BINGO Investor Call - Market Update and FY19 outlook

Daniel Tartak, BINGO Managing Director and CEO

Good morning everyone. Thanks for joining us this morning for our investor call. With me on this call is Bingo's Chief Financial Officer, Anthony Story, and our Chief Development Officer, Chris Jeffrey.

I'm going to provide you with an update on our guidance for FY19, and then we'll open the line up for questions.

As you will have seen in our ASX announcement this morning, we now expect underlying EBITDA for the full year ending 30 June 2019 to be broadly in line with the previous year.

This compares with our prior guidance of underlying EBITDA growth of the business in the range of 15-20%, prior to any positive impact of the acquisition of DADI.

While our post-collections and Toro business units have performed in line with expectations for the first half, a number of factors will impact our full year result for FY19.

The first is a faster than anticipated softening in multi-dwelling residential construction activity across BINGO's key markets in NSW and Victoria. While we flagged the impact of this slowdown at our AGM, it has impacted us more quickly than we initially anticipated.

And while volumes in our B&D collections business are above the previous corresponding period, they have not grown as much as we originally forecast. In addition, competition in this segment has put downward pressure on pricing, impacting our margins. The combination of these factors will have an impact on EBITDA in B&D collections of around $6 million.

Fortunately, the overall construction outlook remains strong with overall volumes of construction activity in NSW and Victoria of exceeding $130 billion, driven primarily by infrastructure and commercial construction activity, which remains robust.

Secondly, we've made a decision not to implement our forecast price rise in FY19. We had delayed the price increase to coincide with the introduction of the Queensland waste levy to ensure our customers receive only one price increase during the year. The delay in the introduction of the Queensland levy until July, coupled with softening residential market, means we've decided not to implement our annual price rise until FY20.

The price increase is typically in the range of 3-5% annually, and our last price increase was in February 2018. The decision will impact both our collections and post-collections businesses.

We'll now absorb increased operating costs for the whole of FY19, including tipping and transport, that would ordinarily be covered in the price rise. This will have an impact of around $4 million.

Thirdly, we had a number of our recycling facilities in NSW and Victoria offline for redevelopment as part of our network expansion program. This is a key element of our stated goal to increase our network capacity. The program is progressing well, but based on the proposed acquisition of DADI and pending regulatory reforms, including new fire regulations, we undertook a further review of the network configuration plan over the past few months. This has resulted in some further changes to scope and timing of some of our planned developments. This will impact volumes processed, particularly in the second half.

The reconfiguration, which will impact our FY19 result by $4 million, will soon start to bear fruit. It will deliver enhanced operational efficiencies and lower the overall capital program by $25 million to $30 million, a saving of 15-20% on the original budget.

In order to achieve this, the reopening of our Mortdale facility will now occur in the first half of FY20, and the need to fully redevelop Minto is currently under review. Our Patons Lane redevelopment remains on track to open in July 2019, and our West Melbourne facility will provide Bingo with the first of our advanced recycling facilities in Victoria when it opens in April.

The combination of all these factors will result in a reduction to our full year guidance for FY19. BINGO now expects underlying EBITDA for the full year ending 30 June 2019 to be broadly in line with last year. This compares to our previous guidance of EBITDA growth of 15-20%.

We flagged at last year's full year results that our network reconfiguration would impact margins in FY19. We originally estimated this impact to be around 200 basis points. Based on the updated guidance, we expect this to increase by an additional 250 to 300 basis points. We expect these margins to materially improve in FY20.

I'd like to point out that some of the factors that I have mentioned have been market-driven, and some have been business decisions we have made for the future benefit of the Company. We noted at the AGM that there would be a softening in the resi market, but what we've seen over December and January has indicated a faster rate of decline than we expected.

After reviewing this in light of the proposed second half price increases and changes to our network configuration pending the DADI acquisition, we have altered our views on the outlook for the remainder of FY19.

The team and I are disappointed with the revised guidance for FY19, however the outlook for the Company remains positive and we remain well positioned to resume our growth trajectory next year.

Our C&I business has achieved year-on-year double digit growth. While this is below budget, we'll continue to focus on this sector as a key growth area going forward.

We remain committed to our five-year strategy and our focus for the coming year remains on optimising our network of strategic waste assets in both NSW and Victoria, with the aim of delivering greater efficiencies and improvements in operations in preparation for future growth.

I know many of you are likely to ask where we stand with the ACCC and the DADI acquisition. As some of you may be aware, the ACCC advised last Wednesday that they will now announce their final decision on Thursday, 28 February.

We will formally release our results for the first half of FY19 on Tuesday, 26 February. I'll be able to give you much more detail then.

We'll now throw it open to questions.

[ENDS].