Overview

For the half year ended 31 December 2009, Boral Limited reported $2.3b of sales revenue , which was 10% lower than last year, predominantly reflecting continued new home build declines in the USA and slowing non-residential activity in Australia.

Profit after tax of $68m was down 9% and included $20m lower interest cost offset in part by a $4m higher tax charge. Earnings per share for the half year of 11.4 cents compares with 12.8 cents last year.

Boral's Earnings Before Interest and Tax (EBIT) at $133m was 15% below the prior year period due to increasing US losses and the absence of the $7m Adelaide Brighton dividend following the divestment of Boral's 17.6% stake in May 2009.

Conditions across Boral's major markets were mixed. In Australia , buoyant infrastructure spend partially offset a weak but recovering housing market and significant softness in commercial construction activity. In the USA, the housing market bottomed at an annualised rate of 570,000 starts in the half year, down 25% year-on-year, and more than 60% below the 50-year average of 1.5 million. Solid market recoveries in Asia combined with excellent operational performance delivered improved results in the Group's construction materials operations and the plasterboard joint venture.

The adoption of new accounting standard AASB 8 has required a change to Boral's reporting resulting in five amended reporting segments.

Revenue in the first half from Australian Construction Materials was $1,082m, down 7% (Dec 2008: $1,161m) due to ongoing softness in the commercial construction sector. EBIT at $107m was 12% above the prior year (Dec 2008: $95m) reflecting excellent operational performance combined with a good level of infrastructure activity in our higher margin markets. Quarry End Use earnings of $8m compares to $7m generated in the first half of last year.

Cement revenue at $261m was 7% below the same period last year (Dec 2008: $280m) reflecting lower sales volumes due to the downturn in non-dwelling activity. EBIT at $45m was $14m below last year (Dec 2008: $60m) and included a significantly improved Asian performance offset by the impact of lower Australian cement production as part of a planned strategy to reduce clinker inventories and a net $5m restructuring cost in Blue Circle Southern Cement.

Revenue from Building Products was $608m, down 1% (Dec 2008: $611m), with moderate growth experienced in Plasterboard, Timber and Masonry offset by reductions in Bricks and Roofing. EBIT of $45m was 21% above the prior year reflecting strong performances from the Australian and Asian Plasterboard businesses combined with improved operational performance and the benefits of moderate housing related growth.

The USA operations reported revenue of A$183m, 42% below the same period last year (Dec 2008: A$314m) reflecting a continued decline in housing starts and construction related activity. EBIT was a loss of A$49m against a A$37m loss in the first half last year but considerably improved when compared to the A$72m loss in the second half of last year on broadly similar market volumes. This reflects the exceptional actions undertaken to realign costs to current market demand.

Revenue from Construction Related Businesses at $197m was down 12% (Dec 2008: $223m) due to continued difficult trading in the non-residential commercial building sector and ongoing pricing pressures in the Group's Formwork & Scaffolding business. EBIT was a $5m loss compared to a $4m profit in the prior year. Despite difficult trading conditions, the Windows business made excellent progress in the period and improved profits on broadly similar sales, while De Martin & Gasparini performed well in an environment of lower commercial project work.

Cash generated from operations increased 39% to $196m (Dec 2008: $141m) with improved working capital and reduced capital expenditure to $60m against $128m in the same period last year. After taking account of a favourable net foreign currency effect of $142m, net debt reduced to $1,245m compared with $1,514m at 30 June 2009.

Gearing (debt/equity) decreased to 44% from 55% at 30 June 2009 largely due to strong cash flows and a 10% appreciation in the AUD/USD exchange rate when compared to 30 June 2009. At 31 December 2009, around 90% of debt was denominated in US dollars.

An interim fully franked dividend of 7.0 cents per share (Dec 2008: 7.5 cents) will be paid on 23 March 2010 to shareholders on the register on 23 February 2010. The Dividend Reinvestment Plan will continue to be offered at a discount of 2.5% to the market price.

The Group's safety performance improved considerably with employee lost time injury frequency rate of 1.6 versus 2.0 in the first half of FY2009 and hours lost due to employee injury also improved to 0.05% compared with 0.08%. Employee recordable injury frequency rate at 25.5 reduced from 25.9 in the same period last year.

