AUSTAL
LIMITED

COMPANY ANNOUNCEMENT
30 AUGUST 2018

AUSTAL NET PROFIT JUMPS 154% IN FY2018

Summary:

- Revenue of $1.39 billion (FY2017: $1.31 billion), up 6%.
- EBIT of $65.0 million (FY2017: $45.5 million), up 43%.
- NPAT of $39.0 million (FY2017: $15.3 million), up 154%.
- Substantial turnaround in cash generation, with positive operating cash flow of $65.6 million (FY2017: $(37.9) million negative operating cash flow).
- Earnings and cash flow driven by strong performance on US Navy shipbuilding programs, achieving a 8.5% shipbuilding margin, up from 6.8% in FY2017.
- Ended FY2018 in a net cash position of $33.9 million (FY2017: $19.3 million net cash)*.
- Increased final dividend of 3.0 cents per share, unfranked (FY2017: 2.0 cents per share, fully franked), supported by strong cash flow and cash position.
- $3.0 billion order book across 10 vessel programs in the USA, Australia, Philippines, Vietnam, and China.
- Commercial vessel order book grown to more than $440 million, including five large vessels (over 80 metres in length), with work extending out until early 2021.
- FY2019 group revenue guidance of $1.3–$1.4 billion and US shipbuilding margin of 8 – 9 per cent.

*Note: excluding the impact of the Cape Class Patrol Boat 9 & 10 leasing program.

Austal Limited (Austal) (ASX:ASB) has increased its Net Profit After Tax by 154 per cent for the year ended 30 June 2018, driven by an exceptional performance across its US Navy shipbuilding programs. This result was matched by an excellent conversion of profit to cash, with positive operating cash flow of $65.6 million.

Austal USA reported $1.16 billion in revenue, and 9.1% EBIT growth over FY2017 as the Company's shipyard in Mobile, Alabama, achieved further efficiencies in the construction of two US Navy programs, the Littoral Combat Ship (LCS) and Expeditionary Fast Transport (EPF). US shipbuilding margin grew to 8.5 per cent, exceeding the FY2018 guidance range of 6 – 8 per cent.

Austal secured more than $420 million in commercial ferry contracts during FY2018, underpinning a major capacity expansion currently underway at the Company's shipbuilding facilities in Asia and WA. Austal also secured new defence vessel orders, which has led to an end of year order book of $3.0 billion.

Austal Chief Executive Officer David Singleton said the performance of Austal USA and award of $420 million in commercial ferry contracts were major highlights in the year.

"Austal USA delivered standout performance in the 2018 financial year, with even greater efficiencies achieved on our two major shipbuilding programs for the US Navy," Mr Singleton said.

"In its 30th year, Austal has delivered near-record profit, strong operating cash flow, and as a result is able to increase dividends to shareholders."

"Importantly, we also continued to fill our order book through the award of an additional LCS vessel and the major expansion in our commercial ferry order book to more than $440 million."

"Underpinning this result is the success story of Austal's service and sustainment business, which continued to grow during the year as more and more Austal-built military vessels entered service in both the USA and Australia."

"Whilst a ship may be built over a couple of years, sustainment can provide solid income for the group for the next quarter of a century. This part of our business will continue to grow as vessels on order are progressively delivered into service over the next few years."

SEGMENT RESULTS

USA

Austal's largest business unit, the US defence shipyard, sustained the earnings turnaround that started in FY2017, reporting revenue of $1.16 billion (FY2017: $1.17 billion) and a segment EBIT of $83.0 million (FY2017: $76.1 million).

The key shipbuilding margin rose from 6.8 per cent in FY2017 to 8.5 per cent in FY2018, comfortably exceeding the FY2018 guidance range of 6 – 8 per cent. This result reflects a continuing improvement in shipbuilding performance, particularly around the LCS program.

Austal USA now has 10 ships on order across the two major defence vessel contracts for the US Navy, the ~US$5.9 billion Littoral Combat Ship (LCS) program and the ~US$2.0 billion Expeditionary Fast Transport (EPF) program. This includes a contract received in FY2018 to build LCS 30, the 15th LCS to be constructed by the Company, awarded under a competitive tender process.

Australia

Austal's Australia segment reported revenue of $198.5 million (FY2017: $113.7 million), with an EBIT loss of $(6.7) million (FY2017: $(2.1) million EBIT loss).

Throughput at Austal's Henderson shipyard increased significantly during the year, delivering revenue growth as Austal completed construction and design work on the Guardian Class Patrol Boat (GCPB) program for Pacific Island nations, and large commercial ferries, as well as sustainment work on the Cape Class Patrol Boat (CCPB) support contract and Armidale Class remediation contract.

