



## A challenging year

<b>Company/ASX Code</b>	Monadelphous/MND
<b>AGM date</b>	Tuesday 19 November 2019
<b>Time and location</b>	10am University Club Crawley WA
<b>Registry</b>	Computershare
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Derek Miller/Geoff Corrick
<b>Pre AGM Meeting?</b>	Yes with Chair John Rubino

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

### Summary of ASA Position

MND is a well-established engineering company specialising in construction and maintenance for the mining and oil and gas industries and in recent years has moved into infrastructure, water supply and power projects to allow growth as mining construction has flattened. MND is based in Perth and has projects in all states of Australia, and in recent years extended to New Zealand, China, PNG, USA and Mongolia. A large percentage of MND work continues to be in WA and QLD.

MND recorded revenue for the year of \$1.608 billion, 9.85% below the previous year. There was a 34.5% decrease in revenue from the Engineering and Construction section due to completion of some major contracts including the Ichthys onshore LNG project Darwin and slow commencement of some new projects.

This was balanced to some extent by a 19% increase in MND's Maintenance and Industrial Services section. Maintenance contracts continue in the Oil and Gas area; eg Shell Prelude Floating Liquefied Natural Gas (LNG), Ichthys LNG project, and the Woodside LNG plant. A major three-year maintenance contract was obtained for work on BHP's Pilbara facilities This overall maintenance work is expected to be a growth area with many of the recently constructed plants coming into high maintenance periods.

Other growth areas in Engineering and Construction include,

- 1) Zenviron, renewable energy joint venture work including the Lal Lal 228MW 60 turbine wind farms SE of Ballarat.
- 2) Mondium, the engineering, procurement and construction (EPC) Joint Venture with Lycopodium has been awarded a \$100m contract for work at the Talison Lithium mine, Greenbushes.

3) Work on Hunter Valley and Sydney water infrastructure systems. MND has been appointed to the Hunter Water Corporation Complex Capital Works Design & Construct Panel for a four-year term.

4) Sinostruct, the MND fabrication business in China continues to perform strongly including work for the Rio Tinto Oyu Tolgoi underground mine in Mongolia.

### **Financial performance**

In spite of a fall in revenue and profit, a reasonable dividend was maintained for the year. Due to share price increase during the year, TSR was 27.5% and has averaged 37% for the last 3 years.

Full year dividend of 48cps (fully franked) represented a dividend payout ratio of 90% of statutory net profit after tax (NPAT).

#### **5-year financial performance detail:**

As per 2019 annual report p14	<b>2019 \$'000</b>	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000
Statutory Revenue	<b>1,479,737</b>	1,737,632	1,249,085	1,368,849	1,869,505
EBITDA	<b>106,791</b>	119,046	98,184	113,630	167,975
Profit before income tax	<b>83,426</b>	102,845	82,664	95,610	147,041
Income tax expense	<b>31,313</b>	30,570	24,144	28,702	41,216
Profit after income tax expense attributable to equity holders of the parent	<b>50,565</b>	71,479	57,563	67,014	105,825
Basic earnings per share	<b>53.72c</b>	76.11c	61.41c	71.77c	113.91c
Interim dividends per share (fully franked)	<b>25.00c</b>	30.00c	24.00c	28.00c	46.00c
Final dividends per share (fully franked)	<b>23.00c</b>	32.00c	30.00c	32.00c	46.00c
Net tangible asset backing per share	<b>413.93c</b>	415.86c	398.23c	390.64c	391.75c
Total equity and reserves attributable to equity holders of the parent	<b>393,436</b>	394,481	377,393	368,995	368,098
Depreciation	<b>19,490</b>	17,222	17,892	21,094	22,932
Debt to equity ratio	<b>9.70%</b>	5.30%	3.60%	4.80%	6.30%
Return on equity	<b>12.90%</b>	18.10%	15.30%	18.20%	28.70%
EBITDA margin	<b>6.60%</b>	6.70%	7.80%	8.30%	9.00%

## Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	57.4	71.6	57.5	67.0	105.8
UPAT (\$m)	57.4	71.6	57.5	67.0	105.8
Share price (\$)	18.81	15.0	16.2	7.66	9.26
Dividend (cents)	48	62	54	60	92
TSR (%)	27.5	13.5	72.0	- 6	- 32
EPS (cents)	61.0	76.1	61.4	71.8	113.9
CEO total remuneration, actual (\$m)	1.195	1.135	1.005	0.979	1.055

For the 2019 financial year (FY19), the CEO's total actual remuneration was **13.5 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For May 2019, the Full-time adult average weekly total earnings (annualised) was \$88,145 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings", Trend(a)).

