

Diploma Group Limited

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Diploma Group wins \$66M in Western Australia construction contracts

Diploma Group (ASX:DGX) shares should trade higher today after the award of three contracts worth a total of \$66 million in Western Australia.

These comprise a \$17 million contract for the construction of a development of 34 residences and office space in Mount Pleasant for new client Norup+Wilson, a \$38 million appointment to construct 109 apartments, and an \$11 million Quest Serviced Apartment development.

Completion of all projects is expected in 52 to 88 weeks.

Project Details

The \$17 million contract from Norup+Wilson covers construction of a mixed use development at 19 Ogilvie Road, Mount Pleasant.

The development consists of two basement levels of car park, two commercial levels of office and 7 levels of residences with 34 apartments. Contract terms have been agreed and it is expected that the formal contract will be executed over the coming two weeks.

Commencement on site is expected by 12 May 2014 with completion in 58 weeks.

Diploma has also secured a second contract with TRG Properties. It had previously won the \$35 million Ocean Edge contract due for completion in August 2014.

Under the binding Heads of Agreement (HOA), the company will construct 109 apartments in the recently established Port Coogee marina precinct for \$38 million.

Designed by architects Cameron Chisholm and Nicol, the building will consist of 1, 2 & 3 bedroom apartments over 9 levels and have panoramic views of the ocean.

The HOA is subject to sufficient presales being secured in the development with construction anticipated to commence in October 2014.

The contract duration is anticipated to extend for 88 weeks. Formal contract execution is expected within 6 months.

Diploma has also executed a formal contract from Quest Group to construct a serviced apartment development at 130 Mounts Bay Road Perth for \$11 million.

The development consists of 71 studio rooms over 7 levels.

Share Information

Code: DGX

Listing: ASX

Sector: Builders and building materials

Website: www.diploma.com.au

Company Synopsis:

Diploma Group Limited is a commercial construction and property development business, which offers a vertically integrated business by managing the entire design process of a project from initial conception through to final handover of the completed product. The Company operates in two segments: construction and property development.

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Commencement on site will occur on 28 April 2014 with completion in 52 weeks.

Diploma Group

Diploma returned strong first half results for the six months ending December 2013, with EBIT of \$3.3 million on revenue of \$111.6 million - which is up 34% on the previous period.

The result was driven primarily from the construction division, and is significantly higher than the \$0.2 million earnings before interest and tax reported in the previous corresponding period.

Diploma's full-year FY14 guidance of earnings before interest and tax of \$7 million remains on track.

The group's net profit after tax of \$1.9 million represents an increase of 19% for the six months since 30 June 2013, and an impressive 2,507% increase for the same time last year.

Diploma also has a positive outlook with a new contracts pipeline of \$478 million, and recently completed a \$9.1 million capital raising.

Importantly, the company reduced its debt by \$11.3 million to \$6.8 million during the period, with 93% of this project specific.

Net tangible assets of the group total \$13.4 million which is an improvement of \$10.1 million on the 30 June 2013 position.

Construction Activity

The AI Group/Housing Industry Association had on 6 April noted that while construction activity had picked up in March, the industry remained in contraction for the third month in a row as activity in apartments and the engineering sector stayed below the critical 50.0 mark.

In March, the rise of the index was driven mainly by an increase in new orders in the commercial, engineering and apartments sectors.

Respondents to its survey continued to note the negative influences from a reduction in mining and related construction activity while reporting an improvement in forthcoming building commencement for the commercial sector.

Activity in the house building sector was marginally above the 50.0 level with the Reserve Bank of Australia repeatedly saying it expects a solid expansion in housing construction, to some extent, help the rebalancing of the economy away from resources investment.

Analysis

The \$66 million in contract wins is value accretive and demonstrates Diploma Group's ability to secure new work despite the construction industry remaining

in contraction. Shares in the company are expected to trade higher on the news.

It also helps validate managing director Nick Di Latte's belief in the company's ability to attain a net profit of \$4.55 million by agreeing to a lower salary and staged issuance of shares as benchmarks are hit.

Di Latte had also last year further showed his confidence in Diploma by acquiring \$1 million worth of shares, or 33,333,333 shares priced at \$0.03 each.

Proactive Investors retains its short to medium term share price target of \$0.047 - \$0.054 based on our estimates of EPS growth.

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