The earnings result reflected zero profit recognition for GCPB 1 until it is delivered in FY2019 (which reflects our policy not to recognise profit on first of class military vessels), no contribution from the CCPB sustainment contract (which was declared to be onerous in FY2017) and the low margin of the Mols ferry which was originally intended to be built in the Philippines but for operational reasons was transferred to Australia. The result was also impacted by writing off the substantial costs associated with bidding and preparing for the Australian Offshore Patrol Vessel (OPV) tender. Earnings are expected to improve in Australia as construction programs on contracted vessels mature. Henderson has made significant inroads in efficiency over the past two years, particularly with the Mols ferry, and this is extending across other programs. This, combined with throughput increases from existing vessel contracts, is expected to bring the facility back into profitability.

Asia (Philippines + Vietnam + China)

Austal's Asia segment reported revenue of $57.9 million (FY2017: $33.8 million), with a segment EBIT loss of $(1.6) million (FY2017: $(0.1) million EBIT loss).

A large component ($1.2 million) of the segment loss reflected the expensing of mobilisation costs for the new shipyard operations in Vietnam. This new facility will provide additional capacity for Austal's commercial shipbuilding program and will be available for operations within the next three months. The new facility is being built to Austal's specification, but will be leased from a third party, providing flexibility to match future capacity needs.

Austal Philippines increased revenue to a record level during FY2018 as it began to ramp up to a significantly higher operating tempo. Revenue is expected to double in FY2019 as large commercial ferry projects enter construction. Austal is currently building a number of new facilities including a vessel construction hall, which will be the largest in the Group outside of the USA. These new facilities will treble the maximum throughput capacity of the shipyard and enable the construction of Austal's largest commercial vessels. The Philippines was however affected by disruption costs associated with the facility expansion, which impacted earnings. The new facilities are due for completion in mid FY2019.

Austal's joint venture company in China, Aulong, established itself by completing its first vessel delivery, to an Austal design, in FY2018 and adding a further five vessels to its order book.

CASH AND CAPITAL MANAGEMENT

Austal has maintained a strong cash balance of $162.0 million at 30 June 2018 (30 June 2017: $150.5 million) and ended the year in a net cash position of $33.9 million. (FY2017: $19.3 million net cash). The strong cashflow enabled the Group to pay 5 cents per share in dividends (2 cents interim + 3 cents final), fund the acquisition of ElectraWatch in the USA, repay a further US$4.5 million of its Go Zone Bonds and fund the facility expansion in Asia and Australia from existing cash.

This net cash result at the year end excludes the impact of the Cape Class Patrol Boat 9 & 10 leasing program, as previously described where the financial treatment of the residual value guarantee reduces the net cash by $(57.1) million to a net debt position of $(23.3) million at 30 June 2018 (30 June 2017: $(45.9) million net debt position). Austal anticipates that the Australian Department of Defence may extend this lease arrangement that would either reduce or eliminate the residual guarantee and therefore its balance sheet impact.

TAX

The effective rate of tax in FY2018 was 31%, which reflects half a year of reduced tax rates in the USA since US tax reform was enacted on 1 January 2018. Cash tax paid was ~12% of PBT as a result of the utilisation of research & development credits to satisfy current tax liability for the year.

Impact of the New Revenue Accounting Standard (AASB 15) on US shipbuilding margin

It should be noted that historical reporting of shipbuilding margin in the USA excluded profit recognition for the LCS combat system which was reported separately within the "Systems" column of the business mix table in the Investor Presentation. FY2019 profit recognition for shipbuilding activities and the LCS combat system will be combined under changes to revenue recognition that are required under the new accounting standard for revenue, AASB 15. FY2018 EBIT margin for the combined shipbuilding and systems activities was 7.5% (FY2017: 5.9%).

FY2019 USA EBIT margin for the combination of shipbuilding and systems activities is projected to be maintained in the range of 7 – 8 per cent.

FINAL DIVIDEND

Austal's Board has declared a final unfranked dividend of 3 cents per share given the strength of the operating cash flow, representing total FY2018 dividends of 5 cents per share. The franking position is in line with the FY2018 interim dividend and reflects the predominance of Austal's US earnings (which do not generate franking credits). In addition, the utilisation of carry forward losses and credits will offset tax liability in Australia for several years.

Details of key dates regarding the dividend are:

- Ex-dividend date: Friday, 14 September 2018
- Record date: Monday, 17 September 2018
- Payment date: Wednesday, 10 October 2018

Shareholders may reinvest dividends in accordance with the dividend reinvestment plan established in February 2015. Further details are set out later in this announcement.

OUTLOOK

Austal expects FY2019 group revenue of $1.3 – $1.4 billion and will maintain US margin for the combined shipbuilding and systems activities of 7 – 8 per cent (FY2018 7.5 per cent). In addition, Austal expects its Australia and Asia segments to deliver positive earnings in FY2019 as the Company delivers on its patrol boat contracts and substantial commercial ferry order book.

The macro signs for the high-speed ferry industry remain very positive. Analysis of route expansion and ferry replacement forecasts indicates that there will be a strong demand for ferry construction in the next few years. This assessment of demand has underpinned our expansion decisions in the Philippines and in Vietnam.

