

ASX ANNOUNCEMENT

22 February 2017

Engenco reports FY2017 Half Year results

- *Improved profitability:* \$2.9 million net profit after tax for the period
- *Solid cash generation:* \$5.8 million net operating cash flow
- *Strengthened balance sheet:* \$4.3 million positive net cash position

Engenco Limited (ASX:EGN) (**Engenco** or **Company**), the specialist industrial engineering services group, today announced a total Net Profit after Tax of \$2.9 million (including discontinued operations) for the 6 months ended 31 December 2016 (H1 FY2016: \$1.9 million). Total Revenue for the period was \$62.5 million (H1 FY2016: \$67.0 million).

The following table provides key performance measures for *continuing operations*:

	H1 2017	H1 2016
	\$000	\$000
Revenue	62,426	65,295
EBITDA	5,556	4,614
EBIT	3,790	2,130
Profit / (loss) after tax for the period	3,425	2,688

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, "Engenco's consolidated results for the first half reflects a further significant improvement in the Group's profitability. Although total revenue declined marginally, total net profit after tax improved by more than \$1.0 million compared to the first half of last year. For continuing operations, the Group recorded a net profit after tax of \$3.4 million. Expenses were down overall as a result of the ongoing focus on cost-saving and efficiency programmes and earlier restructuring programmes beginning to take effect.

"The significantly improved EBITDA performance of the Group's continuing operations and the completion of the Greentrains asset sale in the half, together with good working capital control and judicious capital expenditure management, has put the Group into a net positive cash position of \$4.3 million at the end of December 2016 compared to a net debt position of \$5.4 million at the end of June 2016."

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Review of operations

Drivetrain Power and Propulsion's total revenue was negatively impacted by a depressed gas segment with very few capital sales opportunities, and lower sales generated in the Hedemora business in Sweden. However, the Drivetrain Mobile Powertrain business experienced good demand with increased spare part sales and repair activity coming from the previously flat mining sector, and good volumes in the defence sector. Enhanced distribution agreements with key suppliers and an expanded product range are expected to support revenue growth in future periods.

Centre for Excellence in Rail Training (CERT Training) experienced lower margins in the first half and still provided a significant contribution to the Group's overall performance. CERT's reputation in the Australian vocational training sector as a flexible, high quality service provider sets it apart from a sometimes crowded sector. Additional investments made in compliance and courseware development, expanding the national footprint, and increasing the scope of services has provided a foundation for further growth and improved performance.

The market for dry bulk road tankers remained tight, however **Convair Engineering** maintained a reasonable market share in a highly competitive environment driven by low-priced imported tankers, mainly from China. Demand for tankers remained patchy as customers still lack confidence and remain very hesitant in their capital purchase decisions. Tanker ancillaries and spares sales were inconsistent in what is a highly cost-conscious sector. Convair's fleet servicing and maintenance & repairs business is showing signs of improvement.

Total Momentum's improved profit performance in the half was driven mainly by reduced operational costs, as revenue declined, especially in Western Australia. The majority of revenue was generated through the provision of rail operations workforce services to national freight rail operators, and there was some slow improvement in the below-rail infrastructure sector.

Gemco Rail's significantly better performance in the half was driven by a variety of positive factors. Substantial operating leverage was gained through solid revenue growth and capitalising on efficiency and process improvements made in current and prior periods, including facilities upgrades and investment in equipment. In Forrestfield, Western Australia, the wheel shop and bearing refurbishment shop performed very well as the flexible service offering continues to provide value to and attract major customers. Locomotive maintenance activity provided good revenue and profitability, particularly in the Dynon workshop in Victoria. Additionally, the PQGY wagon fleet was well utilised in the half, further boosting Gemco's revenue and profitability. Exclusive alliances have been formed with major rail equipment manufacturers, further supporting capability and revenue growth opportunities.

Mr Pallas concluded, *"The Group strategy of focusing on core business, right-sizing operations, implementation and enhancement of cost saving initiatives, and investment in efficiency measures remains key. The Group's solid performance in the half demonstrates what great capabilities we have in our people and facilities, and the excellent teamwork and focus demonstrated by our staff and management leading to superior customer satisfaction. We expect the Company will remain on this profitable pathway subject to there being no material deterioration in our general trading environment. The Group's cash reserves and financing arrangements, including its available debt facilities, provide substantial headroom for growth and value-adding investment going forward."*

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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
- Manufacture and supply of road transport and storage tankers for dry bulk products
- Leasing of 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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