ASX ANNOUNCEMENT

25 August 2022

K&S Corporation announces full year result for FY2022

K&S Corporation Limited (ASX: KSC) today announces an underlying profit before tax[1] of $23.1 million for the year ended 30 June 2022, an increase of 34.8% on the prior corresponding period. The underlying profit after tax was $16.7 million, up on the prior corresponding period by $4.7 million.

Statutory profit before tax for the year ended 30 June 2022 was $24.2 million, 12.3% lower than the prior corresponding period. Statutory profit after tax was $17.4 million, 3.9% lower than the previous year statutory profit after tax of $18.1 million.

Included in the Group's statutory result for FY2022 was a $1.6 million accounting gain attributable to the Group's interest rate swap instrument, as well as $0.7 million of one-off costs and bad debt recovery of $0.2m treated as significant items.

Operating revenues increased by 12.7% to $776.2 million in FY2022.

Operating cash flow for FY2022 was $64.7 million, 14.2% lower than for the previous year. This is a strong result as operating cash flow in FY2021 included government wage subsidies of $23.2 million.

Safety remains a key focus for the Group. The Group's lost time injury rate remained steady at 5.0 (FY2021: 4.9).

The COVID-19 pandemic has adversely affected our workforce throughout the year, with a significant number of employees being required to isolate during the period resulting in reduced utilisation of our fleet. This situation appears likely to persist into FY2023.

The Group has also been impacted by supply chain interruptions, with the timeframes for delivery of new fleet substantially delayed in the current environment. While the Group works closely with its equipment suppliers for the procurement of new fleet assets and has been diligent to invest in fleet renewal on an ongoing basis for a prolonged prior period, sustained delays in the delivery of new fleet assets by equipment manufacturers will continue to impose some operational constraints, as well as increased fleet maintenance costs for the foreseeable future.

The Australian transport segment provided another sound year in FY2022. While the overall result for the Australian transport segment was consistent with the previous year, the mix of contributions by the various operating divisions changed.

Ongoing operational reviews and related rate changes across the division also assisted to maintain the overall underlying result for the Australian transport segment in FY2022 despite an increasing cost environment, COVID-19 impacts and supply chain disruption. Having regard to the extended timeframes to acquire new fleet assets and the contraction of the available pool of drivers and subcontractor operators in Australia, our strategy remains to improve the quality and contribution of our revenue base, rather than targeting work solely to grow top line revenue.

We completed the construction of our new company owned facility at High Wycombe in Perth in the fourth quarter of FY2022. This has allowed us to co-locate the Heavy Haulage and Chemtrans divisions at a new state-of-the-art site that also includes a modern workshop facility, warehousing, bunded chemical storage, and extensive hardstand. This also facilitated the exit of two externally leased properties and will provide a number of operational benefits.

The New Zealand business had another strong result in FY2022, with the New Zealand economy proving resilient throughout the year despite inflationary pressures and COVID-19 related impacts. The New Zealand business continues to realise growth through the provision of its integrated and value adding service offering. We successfully extended or renewed several key customer contracts in the course of the year.

The fuel trading business has provided strong financial results in FY2022. The fuel retailing and wholesaling markets remain dynamic and continue to exhibit high levels of competition. We are currently undertaking several projects to enhance our retail offering, including the redevelopment of several company owned retail sites.

The ongoing benefits from the implementation of cost reduction strategies across the business continued to contribute to underlying profit. In particular, the Group has maintained its focus on operational efficiencies, supplier renegotiations, cessation of underperforming activities, and the rationalisation and replacement of specific fleet assets that reduced operating costs.

Balance Sheet and Funding

The Group has maintained a strong balance sheet in FY2022, underpinned by sound trading performance and increased property valuations, and coupled with prudent capital disciplines.

The Group's debt profile carries long maturities and the gearing ratio (excluding lease liabilities) decreased to 6.5% at 30 June 2022, compared to 9.0% in the prior year. The Group's net debt reduced to $21.4 million at 30 June 2022 (the lowest net debt experienced since 2003), down from $26.6 million in the prior comparative period. This is an outstanding result as, during the course of FY2022, the Group completed the $29.3 million purchase and development of its new High Wycombe facility.

The Group also acquired other fixed assets totalling $30.2 million, compared to $35.1 million in the prior year and continues to invest to maintain a modern operating fleet.

Based upon independent valuations, the Group increased the carrying value of its freehold property portfolio by $34.1 million. The Group's property portfolio consists of high-quality industrial assets.

The Group extended the maturity profile of its debt facilities and negotiated improved terms with its panel of lenders in the first half of FY2022. The Group's debt facilities now comprise funding in three-year tranches totalling $124 million (inclusive of a $30 million bank guarantee facility) and five-year tranches totalling $75 million. As part of that refinancing exercise, the Group also paid out previous facilities with Bank of China and brought in ANZ as a new lender, in conjunction with existing lenders Westpac and NAB.

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Safety

The Group continues to invest in our safety management system and on road compliance and the training of our employees. The Group recognises that its social licence to operate is contingent upon achieving industry leading on-road behaviours and safety outcomes.

Addressing the challenges posed by COVID-19 required considerable resourcing and remained a major area of employee welfare and safety focus in FY2022. As with the wider community, the Group was affected on an ongoing basis by employees contracting COVID-19 and/or being required to isolate as a COVID-19 close contact.