Austal Chief Executive Officer, David Singleton said: "The combination of the stable vessel programs in the USA, the continued growth of our sustainment business and a major forward order book for commercial ferries means we are now seeing a much greater level of predictability to Austal's earnings."

"A standout for the year has been the reliability of the two USA-based shipbuilding programs. Looking forward, we expect significant new orders in the USA that will benefit from the production and procurement gains already achieved."

"We also expect performance from Australia to increase during the year with delivery of the first Guardian Class Patrol Boat scheduled for this calendar year and progress with two large ferries under construction which are destined for Europe and Japan. These contracts, our growing support activities, plus the two recently announced, but not yet awarded, Cape Class Patrol Boats for Trinidad and Tobago, will keep the local workforce active at the current level until 2021."

"Meanwhile, our Asia segment is on a path to be a significant contributor to the Group as it gears up to efficiently build high quality vessels designed in Australia. It is particularly in this area that we see the next phase of financial growth."

-Ends-

Conference Call

Austal Chief Executive Officer David Singleton and Chief Financial Officer Greg Jason will hold an analyst and investor conference call to discuss the Company's FY2018 results at the time listed below.

Conference call details:

Date:	Thursday, 30 August 2018
Time:	8:30am Perth time (AWST) / 10:30am Sydney time (AEST) – participants are requested to dial in 5 minutes prior to the start time
Conference ID:	1480239

Dial-in details:

Domestic participants can dial either of the numbers below to join the call.

Toll free: 1800 123 296 or Toll: +61 2 8038 5221

International toll-free numbers are listed below. For countries not listed below, the Australian Toll number can be dialled.

Canada	1855 5616 766	New Zealand	0800 452 782
China	4001 203 085	Singapore	800 616 2288
Hong Kong	800 908 865	United Kingdom	0808 234 0757
India	1800 3010 6141	United States	1855 293 1544
Japan	0120 994 669		

Archived Call: An archived copy of the call will be available shortly after the conclusion of the call via http://www.openbriefing.com/OB/3039.aspx.

Dividend Reinvestment Plan (DRP)

Austal invites all eligible shareholders to participate in the DRP subject to the DRP rules. The DRP will be available for the dividend payable on 10 October 2018 and apply for subsequent dividends unless notice is given of its suspension or termination.

The DRP allows eligible shareholders to elect to invest dividends in shares which rank equally with Austal ordinary shares. The DRP provides a convenient and cost-effective way for eligible investors to invest part or all dividends into new Austal ordinary shares, without incurring brokerage charges or commission.

Ordinary shares will be issued to participants to satisfy any ordinary shares to be issued under the DRP relating to the 10 October 2018 dividend. The allocation price for the shares to be issued under the DRP will be calculated as the volume weighted average market price of Austal shares traded on the ASX over a period of 5 business days from Thursday 20 September 2018 to Wednesday 26 September 2018 (inclusive of those dates). No discount shall apply to the allocation price. Shares will be issued on Tuesday, 23 October 2018 following the payment of the dividend.

Participation in the DRP is open to all shareholders who have a registered address in Australia or New Zealand. A summary of the DRP rules and an application form for participation (Participation Notice) will be emailed to all shareholders. Shareholders who wish to participate in the DRP must return the Participation Notice to Austal's share registry, Link Market Services, by 5:00pm (WST) on Wednesday, 19 September 2018. Details for Link Market Services are:

QV1 Building
Level 12, 250 St Georges Terrace
PERTH WA 6000
Enquiries: 1300 554 474 (Australia) or +61 1300 554 474 (international)

Shareholders may obtain a copy of the Participation Notice by contacting Link Market Services. A summary of the DRP rules and the rules are available on Austal's website at www.austal.com.

Key dates to note for the application of the DRP to the upcoming dividend are:

- Last date for receipt of elections to participation in DRP: Wednesday, 19 September 2018.
- 5 trading day pricing period for DRP: Thursday, 20 September 2018 – Wednesday, 26 September 2018.
- Date for issue of shares under DRP: Tuesday, 23 October 2018.

About Austal

Austal is an Australian shipbuilder and global defence prime contractor which designs constructs and sustains some of the world's most advanced commercial and defence vessels.

Austal successfully balances commercial and defence projects and celebrates 30 years of success in 2018. Austal has designed, constructed and delivered more than 300 commercial and defence vessels for more than 100 operators in 54 countries worldwide.

Austal is Australia's largest defence exporter and the only ASX-listed shipbuilder. Austal has industry leading shipyards in Australia, the United States of America and Philippines and service centres worldwide.

Austal delivers iconic monohull, catamaran and trimaran commercial vessel platforms – including the world's largest trimaran ferry and multiple defence programs such as the Littoral Combat Ship (LCS) and Expeditionary Fast Transport (EPF) for the United States Navy. Austal has grown to become the world's largest aluminium shipbuilder.

Further information:

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