Looking forward . While Australian residential housing activity is showing signs of slow recovery, there remains considerable weakness in non-dwelling work despite the effects of the Government stimulus activity. Over the past 12 months the Group has enjoyed the benefits of large infrastructure projects, particularly in Queensland, which are now nearing completion, however it is anticipated that continued Government spending will deliver a pipeline of major project activity in the future.

In the USA, we are expecting conditions to remain challenging for the foreseeable future, however, early indications suggest the market may have reached the bottom, albeit at a very, very low base. The business is primed to capitalise on the upturn as and when conditions improve.

In the current economic climate forecasting continues to remain difficult. Broker analysts are forecasting net profit after tax ranging between $101m and $151m with consensus of $123.5m. Subject to current levels of building starts, weather conditions and broadly consistent exchange rates, management expects full year profit to be broadly in line with consensus.

Market conditions

Conditions in the Australian construction markets were mixed with housing activity reflecting recovery, demand from non-dwelling construction deteriorating and major infrastructure project work experiencing a good level of demand. The USA continued its significant deterioration in housing and non-dwelling activity, while in Asia positive signs in construction activity were evident in the first half results.

Australian dwelling starts are estimated to be up around 4% year-on-year to an annualised rate of 142,000 in the half year ending December 2009. Improvements were evident in most states except Queensland and South Australia. Dwelling approvals were up 19% to an annualised rate of 160,700 and finance approvals for the construction of new dwellings increased 79% with improvements in all states. Australian housing activity remains well below BIS Shrapnel's forecast of underlying demand of around 185,000 starts.

While the value of work approved for Australian non-dwellings 'commercial & industrial' activity was down 42%, the total value of work approved for Australian non-dwellings was up 40% with the difference being the extensive level of Government Stimulus spending in education and health which significantly lifted approvals in the 'social and institutional' category. While helpful, the increased 'social and institutional' spending is less concrete and cement intensive and will affect volumes in the future. Strong levels of demand from major infrastructure projects (roads, highways, subdivisions and bridges) were experienced.

In the USA, the housing market bottomed at an annualised rate of 570,000 starts in the half year, down 25% year-on-year, and more than 60% below the 50-year average of 1.5 million. The estimated value of work commenced for non-dwellings in the USA was also down 25%.

In Asia, the impact of the global financial crisis has been less prolonged or severe than it has been in other regions with demand lifting in most markets assisted by government stimulus responses, most notably China. However, private commercial project activity remains weak driven by reduced finance availability, particularly in Korea.

Managing through the downturn

The global economic downturn continues to impact several of Boral's key markets, particularly in the USA, resulting in substantially lower utilisation to realign production and inventories to market demand. In the face of significant competitive pressures the Group has continued to y li2tan al

Capital and balance sheet management

Effective working capital management remains a priority for the Group and cash generated from operations increased 39% to $196m (Dec 2008: $141m) with improved working capital and reduced capital expenditure featuring prominently in the first half results.

Capital expenditure of $60m was 53% below the same period last year while stay-in-business (SIB) capital at $45m was down $31m on last year, and was 36% of depreciation.

Boral's fully franked interim dividend of 7.0 cents represents a dividend pay-out ratio of 61% of after tax earnings, which is in line with the Group's historic average of around 60% of earnings (over the past ten years). Shares issued under Boral's Dividend Reinvestment Plan (DRP) for the full year FY2009 dividend were issued at a 2.5% discount to the market price and the take up of the DRP lifted from around 32% to 39% for the full year dividend compared to the prior year. The 2.5% DRP discount will also apply to Boral's interim dividend.

After taking account of a favourable net foreign currency effect of $142m, net debt reduced to $1,245m compared with $1,514m at 30 June 2009. Gearing (debt/equity) decreased to 44% from 55% at 30 June 2009 largely due to strong cash flows and a 10% appreciation in the AUD/USD exchange rate when compared to 30 June 2009.

Standard and Poor's and Moody's have recently affirmed their existing long term and short term ratings of BBB/A3 and Baa2/P2 (with a "negative outlook" notation) respectively for Boral.

