

ASX ANNOUNCEMENT

25 February 2016

Engenco reports Half Year results

- \$1.9 million net profit after tax
- \$6.3 million net operating cash flow
- Reduction in net debt to \$10.2 million

Engenco Limited (ASX:EGN) (**Engenco** or **Company**), the specialist industrial engineering services group, today announced a net profit after tax of \$1.9 million for the six months ended 31 December 2015 (H1 FY15: loss of \$3.4 million). Revenue for the period was \$67.0 million (H1 FY15: \$69.4 million).

The following table provides key performance measures:

	H1 2016 \$000	H1 2015 \$000
Revenue	67,017	69,385
EBITDA	4,775	3,035
EBIT	1,940	(1,740)
Profit / (loss) after tax for the period	1,864	(3,444)
Net operating cash flow	6,286	3,138

Note – EBITDA and EBIT 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, "Group earnings exhibited a significant improvement in the profitability of operations. This is reflected in the \$1.9 million net profit after tax result. Core business revenues remained resilient despite a highly competitive marketplace. Whilst most markets remained challenging, the increasingly effective management and streamlined structure of the Group helped generate a reasonable profit result for the first half.

"Cash management and strict working capital control continue to be strong focus points. The Group's cash generating performance showed another improvement, period on period. Net debt decreased by \$5.6 million during the half, and in addition cash and cash equivalents increased by \$4.0 million."

Review of Operations

Drivetrain Power and Propulsion revenues improved by 4.1%. This mainly reflected improvements in the natural gas compression and defence related business streams, whilst demand in the mining spares and repairs streams remained flat. Customers in the mining industry are generally heavily focussed on cost reduction which has made for a highly competitive environment. Cost saving measures put in place in Drivetrain over past years has better positioned the business for this situation, and such conditions are expected to continue as the industry adjusts to an era of low commodity prices. However, recovery of the mining focussed components and maintenance business is expected to be very slow. Meanwhile, the Swedish business, based in Hedemora, performed satisfactorily in the diesel engine service and parts supply business, and the diesel turbocharger business continues to develop.

The Centre for Excellence in Rail Training's (CERT) performance remained robust and although a relatively small contributor to Group revenue, provides a significant earnings contribution. Investments made in compliance and courseware development, expanding the national footprint, and focus on the provision of government-funded training has underpinned CERT's strong business performance in the half.

Convair Engineering remains a competitive force in the dry bulk goods tanker market, now being the only remaining specialist manufacturer of this type of vessel in Australia. The strategy of offering innovative pressurised dry bulk tanker solutions whilst remaining cost competitive at the quality end of the market has ensured a continued niche in the industry. Profitability has however been affected by the need to compete with imported product pricing that is yet to reflect the changed exchange rate environment. The outlook is one of better profitability in the medium term, but this will depend on a continued lower Australian dollar, and more stable demand for the manufactured product.

Total Momentum experienced lower demand for rail personnel services, reflective of the very low maintenance and investment activity in the 'below rail' industry generally. Few major rail construction projects are current, but the business has remained profitable by focussing on the provision of rail operations workforce services.

Gemco Rail performed well in the half, with marked improvements in both revenue and profitability as the business starts to benefit from restructuring and efficiency improvement initiatives. Investments in facilities and efficient plant and equipment are beginning to bear fruit. As an independent maintainer, Gemco has been able to attract major customers and now performs a variety of work for the majority of national rail operators. Additionally, the Forrestfield, WA facility has attracted work from major Pilbara miners who are outsourcing certain maintenance tasks in order to save cost. A number of fabrication projects are also underway in WA, and the Dynon, VIC locomotive maintenance facility throughput has improved. Whilst future incremental revenue prospects on the East coast exist, the business will remain flexible until these become clearer.

Greentrains' leasing revenue declined as the rollingstock rental market remained heavily oversupplied. The uncertain conditions remain challenging for the industry. Locomotive rental into the rail maintenance work trains area has been a positive contributor for Greentrains, but the freight locomotive leasing market is flat - resulting in a very poor half year financial performance for this segment.

Mr Pallas concluded, "Year-on-year the Group's results remain on an improving trajectory despite the current uncertain economic backdrop that most industries in Australia and internationally are experiencing. The strategy of focusing on core business, right-sizing operations, implementation of cost saving initiatives, and investment in efficiency measures have helped the Company recover to a profitable position."

About Engenco Limited

Engenco (EGN) specialises in:

- Maintenance, repair and overhaul of heavy duty engines, powertrain and propulsion 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 and infrastructure sectors.

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