As a self-insurer for workers compensation claims under the Commonwealth Comcare scheme, the Group's safety management system was subject to external audit by our safety regulator, Comcare, in the second half of FY2022. The audit forms part of the requirements of the Group's self-insurance licence and assesses the effectiveness of our safety management system against one hundred and seven criteria. Pleasingly, the external auditor concluded that the Group complied with all one hundred and seven of those criteria. This is an outstanding achievement.

Dividend

The Directors have declared a fully franked final dividend of 5.0 cents per share (2021: 3.5 cents per share). This follows the fully franked interim dividend of 4.5 cents per share paid in April 2022, making the total fully franked dividend 9.5 cents per share in respect of the year ended 30 June 2022.

The final dividend will be paid on 3 November 2022, with the date for determining entitlements being 19 October 2022.

The dividend reinvestment plan (DRP) applies in respect of the final dividend. While the Group achieved record low debt levels at the end of FY2022, the Group has an extensive capital expenditure program for FY2023. Coupled with ongoing uncertainty about the economy in a high inflation and higher interest rate environment, Directors are of the view that a conservative approach to balance sheet management remains appropriate.

The last election date for participation in the DRP is 20 October 2022. The issue price of shares under the DRP will be the volume weighted average price for K&S shares in the five business days ending on 19 October 2022 (the record date for the final dividend), less a discount of 2.5%.

Board Composition

Robert Dalton was appointed as a non-executive director on 24 August 2021. Mr Dalton is considered by the board to be independent. Mr Dalton's appointment continues a process of board renewal. Following the appointment of Mr Dalton, the majority of non-executive directors on the board are considered to be independent and the audit committee is now compromised exclusively of independent non-executive directors.

Outlook

Providing earnings guidance going forward remains difficult, particularly having regard to the current high inflation and higher interest rate environment coupled with ongoing uncertainties created by COVID-19.

The Group has secure long term bank facilities and low gearing levels. We will continue to take a balanced approach to financial risk as well as maintaining a strong focus on working capital management and underlying profit

improvement, and as such will continue to target the ongoing improvement of the quality of our revenue base. Our focus will be maintained on growth in market segments, be that organic or through acquisition, that will provide accretive returns on investment.

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Annexure A – Financial Overview

Financial Overview		2022	2021	% Movement
Operating Revenue	$'000	**776,181**	688,541	**12.7%**
Statutory profit after tax	$'000	**17,425**	18,123	**(3.9%)**
Statutory profit before tax	$'000	**24,151**	27,541	**(12.3%)**
Earnings before interest and tax (EBIT)	$'000	**26,844**	30,917	**(13.2%)**
Earnings before interest, tax and depreciation (EBITDA)	$'000	**73,265**	83,336	**(12.1%)**
Less Gain/(Loss) on Derivative Instruments at Fair Value Through Profit and Loss	$'000	**(1,565)**	-	**100.0%**
Less JobKeeper income	$'000	**-**	(16,235)	**(100.0%)**
Add other significant items	$'000	**680**	6,001	**(88.7%)**
Less bad debts recovered	$'000	**(196)**	(199)	**(1.5%)**
Underlying profit before interest, tax & depreciation[1]	$'000	**72,184**	72,903	**(1.0%)**
Underlying profit before interest & tax[1]	$'000	**25,763**	20,484	**25.8%**
Underlying profit before tax[1]	$'000	**23,070**	17,108	**34.8%**
Underlying operating profit after tax[1]	$'000	**16,668**	11,976	**39.2%**
Total assets	$'000	**601,748**	525,837	**14.4%**
Net borrowings excluding lease liabilities	$'000	**21,361**	26,566	**(19.6%)**
Shareholders' funds	$'000	**306,944**	268,717	**14.2%**
Finance costs	$'000	**2,693**	3,543	**(24.0%)**
Depreciation	$'000	**45,859**	52,419	**(12.5%)**
Dividend per share	cents	**9.5**	6.5	**46.2%**
Net tangible assets per share	$	**2.24**	2.04	**9.8%**
Operating cash flow	$'000	**64,702**	75,454	**(14.2%)**
Return on assets	%	**2.9**	3.5	**(17.3%)**
Gearing ratio (excluding lease liabilities)	%	**6.5**	9.0	**(27.8%)**
Employee numbers		**1,943**	1,972	**(1.5%)**
Lost time injuries		**21**	22	**(4.5%)**
Lost time injuries frequency rate		**5.0**	4.9	**2.0%**

[1] Underlying profits and earnings per share based on underlying profits are categorised as non-IFRS Financial information and therefore have been presented in compliance with ASIC Regulatory Guide 230- Disclosing non-IFRS information issued in December 2011. Underlying adjustments have been considered in relation to their size and nature and have been adjusted from the statutory information for disclosure purposes to assist readers to better understand the financial performance of the underlying business in each reporting period. These adjustments primarily include the unrealised gain on the Group's interest rate swap, which was primarily driven by the underlying market volatility in the short and mid term interest expectations and asset impairment expenses. The exclusion of these items provides a result which, in the Directors view, is more closely aligned with the ongoing operations of the Consolidated Group. The non-IFRS information has not been subject to audit or review by the auditor.

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