

29 August 2018

Engenco NPAT up 118%

- Revenue up 22%
- \$8.3 million net operating cash flow
- Final dividend up 100%

Engenco Limited (ASX: EGN), the specialist engineering services group, today announced a net profit after tax of \$18 million, up 118% over FY2017 (\$8.3 million). Revenue was \$157.3 million, an increase of 22% over FY2017 revenue from continuing operations (\$129.4 million). Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$17.3 million, up from \$12.8 million in FY2017, with the EBITDA margin increasing to 11% from 10%.

Net operating cash flow was \$8.3 million, compared with \$6.4 million in FY2017, and net cash at 30 June 2018 was also \$8.3 million, 77% higher than at 30 June 2017 (\$4.7 million). The company had no net debt at 30 June 2018. An agreement has been reached with National Australia Bank to establish new bank facilities totalling \$12.6 million replacing existing facilities, and also providing flexibility to take advantage of growth opportunities.

The directors have declared a fully franked dividend of 1 cent per share (FY2017: 0.5 cents), payable on 27 September 2018 to shareholders on the register at 7 September 2018.

Results summary	FY2018 \$000	FY2017* \$000	% change
Revenue	157,336	129,319	22 ↑
Earnings before interest, tax, depreciation and amortisation (EBITDA)	17,320	12,785	35 ↑
Earnings before interest and tax (EBIT)	13,490	9,137	48 ↑
Net profit before tax	13,014	8,354	56 ↑
Net profit after tax**	18,003	8,478	112 ↑
Earnings per share (cents)	5.74	2.72	111 ↑
Dividend (cents) – fully franked	1.0	0.5	100 ↑

* From continuing operations
** After recognising a proportion of tax losses that have been carried forward

‘We are pleased to report a strong result, with revenue growth in every business unit, fixed costs under control and significant efficiency gains,’ said Kevin Pallas, Engenco’s Managing Director and CEO. ‘This was

Engenco's third successive year of increased profitability and positive net operating cash flow, reflecting the success of our strategy to expand our range of high quality products and services while retaining our focus on our core business and strengthening relationships with "tier 1" customers and global suppliers.'

Engenco's Chairman, Vince De Santis added, 'Our balance sheet now gives us a strong foundation for sustainable growth. During the year, we repaid \$4 million in borrowings in addition to investment in our branch networks and capabilities, and we have begun the new financial year with a positive net cash balance of \$8.3 million.'

Operational report

	FY2018 revenue \$000	FY2017 revenue \$000	FY2018 EBITDA \$000	Fy2017 EBITDA \$000
Drivetrain	52,915	39,013	11,134	6,409
Gemco Rail	54,196	51,303	9,462	11,376
Total Momentum	19,001	10,493	3,000	1,807
CERT Training	12,280	9,370	3,590	1,526
Convair Engineering	15,593	13,507	1,437	1,160

Power and Propulsion

Drivetrain had a very successful year, with substantially higher revenue and earnings. Growth resulted from focusing on opportunities in the mining, transport, energy and defence industries where a number of new customers were secured, leveraging the business' national branch network. Investment in inventory and expansion of the product range helped attract new business as demand grew for mining equipment maintenance, and there was further penetration of the on-highway market. A range of innovative products for the natural gas compression industry were launched and a gas compression package was completed successfully during the year. Complex projects for the defence industry, involving both land and marine assets, made a significant contribution to the business' results. Operational efficiencies included the consolidation of the Newcastle facility with a new purpose-built branch to service the New South Wales coal and industrial markets and a warehouse to service the east coast branch network.

Hedemora Turbo & Diesel, based in Sweden, continued to support legacy Hedemora diesel engines, providing an important, but declining, revenue stream. Market development of the HS Turbocharger range continued to accelerate, and the business began to penetrate the retrofit market in various parts of the world, replacing original OEM turbochargers with these modern, high-efficiency units.

Rail and Road

Gemco Rail's revenue increased, helped by expansion of heavy maintenance activities at its Forrestfield, Western Australia and Dynon, Victoria facilities. Gross profit was affected by lower volumes and margins in the Forrestfield wheel shop, the expiry of a large wagon rental contract and expansion of a new maintenance facility on the east coast. Changes in rail operators' maintenance regimes has led to increased outsourcing, opening up new opportunities for the business. Investment in bearing refurbishment capacity during the year resulted in increased business with the north-west mining sector, and a new rolling stock and rotables facility, opened in the Hunter Valley during the second half, is expected to make a positive contribution to future earnings.

Total Momentum performed well, with a strong rebound in revenue growth and a solid improvement in gross profit and earnings, helped by prudent control of operating expenses. The business continues to build its reputation as a provider of supplementary rail personnel and, with significant government and private investment committed to rail infrastructure, it is well positioned to contribute to these nation-building projects, working closely with “tier 1” infrastructure customers.

CERT Training’s revenue and earnings grew strongly, reflecting increased demand for rail vocational training. This was caused by a shortage of train drivers and greater construction and infrastructure activity which required corridor work skills training. CERT’s national coverage was expanded with the establishment of a centre in Ballarat to meet strong demand in Victoria and a new facility in Thornton, New South Wales. Expenditure on courseware updates was lower than the previous year, but the efficiency benefits gained from previous investments in this area enhanced profitability. The business succeeded in expanding its RTO training scope and now is offering courses to the logistics industry in areas such as working at heights and operating forklifts and cranes.

Convair Engineering improved its revenue and earnings, recovering from a period of relatively low demand and compressed margins. Despite competition from imports, demand for tankers was reasonably strong, particularly from customers involved in the numerous construction and infrastructure projects underway around Australia. The business remains focused on maintaining production efficiency and high quality.

Outlook

The sectors in which Engenco operates are generally experiencing growth, although signs in the broader economy suggest the need for some caution. There is growing momentum on a number of fronts and, subject to those ever present influences which remain beyond the company’s control, organic growth and ongoing efficiency improvements are expected to result in further increases in revenue and earnings in FY2019.

About Engenco Limited

Engenco 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

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

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