

WATERCO

water, the liquid of life

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Half Year Report

for the six months ended 31 December 2016



Review Of Operations

For the six months ended 31 December 2016 (This Half-year) Waterco Limited reported a Net Profit After Tax of \$2.51 million, against \$2.17 million for the previous corresponding period (PCP). This result, though modest, is nevertheless encouraging, as it reflects the Group's continuous efforts to attain a better level of profitability.

Earnings Before Interest & Tax (EBIT) for This Half-year were \$4.08 million (PCP \$3.86 million).

Total Revenue was \$44.25 million (PCP \$46.21 million).

Divisional EBIT Performance

Detailed below is a breakdown of EBIT contributions by Division for the half-year ended 31 December 2016:

	Dec 2016 (\$000)	Dec 2015 (\$000)	% Change
Australia and New Zealand	3,130	3,154	- 0.1%
Asia	1,766	1,997	-11.6%
North America and Europe	(814)	(1,291)	+37.0%
Consolidated Reported EBIT	4,082	3,860	+5.8%

Australia And New Zealand

In Australia and New Zealand (ANZ), we had a soft start at the beginning of the financial year. However, sales caught up as the weather warmed and ended up matching the sales of PCP. Margins firmed, compared with PCP, due to a stable Australian Dollar (AUD). As a result, Gross Profit improved. EBIT was, however, similar to the level of PCP, which had the benefit of one-off credits from booking of insurance claims.

Waterco is pleased to note that the building in Rydalmere has been completely rebuilt, after the fire in January 2015. The Head Office has moved back to these new premises during This Half-year.

Asia

In Asia, sales were also tracking similar to PCP but a stronger Australian Dollar caused a slight decline in their contribution to the Group's figures.

In the past year, the Group transferred the fibreglass manufacturing operations from Waterco China to Waterco Far East (WFE) to improve the efficiency of the Malaysian entity and to provide a net gain to the Group. This will be reflected in either the second half-year or the next financial year.

WFE continues to consolidate its position as a manufacturer for the Group with improvement in the quality of the heat pump. Further improvement of manufacturing lines of other products will result in a better performance in the future.

North America And Europe

In Northern America and Europe – namely Canada, the USA and Europe – generally, poor economic conditions continued. However, the restructure of the Canada and USA entities has enabled the Group to reduce EBIT losses for this Division. The supply of large commercial filters capable of high pressure rating will underpin our presence in the USA. In Europe, we are beginning to feel the benefits from the firm foundation we built during the past few years, with results showing improvement over PCP.

This Division reported an EBIT loss for the six months of \$0.81 million, or an improvement of 37.0% on the PCP. The main business season for this Division is in the second half of the financial year. Trading conditions in the US remain tough, though we do see prospects of an improvement in the water-treatment sector.

Product Development & Water Treatment

In This Half-year, Waterco invested approximately \$0.59 million on research and development, which was fully expensed. The Group continues to respond to market demands for innovative, durable and energy-efficient products and will continue its vigorous efforts in this area.

The Group continues to develop water filtration products in Australia and overseas. This is an area which Waterco has specialised in over the years. We also hold several patents in a chlorine-free system of sanitisation which uses ozone and hydrogen peroxide as an alternative to the traditional methods of using chlorine in various forms.

Working Capital

	Dec 2016 (\$000)	Dec 2015 (\$000)
Inventory	31,309	33,265
Debtors	15,516	21,307
Creditors	(14,802)	(18,629)
TOTAL	32,023	35,943

The group's working capital as at December 2016 saw a decrease of \$3.92 million, with reduction seen in all the components.

Dividend

Based on This Half-year result, the Board is pleased to declare a fully-franked interim dividend of 2 cents per share payable on 15 June 2017.

Outlook

The Board considers This half-year's results as encouraging.

The second half-year represents a smaller contribution to the results for the year because of seasonal factors. It will be more dependent on North America and Europe, where we have hopes that the USA entity would do better, particularly in commercial filters, would feature prominently in this period. This year, we are encouraged by the good start to the second half-year by the Australia and New Zealand Division, assisted by the hot weather. We are optimistic that this could mean a better result for the full year than previously expected.

Performance Summary

- Net profit after tax (NPAT) of \$2.51m, compared with \$2.17m in the previous corresponding period
- Earnings before interest and tax (EBIT) was \$4.08m compared with the previous corresponding period of \$3.86m.
- An interim dividend of 2 cents per share (PCP – 2 cents)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

(extracted from the Financial Report for the Half Year)

For the Half Year ended 31 December 2016

	2016 \$M	2015 \$M
Profit/(loss) before income tax	3.610	3.235
Income tax expense	(1.097)	(1.065)
Net profit/(loss) after income tax	2.513	2.170
Non-controlling interest	(0.081)	(0.061)
Net profit/(loss) attributable to members of the parent entity	2.432	2.109
Basic earnings per share (cents)	6.5	5.8
Diluted earnings per share (cents)	6.5	5.8

Condensed Consolidated Statement of Financial Position

(extracted from the Financial Report for the Half Year)

At 31 December 2016

	2016 \$M	2015 \$M
Current assets	55.156	62.816
Non-current assets	52.466	41.231
Total Assets	107.622	104.047
Current liabilities	20.173	28.777
Non-current liabilities	23.206	18.794
Total liabilities	43.379	47.571
Net assets	64.243	56.476
Issued capital	39.820	39.265
Reserves	12.312	6.428
Retained profits	11.507	10.265
Parent entity interest	63.639	55.958
Non-controlling interest	0.604	0.518
Total equity	64.243	56.476

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