

ASX ANNOUNCEMENT

10 June 2015

Market Update

- Good progress in Drivetrain, CERT and Convair businesses
- Rail maintenance segment prospects yet to mature
- Rollingstock leasing industry subdued
- Profitability restoration trend positive and task continues

Engenco Limited (ASX:EGN, Engenco), the specialist industrial engineering services group, today provided a general market update.

The company advises that progress towards operational profitability remains encouraging despite a number of headwinds presented by the current economic environment. The rail and resources markets in particular continue to experience a challenging period. Despite this, the company's ongoing efforts to restore profitability remain on a positive trend in most businesses buoyed by the focus on strengthening relationships with customers and providing consistently high quality products and service whilst continuing to critically review and improve the efficiency and performance of all operations.

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

The Drivetrain mobile powertrain service and supplies business is now fully benefitting from the management and footprint restructure put in place over the last number of months. This has led to far more efficient service centre operations and has curtailed overheads. Whilst many customers have been under severe pressure from the downturn in mining operations expenditure, the general customer base shows reasonably stable demand and the supply environment is highly competitive which has helped place Drivetrain ahead of its competitors. While original equipment manufacturing opportunities are increasingly moving offshore, maintenance services and component replacement requirements remain reasonably robust. Durable relationships with principals for major distributorship and authorised service centre offerings have been confirmed, placing the business on a firm footing.

Engenco's Managing Director Mr Kevin Pallas has commented "Our offerings in the marine and land based large diesel engine services space are being hampered by poor demand and with our Freeport Indonesia project nearing conclusion, this particular market segment remains under pressure.

"Our focus on the gas compression market has been rewarded with a number of successes. Our first three gas well-head compression units have been very successful in a South Australian field and have exceeded performance expectations. We now have orders for the supply of further units for delivery in FY16, including into other Australian gas-fields. We, together with our Canadian technology and manufacturing partner Sage Energy, are very pleased with our future prospects in this market which include on-going maintenance services of our growing installed base."

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Mr Pallas continued, “The Swedish business is focussing on maximising opportunities from the whole-of-life support of our Hedemora large diesel engines, importantly including those installed in various submarines around the world. We are also proceeding well with developing the HS Turbocharger product range and are penetrating retrofit markets in European and Asian markets and expect to present new high mass flow products to amongst other regions, the USA and South American markets in the near future.”

Gemco Rail (Gemco) provides manufacturing, maintenance, refurbishment and overhaul services to the rail industry. Gemco, with its strategic rail network maintenance capability footprint continues to build its position among customers and is now recognised in Australia as a leading high quality, independent rail maintenance business. Revenue generating activities excluding equipment leasing, manufacturing and fabrication, have been stable and as a result of the on-going introduction and extension of lean production disciplines the business has remained competitive in a demanding industry. The extensive tendering activity previously reported has not yet materialised in any tangible revenue outcomes which is disappointing. However the long lead-time to maturity of the opportunities currently in negotiation may result in significant revenue uplift which is expected to support the high fixed costs typical of this industry type.

Mr Pallas said “We have invested significant resources in the current phase of tendering activity for rollingstock maintenance services as well as equipment rental in which we believe Gemco offers clear benefits to a number of blue chip customers and, whilst well progressed, the award of contracts is frustratingly slow. Consequently Gemco may only begin to see the benefit of increased business scale in future periods. In the meantime we will continue to review Gemco’s structure as the Australian rollingstock maintenance industry evolves.”

Total Momentum (Momentum) provides workforce solutions for the operation, construction, maintenance and upgrading of rail track and for rail operations. Having focussed on contracts aligned to more acceptable risk profiles, Momentum has been successful in the delivery of personnel services to a variety of rail projects, particularly in Western Australia. As anticipated when Momentum was positioned for the current phase of activity, railway operators have been particularly conservative in their maintenance and construction expenditure which has severely impacted demand for the specialist labour hire market. “Momentum is now well positioned to grow revenue strongly when demand resumes although this may be a way off,” Mr Pallas said.

Centre for Excellence in Rail Training (CERT) provides training, certification, assessment and recertification services to the Australian and associated rail industry. CERT has benefitted from the planned provision of government funded programmes following investment in fully compliant updated and new courses, and in relevant training and compliance technology tools meeting the increasing requirements inherent in the national regulatory framework. “CERT’s position as the preeminent provider of rail training in Australia and in associated rail operational areas is confirmed by the dominant position it rightly occupies in this space. We look confidently to the future as we continue to grow this business and consider other opportunities in Australia and overseas,” Mr Pallas said.

Greentrains provides a range of locomotives and wagons for lease to the Australian rail industry. As reported in previous releases, the rollingstock rental market remains oversupplied and consequently the industry generally faces challenging trading conditions. New or extended medium- to long-term locomotive and wagon rental opportunities are very scarce as the market adjusts to lower than expected freight volumes. Consequently, Greentrains has not been successful in the anticipated forward placement of a substantial portion of its rental fleet and a number of current lease agreements expire in the near future.

Mr Pallas commented, “The Board will assess the carrying values of the Greentrains assets as will most industry players in the context of current subdued market conditions. We only need to look at the demise of the Australian locomotive manufacturing industry to recognise how the landscape has changed in a few short years with the entry of low-cost, imported rollingstock.”

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Convair Engineering designs and manufactures tankers for the transport and storage of dry bulk products. Mr Pallas said, “Convair’s Epping facility in Victoria stands out as an Australian manufacturing success story. Staff and management have worked hard to remain competitive in the face of highly competitive imports.” The company advises that Convair expects to achieve satisfactory revenues and profitability in FY15 and has a reasonably full forward order book.

In summary, EGN currently expects the FY15 trading result to be in line with or better than the previous year; has a stable cash generating and funding position; will assess rollingstock carrying values in line with year-end market conditions; and is confident of further profitability improvements in FY16 given the current prospects evident in key businesses.

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 defence, resources, marine, power generation, rail, heavy industrial, mining and infrastructure sectors.

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