

ASX Announcement

23 February 2023

Kelsian Group Limited – FY23 Half Year Results

Underlying Net Profit After Tax +21.6% to \$26.5 million reflects resilient, well-hedged contracted earnings base and rebound in tourism

Kelsian Group Limited (ASX:KLS) (**'Kelsian'**) today reported its half year results for the six months ended 31 December 2022 (1HFY23)*

Key Highlights

- Solid result reflecting benefits of long-term, low-risk government-backed service contracts, providing consistent predictable earnings base;
- Rebound in domestic tourism led to strong growth in Marine and Tourism business, contributing to 6.2% growth in Group Revenue to \$678.3 million;
- Contract indexation mechanisms effectively hedge inflation for majority of bus businesses;
- Underlying EBIT (adjusted for one-off costs associated with M&A) grew by 17.8% to \$44.9 million despite inflationary environment;
- Underlying NPAT increased by 21.6% to \$26.5 million;
- Continued strong balance sheet and cash flows supports the fully franked interim dividend of 7.5 cents per share, (1HFY22: 7.0 cents per share);
- New bus contracts won in Sydney including retention of existing Sydney Region 3 contract demonstrate leadership in operational excellence, decarbonisation, and efficiency; and
- Acquisitions of Starship Vessels and North Stradbroke Island Buses and agreements to acquire Horizons West Coachlines and Grand Touring NT during the period.

Group Chief Executive Officer (CEO) Clint Feuerherdt said: "This result reflects the highly defensive nature of our contracts, the majority of which provide a natural hedge in an inflationary environment with indexation for fuel prices, wages, and CPI.

"The rebound in domestic tourism led to an impressive 41.3% increase in revenue for the Marine and Tourism division to \$167.5 million and demonstrates the benefits of our diversified businesses to delivering growth overall.

"During the period, there was a continued industry wide shortage of drivers and mechanics which resulted in some rail replacement, special event and charter work being suppressed and higher overtime or agency costs to maintain services in the domestic business.

* Results are shown post the change in accounting treatment of the Singapore Bus segment announced on 15 February 2023 unless otherwise stated

“Pleasingly the labour shortages in Singapore were substantially resolved by December 2022 and this business enjoyed the first full period contribution of the Sembawang-Yishun contract.

“There have been several positive developments in the Australian Bus business, with the retention of the current Sydney Region 3 contract plus the award of three further existing Sydney Metropolitan bus regions, announced in December 2022 and February 2023, which validate Kelsian’s disciplined approach to tendering and leadership in transitioning bus contracts, operational excellence, decarbonisation, and efficiency.

“Following the most recent tender wins, we are now the largest bus operator in Sydney, and with the largest zero emissions bus fleet and electrified bus depot in Australia, we are well placed to capitalise on our leadership position as we work with Government to achieve their objectives in delivering sustainable transport solutions.

“As well as organic growth, we have also been successful in acquiring several businesses including, North Stradbroke Island buses and more recently the Horizons West education transport operation, which reflect our strategy to diversify into adjacent businesses and the acquisition of the Starship Group vessels, helped to consolidate our leadership position on Sydney Harbour.

“The current operating environment is characterised by an increasing focus on decarbonisation across public transport as well as a strong tender pipeline both in Australia and overseas, in particular in Singapore and the UK.

“Our focus remains on pursuing opportunities that position the Group in new markets that will unlock further growth opportunities. In addition, we are focused on the integration of new contracts and acquisitions and leveraging the synergies and efficiencies that result from the increased scale, to drive revenue and margin growth and shareholder value.

“Our strong balance sheet, resilient cash flows, experienced management team, strong track record and disciplined approach to capital deployment, as well as leadership in sustainable transport, all combine to ensure the business is well placed to continue to deliver on our growth promise. This will be delivered through organic growth, diversification into adjacent markets and M&A in our key target markets of UK, Europe and USA,” he said.

1HFY23 Results in summary

The Australian Bus business demonstrated resilience in an inflationary environment with the indexation mechanisms offsetting the majority of cost price increases. The shortages of drivers and mechanics did impact the result as increased costs were incurred as a result of higher overtime and agency fees.