Segment results

Australian Construction Materials

The Australian Construction Materials segment includes Group operations involved in the production and supply of concrete, asphalt and quarry materials to the Australian building and construction sectors.

First half revenue of $1,082m was 7% below the same period last year (Dec 2008: $1,161m) with

Building Products

The Building Products segment includes all operations involved in the manufacture and sale of clay and concrete products, plasterboard and timber to the Australian housing and construction industries, as well as Boral's equity accounted 50%-owned plasterboard joint venture in Asia, LBGA.

USA

The USA segment includes the Group's brick, tile and construction materials operations serving the US housing and construction sectors and Boral's 50% share of MonierLifetile, which is equity accounted.

First half revenues at US$160m were 34% below the prior year (Dec 2008: US$242m) with new housing starts down 25% to an annualised rate of 570,000

Outlook - FY2010

The outlook for the second half of the year remains difficult with historically low market conditions remaining in the United States and mixed short term prospects in our key markets in Australia.

In Australian Construction Materials we expect to experience moderately improved trading in our principal Concrete market and lower earnings from Asphalt and Quarries as Boral's infrastructure projects pipeline softens and returns to levels that are still robust by historic standards. QEU remains on track to deliver a $25m to $30m profit for the full year.

In Cement we expect a moderate reduction in production volumes and pressure on pricing resulting from the effects of a stronger Australian dollar. These combined with higher energy costs are expected to place pressure on margins for the balance of this financial year.

The Building Products businesses are expected to make progress in volume, plant utilisation and efficiency in the second half of the year. The benefits of ongoing cost reduction initiatives and realignment of production volumes to market demand will benefit Clay & Concrete Products and Timber, while Plasterboard expects to deliver broadly similar results to the first half of this year.

In the USA, the market will remain difficult for the balance of the year with pricing pressures remaining as an overhang of inventory works its way through the system. Despite cost reduction initiatives continuing to deliver a lower break even we expect a weaker result for our US businesses in the second half of the year, albeit an improvement on the June half of FY2009.

The Construction Related Businesses are expected to deliver broadly similar results in the second half of the year. Windows will make further progress while Formwork & Scaffolding and Precast Concrete will see little in the way of improvement in activity levels for the balance of the year. Restructuring and cost saving initiatives are expected to feature in our second half results.

Forecasting in the current economic climate continues to remain difficult. Broker analysts are forecasting net profit after tax ranging between $101m and $151m with consensus of $123.5m. Subject to current levels of building starts, weather conditions and broadly consistent exchange rates, management expects full year profit to be broadly in line with consensus.

Results at a glance

(A$ million unless stated)

Half year ended 31 December	2009	2008	% Change
Revenue	2,330	2,594	(10)
EBITDA	259	285	(9)
EBIT	133	155	(15)
Net interest	(49)	(69)	29
Profit before tax	84	86	(3)
Tax	(15)	(11)	(35)
Minority interest	(1)	-	-
Profit after tax	68	75	(9)
Cash flow from operating activities	196	141	39
Gross assets	5,349	6,217	(14)
Funds employed	4,051	4,955	(18)
Liabilities	2,543	3,447	(26)
Net debt	1,245	2,184	(43)
Growth & acquisition capital expenditure	15	52	(72)
Stay-in-business capital expenditure	45	76	(40)
Depreciation	126	129	(3)
Employees	14,297	15,398	(7)
Sales per employee, $ million	0.163	0.168	(3)
Net tangible asset backing, $ per share	4.23	4.06	4
EBITDA margin on sales, %	11.1	11.0	
EBIT margin on sales, %	5.7	6.0	
EBIT return on funds employed[1] (MAT), %	6.2	7.3	
Return on equity[1] (MAT), %	4.4	6.8	
Gearing			
Net debt/equity, %	44	79	
Net debt/net debt + equity, %	31	44	
Interest cover, times	2.7	2.3	
Earnings per share, ¢	11.4	12.8	(11)
Dividend per share, ¢	7.0	7.5	(7)
Safety: (per million hours worked)			
Lost time injury frequency rate	1.6	2.0	(20)
Recordable injury frequency rate	25.5	25.9	(2)

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