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Skellerup reports record 1H23 EBIT

Skellerup announced today record unaudited earnings before interest and tax of $33.5 million for the six months ended 31 December 2022, an increase of 3% on the prior comparative period (pcp). Net profit after tax (NPAT) was $23.0 million down 1% on pcp due to higher interest and tax costs.

Key points for the six months ending 31 December 2022

- Revenue of $165.5 million, up 10% on prior comparative period (pcp)
- Earnings before interest and tax (EBIT) of $33.5 million, up 3% on pcp
    - Industrial Division EBIT of $21.4 million, up 14% on pcp
    - Agri Division EBIT of $14.6 million, down 12% on pcp
    - Corporate costs of $2.5 million, down 15% on pcp
- Net profit after tax (NPAT) of $23.0 million, down 1% on pcp
- Operating cash flow of $20.2 million, up 3% on pcp
- Net debt of $39.0 million, up $13.8 million on FY22 year-end
- Interim dividend of 8.0 cents per share (an increase of 0.5 cps), up 7% on pcp
- FY23 NPAT forecast unchanged in the range of $48 to $52 million.

CEO David Mair reflected. “Our team has again worked hard to deliver a good result in a tough environment. The rapid increase of inflation and general slowdown in demand is a different challenge to what we faced 12 months ago. Our strategy of staying close to our customers, listening carefully to their needs, and developing products to meet them whilst continuing to standardise and improve process has been and will continue to be key to our success. Some of our businesses have capitalised on the investment they have made to increase sales and returns whilst others have had to adjust to slower demand. All have had to deal with increased costs which we have largely recovered via productivity gains or adjusting prices, reflecting the value of our products.”

Mair emphasised that markets were mixed, and seasonal demand impacted the result. “In Europe our businesses have faced significant increases in energy costs and a slump in the purchasing power of the Euro. However, the increase in energy costs has spurred demand for some of our products used in solar applications. Globally the rising costs and lower level of construction activity has impacted both directly and indirectly, but the diversity and quality of our businesses has seen growth in demand in other sectors.”

Mair added, “For the first time in several years our people have been able to travel enabling important customer and partner relationships to be strengthened instead of a singular reliance of digital communications. This will enable further growth and improvement for our business across the world."

Skellerup’s Industrial Division achieved a record EBIT of $21.4 million, up 14% on pcp. Revenue grew by 13%. “Strong revenue and earnings growth from our foam and vacuum systems businesses were the highlight in the first half of the year. These results are the outcome of a multi-year focus to understand customer needs and consistently develop, improve, and deliver market leading products and solutions." Mair further noted that this result more than offset unsurprisingly lower demand experienced in some of Skellerup's markets. "The impact of lower global demand negatively impacted on sales of our potable water and flow control products. Sales of discretionary items like tapware and appliances are down, and with supply chain congestion easing customers are also reducing the level of inventory they hold."

Skellerup's Agri Division EBIT of $14.6 million, was down 12% on pcp. Mair noted, "Dairy sales were as we expected softer and in line with our Budget following a very strong finish to the prior year. This lower demand naturally impacted production and some erosion of gross profit in the first half of the year. Footwear sales into the NZ and the US markets remained strong, exceeding both our target and pcp."

Operating cash flow in the first half was up 3% on pcp but below target as due to an increase in inventory. Mair said "We have maintained a cautious approach to mitigate risks of raw material shortages and elongated shipping timeframes. With lower global demand these risks are generally abating, and we will gradually reduce inventory in the second half of the year whilst managing the impact of abrupt changes on our manufacturing partners."

Skellerup's balance sheet remains strong. Mair noted, "Our strong cash flow generation and the very low level of debt we carried before investing in higher working capital over the past 18 months means net debt remains low at just 19% of our net assets."

Skellerup reaffirmed expectations for another record year with FY23 NPAT forecast to be in the range of $48 to $52 million. Mair said "Markets will remain challenging; however we expect earnings to be stronger in the second half of the year due to seasonal impacts and contribution from new products used in hygiene, potable water and flow control applications. These new products add to our strong foundation to deliver growth in the years ahead."

Chair John Strowger said the first half result, and expectations for the full year, allowed the Board to declare a 7% increase in the interim dividend to 8.0 cents per share, imputed 50% (the same level as in the pcp). The dividend will be paid on 16 March 2023 to shareholders of record at 5pm on 03 March 2023.

"During the first half, the strength and resilience of our business has again been demonstrated. Despite the global slowdown in demand, the skill, drive and commitment of our team to continually improve and develop critical products has enabled Skellerup to sustain a trend of operating earnings growth. Our global team are focused on growing sustainable earnings and shareholder returns."

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