to provide benefit during the second half and are expected to take full impact in fiscal 2009.

The Company is engaged in a capital intensive business and current gearing is at the 90% level. It should be noted, however that the business generates strong operating cash flows and despite shortfalls in first half performance, interest cover at the end of the period was at 3.0x. Operating cash flows are sufficient to meet projected requirements for new equipment and there is no requirement in the current year for any additional capital. A significant proportion (88%) of the company's debt is fixed at attractive interest rates (an average of 7.7%) and the company is under no requirement to refinance any debt in the near term.

Management Changes

As previously advised Mark Lawrence resigned from the Company at the end of last week and an executive search firm has been engaged to seek a new Chief Executive. In the interim Mr Jack Hebiton one of the Company's founding directors will take direct responsibility for all operational matters and Chairman John Robinson will take responsibility for Company administration, including investor relations. Mr Peter O'Shannessy, formerly General Manager, Brambles Industrial Services, joins the Company at the beginning of March and will take over operational control from that time. Peter replaces Brian Praetz who resigned in November 2007. Teresa Withington commenced in January 2008 as General Manager of Boom Sherrin, replacing Steven Goulding who resigned in October 2007. Responsibilities within the senior executive team have also been adjusted where necessary to provide additional support.