

# ASX ANNOUNCEMENT

26 February 2015

## Results for the half year ended 31 December 2014

- Right sizing of the group nears completion
- Company performance continues to trend in the right direction

Engenco Limited (ASX:EGN), the specialist industrial engineering services group, today announced a reduced underlying after-tax loss of \$3.1 million (H1 FY14: loss of \$4.8 million) for the half year ended 31 December 2014. Including significant items, the company's statutory loss was \$3.4 million (H1 FY14: \$7.4 million). Revenue for the period improved to \$69.4 million (H1 FY14: \$68.3 million).

Results summary for the period	H1 FY15 (\$'000)	H1 FY14 (\$'000)		Change
Revenue	69,385	68,260	↑	1.6%
EBITDA excluding significant items <sup>2</sup>	3,387	1,975	↑	71.5%
EBIT excluding significant items <sup>1</sup>	(1,388)	(3,273)	↑	57.6%
Statutory loss after tax	(3,444)	(7,361)	↑	53.2%
Underlying trading loss <sup>3</sup>	(3,092)	(4,810)	↑	35.7%

<sup>1</sup> EBIT is earnings before finance costs and income tax expense.

<sup>2</sup> EBITDA is EBIT before depreciation and amortisation.

<sup>3</sup> Underlying trading loss is net loss after tax excluding significant items.

Note - EBIT, EBITDA and underlying trading loss are non-IFRS financial measures, which have not been subject to review or audit by the Group's external auditors. These measures are presented to assist understanding of the underlying performance of the Group.

### Kevin Pallas, Engenco's Managing Director and CEO, said:

"While our markets are currently experiencing a challenging period, we are making good progress with restoring the company's profitability. We remain focused on strengthening relationships with our customers and on providing consistently high quality products and service, so that we are positioned to benefit from increased demand and to resume growth as our markets recover. Meanwhile, we continue to improve the efficiency and performance of all our operations."

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### Review of operations

**Drivetrain Power and Propulsion** services and supplies heavy mobile powertrain systems, large frame turbochargers, and heavy diesel and gas power generation and compression equipment.

Drivetrain's revenue was \$27.0 million and EBITDA (excluding significant items) was \$1.4 million. The business showed good recovery in revenue streams which reflected more efficient, aggressive and customer responsive marketing and service delivery. Encouraging sales were also recorded in the gas compression sector. The delivery of three gas compressor units to Santos was completed in August and further tenders for similar gas compressors are expected as the gas industry gears up for greater production targets.

Mr Pallas commented "The business restructuring and cost saving measures implemented at the beginning of the financial year have been key to the improved profit and operational performance of the business. Competition remains robust as suppliers respond to the continued downturn in mining-based construction and service related activity. However, the stronger relationships we have developed with key agency and distributorship partners and suppliers have helped to entrench Drivetrain's position in the energy sector and in the off-highway components, spare parts and maintenance markets".

The Swedish business performed well but experienced subdued conditions in the diesel engine service and parts supply business. However, this was balanced by improving turbocharger sales and business prospects.

**Gemco Rail** has provided manufacturing, maintenance, refurbishment and overhaul services to the rail industry since 1997. The first half of FY15 continued to be challenging as a result of the difficult trading conditions, low demand for fabrication services and the flow-on effects from the resources industry downturn. However, Gemco continues to build its position among customers and is recognised as a high quality, independent rail maintenance business with a strategic rail footprint.

The business reported revenue of \$20.1 million and EBITDA (excluding significant items) of \$0.7 million. Revenue and profitability were negatively impacted by lower rental income from maintained rollingstock, but there were encouraging signs and improved prospects in the locomotive maintenance and wheelset servicing business. Investments in modernisation and productivity improvement initiatives continue at the Forrestfield and Dynon facilities to ensure customers' needs are met.

Mr Pallas said "Second half revenue and profitability are likely to be better than the first half, but timing and scale will depend on the success of a range of work that is likely to follow the current phase of tendering activity."

**Total Momentum** provides workforce solutions for the construction, maintenance and upgrading of rail track and for rail operations. The business reported revenue of \$9.1 million and EBITDA (excluding significant items) of \$0.8 million.

Total Momentum experienced difficult trading conditions; however, the focus on better quality labour hire opportunities resulted in a slightly better profit result compared to the previous year, although revenue was lower.

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**Centre for Excellence in Rail Training (CERT)** provides training, assessment and recertification services to the Australian rail industry. CERT performed well with revenue of \$4.3 million and EBITDA (excluding significant items) of \$1.2 million. The business is capitalising on opportunities that have been developed over the past few years, including participation in government funded programmes. Investment continues in new courses and in relevant training and compliance technology tools. This places CERT ahead of its competitors as the national regulatory framework becomes even more complex. CERT's strong business performance is expected to continue for the foreseeable future.

**Greentrains** provides a range of locomotives and wagons for lease to the Australian rail industry. Revenue was \$3.6 million and EBITDA (excluding significant items) was \$2.4 million. Leasing revenue improved marginally as a result of a move into the refurbished locomotive rental market, and through lower rental abatement as the fleet reliability responds positively to focused heavy maintenance investments. However, the rollingstock rental market remains oversupplied and consequently the industry generally faces challenging trading conditions.

**Convair Engineering** designs and manufactures tankers for the transport and storage of dry bulk products. Revenue was \$7.3 million while EBITDA was \$1.0 million. Highly efficient manufacturing techniques and continuous improvement initiatives have ensured good profitability in the Epping facility which has now been expanded to include dedicated repairs and maintenance capacity. The improved prospects are expected to continue in the second half.

“Convair’s results reflect an improved trading environment with customers recommencing capital expenditure programmes. Convair continues to differentiate itself by offering innovative pressurised dry bulk tanker solutions while remaining cost competitive at the high quality end of the market.” said Mr Pallas.

**The Group’s net cash** provided by operating activities was \$3.2 million (H1 FY14: \$2.9 million). In August 2014, Engenco announced the extension to the group's existing debt facilities with Elph Pty Ltd and Commonwealth Bank of Australia until 30 September 2015 and 31 October 2015, respectively.

## Outlook

Mr Pallas concluded “While Engenco’s recovery to profit has been slowed mainly due to external factors and soft market conditions, the company remains in a stable position, with a strong reputation for high quality products and services. The board and management remain confident of the future prospects for the Group.”

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### *About Engenco Limited*

Engenco (EGN) specialises in:

- Maintenance, repair and overhaul of heavy duty engines, powertrain, propulsion and gas compression systems
- Maintenance, repair and overhaul of locomotives
- Manufacture and maintenance of wagons, carriages and associated rail equipment
- Project management, training and workforce provisioning services
- Manufacture and supply of road transport and storage tankers for dry bulk products
- Leasing of locomotives, wagons and other rail equipment

Engenco services a diverse client base across the defense, resources, marine, power generation, rail, heavy industrial, mining and infrastructure sectors.

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