Press release

AVENG DELIVERS POSITIVE INTERIM RESULTS

Marks turning point as Group delivers a profitable first half, entering an exciting phase of its strategic journey

SALIENT FEATURES[1]

- Revenue of A$1.5 billion (R18.6 billion); (December 2022: A$1.1 billion (R12.8 billion[2]))
- Operating earnings of A$15.5 million (R192 million); (December 2022: A$7.8 million (R91 million[2]))
- Headline earnings of A$11.3 million (R137 million); (December 2022: A$6.5 million (R77 million))
- Headline earnings per share of A$8.8 cents (106 cents (Rands)); (December 2022: A$5.2 cents (61 cents (Rands))
- Work in hand of A$3.6 billion (R44.5 billion); (June 2023: A$4.2 billion (R52.2 billion))
- Cash on hand of A$250 million (R3.1 billion); (June 2023: A$190 million (R2.4 billion))
- Strategic journey enters a new phase.
- New organisational structure and leadership announced.

1 *All figures have been restated due to a change in the reporting currency from ZAR to A$.*
2 *Prior period revenue and operating earnings from continuing operations exclude Trident Steel.*

Johannesburg, 20 February 2024 – Today Aveng Limited (JSE code: AEG) released strong results for the interim period ended 31 December 2023, returning to profitability and positive cash generation. This follows the disappointing results of the previous six months. Aveng demonstrated its resilience and the core strength of its operating subsidiaries through this turnaround and the improved performance against the comparative period. The Group delivered a double-digit improvement in revenue, operating earnings, earnings from continuing operations, and headline earnings.

As previously communicated to the market, Aveng has changed its reporting currency from the South African Rand (ZAR) to the Australian Dollar (A$), given that 91% of the Group's revenue is sourced from outside South Africa and that the Board bases its performance evaluation and many investment decisions on Australian Dollar financial information, being the predominant transactional currency of the Group.

Returning to profitability and cash generation

Aveng grew revenue from continuing operations, which excludes Trident Steel by 39% to A$1.5 billion (December 2022: A$1.1 billion), with a corresponding improvement of 99% in its operating earnings to A$15.5 million (December 2022: A$7.8 million) and a 74% increase in headline earnings to A$11.3 million (December 2022: A$6.5 million), compared to the prior comparative period. Earnings from continuing operations increased to A$0.8 million (December 2022: A$0.4 million).

The Group produced gross earnings of A$83.9 million (R1 billion), 17% higher than the comparative period. A gross margin of 5.5% was achieved, a decrease of 1.1% compared to the prior comparative period.

The erosion of the gross margin was largely due to the impact of hyper-escalation on project costs in Australia. The impact has largely been ameliorated by way of various strategies adopted to address this potential risk. This includes ensuring that the portfolio of work in hand comprises a high proportion of alliance model projects in Australia that offer protection in terms of cost reimbursement. Management continues to focus on improving margin on currently active projects.

The increase in operating earnings was driven by earnings in McConnell Dowell in H1 2024, with operating earnings of A$24.2 million (December 2022: A$15 million). Operating free cash inflow of A$83 million was received in the period. Moolmans generated operating earnings of A$1.9 million (R25 million) in H1 2024, albeit at a lower than budgeted operating margin.

CEO designate, Scott Cummins, who will take over the reins from Sean Flanagan on 1 March this year, says the focus for the Group will remain as follows:

- Deliver profitability, positive cash generation and operational performance
- Strengthen balance sheet and settle term debt
- Diversify Moolmans client, commodity and geographic focus
- Continue to de-risk and wind down Group legacy matters
- Succession planning and capacity building

"The interim results testify to our commitment to profitability and cash generation. From an operational perspective, McConnell Dowell operates 74% of its projects at or above bid margins, illustrating strong operational performance across most of its portfolio. The focus going forward is on improving this performance to mitigate the project risks on specific projects and maximise opportunity. Moolmans continues to focus on project execution through a focus on improving production levels across all its sites."

Cummins added that in the current period, McConnell Dowell had accelerated its repayments and repaid A$10 million of the term debt facility. "The remaining balance of A$13 million is expected to be settled by June 2024 which will leave a relatively debt-free balance sheet. Earnings for the current period have been retained to further bolster the balance sheet."

For the first time since June 2017, Aveng has no assets held for sale, following the disposal of its investment in Imvelo Concession Company Proprietary Limited.

In speaking about Moolmans, Cummins said that the focus was on expanding the current client, commodity, and geographic footprint. "The business currently operates exclusively in South Africa, with the majority of its commodity exposure in manganese and iron ore extraction. Prospective projects within the SADC region have been identified together with further opportunities with existing clients at existing projects."

Entering a new phase in the journey

Cummins believes that the return to profitability, coupled with the recently announced changes to key leadership roles, signals an exciting new phase of the journey for the Group. "Aveng has now transitioned through its restructuring to a smaller, focused, and more sustainably profitable, engineering-led, infrastructure, building, and mining contractor. Our commitment to ensuring the success of our two businesses, McConnell Dowell and Moolmans, remains unwavering and in line to ensure a sustainable future as an international engineering-led contractor focused on infrastructure, resources, and contract mining in selected markets."

A new executive leadership team has been formed, with all key functions represented at an executive level. "This team provides a strong matrix structure consolidating and simplifying the historical South African and Australian corporate layers, to leverage the collective expertise across the entire Group. I would like to thank Sean Flanagan, who has elected to retire as CEO with effect from 1 March 2024, for the invaluable role he has played during this transition and we are pleased that he will remain on the Board as a non-executive director for the next step of our journey."

In line with the new executive structure, Aveng will segment its existing businesses under three strong operating brands which will make up three distinct segments. The Infrastructure segment, which will include McConnell Dowell, operates in three geographical regions – Australia, New Zealand & Pacific Islands and Southeast Asia; the Building segment, which will include Built Environs; and the Mining segment, which will include Moolmans.

Looking forward

Cummins said that Aveng remains well-positioned and equipped to continue with sustainable, profitable growth. “The Group entered the second half of the 2024 financial year in a strong position, with combined work in hand amounting to A$3.6 billion (R44.5 billion). This supports 100% of the 2024 full year revenue and more than 60% of 2025 revenue.”

He added that as an absolute priority, the focus would be on increasing the margin percentage of the Group, in addition to ensuring operational performance. “For us, this is a steady, consistent, continuous improvement in profit, cash generation and safety.”

Other priorities include:

- Enhancing the role and impact of the project support / governance team.
- Continuing to renew and optimise the Moolmans fleet.
- The pursuit of new work:
    - Maintain absolute discipline. The risk profile must be appropriate for Group capacity and capability.
    - Diversify Moolmans client, commodity and geography focus.
- Further developing the Group’s Environmental, Social and Governance initiatives.
- Continued development of people, building capacity and capability to support the medium to longer-term strategy.

“While the management epicentre will shift to Australia, governance and control remain in South Africa, and the Group will remain listed on the JSE. Our objective in delivering the above is to achieve a focused management and governance structure, allowing greater efficiency and effectiveness. Over time, this shift will enhance access to diverse capital markets. As we navigate this exciting future together, we remain dedicated to delivering consistent, reliable, and profitable results to our stakeholders.”

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