Pleasingly, the Marine and Tourism business result reflects a rebound in domestic tourism with strong revenue growth. Margins were impacted by cost inflation pressures and increased investment in Repairs and Maintenance which represented a catch up post the restrictions during COVID. These additional costs were in part offset by fare price increases that occurred at various points through the period.

Borrowing costs were well managed despite the increases in interest rates during the period. The positioning of the business for future growth was strengthened with a further investment in corporate functions including People & Culture, Safety, Information Technology and Cyber protection.

There was a non-cash amortisation charge associated with customer contracts goodwill of \$8.6 million in the period.

Statutory NPAT, pre-one-off items was \$17.2 million.

Change in Accounting for Singapore bus business

Previously, lease payments made to the Singapore Land Transport Authority ('SLTA') for the use of buses to service contracts were recorded on a gross basis with right of use assets and associated lease liabilities being recorded on the balance sheet. As the lease payments to SLTA are ultimately refunded, the arrangement is now recorded on a net basis, resulting in the relevant right of use assets and lease liability being de-recognised from the balance sheet.

The accounting change results in adjustments to non-cash items reported in the International Bus segment for revenue, depreciation, interest and certain right of use assets and associated lease liabilities. There is no associated impact on net profit before tax, net profit after tax, cashflows, net assets, financial covenants or on Kelsian operations or its prospects. A reconciliation is provided in Appendix 1 of the 1HFY23 Results Presentation.

Strong balance sheet and cash flow

Gross operating cash flow increased by 11.7% to \$67.5 million and as at the end of the period, there were significant cash reserves totalling \$95.0 million. Recognising the strong balance sheet and cashflows, the Board has declared a fully franked interim dividend of 7.5 cents per share payable on 17 March 2023 for shares registered on 3 March 2023.

A total of \$44.6 million of capital was deployed during the period to underpin growth and refresh the tangible asset base. The business will continue to pursue opportunities to bring forward capital expenditure to take advantage of temporary full expensing for tax purposes before it ends in June 2023.

We continue to explore innovative funding structures for the \$70.8 million of 'government backed' debt, which when adjusted from leverage calculations illustrates the balance sheet potential.

Outlook

Trading so far in 2HFY23 has been characterised by continued positive momentum in the rebound of domestic tourism in part offset by cost headwinds associated with the ongoing labour constraints, particularly in the Australian Bus segment which are expected to ease as migration levels normalise.

The balance sheet strength offers resilience and creates optionality to continue to pursue the growth strategy via organic growth including diversification into adjacent markets such as education and by acquisitions in the key target markets of UK, Europe, and USA.

Results briefing webinar

Kelsian Group CEO Clint Feuerherdt and Group CFO Andrew Muir will host a results briefing webinar today at 9am (AEDT) with a conference call facility available for those wanting to ask questions.

To register for the webinar – pls click here: <https://webcast.openbriefing.com/kls-hyr-2023/>

To register for the Conference call – pls click here: <https://registrations.events/direct/OCP61191>

Post the event, the webinar will be available on the Results section of the IR website: [Kelsian | Results Centre](#)

Authorised for lodgement with the ASX by the Kelsian Board of Directors

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ABOUT KELSIAN

Kelsian is Australia's largest integrated multi-modal transport provider and tourism operator, with established bus operations in Singapore, London, and the Channel Islands. Kelsian provides essential journeys for our customers by delivering safe and intelligent transport solutions designed to improve the sustainability and liveability of the communities we serve.

Kelsian has over 30 years' experience delivering tourism and passenger transport services. The Group is a leader in sustainable public transport as the operator of Australia's largest zero emission bus fleet and Australia's largest electrified bus depot.

As at 31 December 2022, Kelsian employs 9,223 people and operates 3,991 buses, 113 vessels and 24 light rail vehicles that delivered more than 257 million customer journeys over the last year. Through its London bus joint venture, Kelsian is involved in employing a further 4,000 people operating 1,250 buses, including 350 electric vehicles.