## Governance and culture

MND is well regarded in the industry for its management and workforce skills. It has a small 7 member Board with 5 independent directors including two female directors.

The Chair was appointed to the MND board January 1991 and became chairman 2003. ASA Policy Guidelines nominate 12 years of service on a board as the maximum period for being considered Independent and therefore do not regard Mr John Rubino as Independent.

Ms Sue Murphy AO Civil Engineer was appointed to the board in FY19. Ms Murphy is an Honorary Fellow of the Institution of Engineers Australia.

The board is made up of multi-disciplined professionals with considerable relevant experience in engineering, business administration and Construction Law. Both the CFO and Company Secretary are Chartered Accountants with respectively 19 years and 14 years relevant construction and engineering services experience.

## Key events

2019 has been a year of steady operation, and searching for growth areas, outside mining construction. The value of new contract awards in FY19 was \$1.35billion.

<b>Resolution 1</b>	<b>Re-election of John Rubino as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### **Summary of ASA Position**

Mr Rubino was appointed to the Board in 1991 as Managing Director and in 2003 he was appointed Executive Chair, a role he still holds. He has 53 years' experience in the construction and engineering services industry. He is Chair of the Nomination Committee and has no other directorships.

Mr Rubino has thorough knowledge of the industry, the company and the company stakeholders and has demonstrated commitment and dedication to his role as Executive Chair, has made and continues to make a significant and valuable contribution to the Board. He contributes to the mix of skills required of the Board to effectively implement the company strategy.

Because of his long service, the ASA does not regard Mr Rubino as independent, but is a highly regarded industry professional and a key to MNDs engineering excellence and skilled employee workforce. In light of the Chair's lack of independence, MND has appointed Mr Peter Dempsey as the lead independent non-executive director.

<b>Resolution 2</b>	<b>Re-election of Dietmar Voss</b>
<b>ASA Vote</b>	<b>For</b>

### **Summary of ASA Position**

Mr Voss was appointed a Director in 2014 and is a Chemical Engineer with 43 years' experience in relevant industries. He is well qualified for this role. ASA considers him to be an independent director.

<b>Resolution 3</b>	<b>Re-election of Director Ms Susan Murphy</b>
<b>ASA Vote</b>	<b>For</b>

### **Summary of ASA Position**

Ms Murphy was appointed to the Board in June 2019, and has 35 years' experience in the resources and infrastructure industries. She is a Civil Engineer and prior to retirement was Chief Executive of Water Corporation of WA for 10 years. She is well qualified for this role.

ASA considers her an independent director.

<b>Resolution 4</b>	<b>Fees to Non Executive Directors</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

This resolution is to increase the aggregate fee pool by \$100,000 from \$750,000 to \$850,000 to allow for the appointment of an additional director and to increase director's fees when necessary. The fee pool both before and after the increase is less than many companies of a similar size in market capitalisation.

<b>Resolution 5</b>	<b>Grant of Performance Rights to the Managing Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

The grant of \$296,800 Performance rights is in accordance with the Combined Performance Plan previously approved.

<b>Resolution 6</b>	<b>Adoption of the Remuneration Report</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

This is the second year of the new remuneration structure which is made up of

- 1) Fixed Remuneration
- 2) Variable remuneration - Combined Reward Plan for senior leaders with financial and non financial targets. The plan has combined short & long term components. Significantly, this year all rewards were issued in Performance Rights, with no cash rewards.
- 3) Variable remuneration - Employee Option Plan where 25% of options may be exercised 2 years after issuance, 25% after 3 years and 50% after 4 years of issuance.

MND do not publish full details of awards to key management personnel (KMP) and employees claiming confidentiality and commercial sensitivity.

The main financial target for KMP is earnings per share growth, which was not achieved this year, hence payments were relatively low. This was only the second year in the last 5 years where payments were not achieved. A total of 95 employees have achieved Performance Rights this year.

The remuneration report includes a 5-year table with three financial metrics; Statutory NPAT, Basic EPS and 30 June year end share prices.

MND remuneration policy includes claw back and Performance Rights do not carry voting rights or entitlements to dividends until such time they have converted to shares.

This would be one of the better remuneration designs, and achieves realistic payments to ensure continuous employment of key people.

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	0.973	78	0.973	64
STI - Cash	nil		nil	
STI - Equity	nil		nil	
LTI	0.266	22	0.543	36
Total	1.239	100.0%		100%

The individuals involved in the preparation of this voting intention have a shareholding in MND.

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