

19 August 2020

## Engenco Limited FY20 Results

- Revenue \$178.1 million
- NPBT \$10.2 million
- Net operating cash flow \$14.1 million
- Final dividend 1.5 cents per share, fully franked

Engenco Limited (ASX:EGN) today announced a net profit before tax of \$10.2 million for the year to 30 June 2020 (FY19: \$12.7 million including a one-off gain of \$2.7 million on the sale of a portion of the rail rental wagon fleet). Net profit after tax was \$13.4 million (FY19: \$14.2 million), including recognition of future tax assets of \$3.5 million (FY19 1.8 million).

Revenue was \$178.1 million, up 1.8% (FY19: \$174.9 million) and net cash flow from operations was \$14.1 million, up 14.6% (FY19: \$12.3 million). At 30 June 2020, cash on hand was \$14.1 million and the banking facility remained undrawn.

Following payment of a fully franked interim dividend of 0.5 cents per share in March 2020, the directors have declared a fully franked final dividend of 1.5 cents per share, payable on 29 September 2020 to shareholders on the register at 8 September 2020.

Results summary	FY20 \$000	FY19 \$000	% change
Revenue	178,063	174,850	1.8
Earnings before interest and tax (EBIT)*	11,596	13,012	(10.9)
Net profit before tax	10,150	12,690	(20.0)
Net profit before tax (adjusted)**	9,865	10,005	(1.4)
Net profit after tax***	13,423	14,227	(5.7)
Earnings per share (cents)	4.28	4.54	(5.7)
Full year dividends (cents) – fully franked	2.0	1.5	33.3
<small>* After adjustment for the introduction of AASB 16 (Leases)  ** Adjusted for gains on capital Wagon sales  *** After recognising a proportion of tax losses that have been carried forward</small>			

Kevin Pallas, Engenco’s Managing Director and CEO said: “This was another successful year for Engenco. Despite the global economic headwinds, we increased revenue and significantly improved net cash flow. Capital expenditure was higher at \$13.8 million (FY19: \$3.1 million) as we continued to build our range of industrial and rail-focused services and opened new locations to facilitate further growth. We also continued to invest in our people and culture programmes so as to further develop a high performing and engaged workforce.

“Despite the market uncertainty and restrictions caused by the COVID-19 pandemic, Engenco’s business has generally remained reasonably consistent. While the overall impact on the group has been manageable, some business units have fared better than others. Disruption to supply chains has affected Convair and Hedemora, and social distancing rules are continuing to impact our people-focused

businesses, Momentum Rail and CERT Training. We are monitoring the situation closely and have plans to react quickly if and when restrictions change.

“We are well positioned to benefit from new infrastructure opportunities. During the year, we completed the first stage of our new Gladstone facility, following the successful model we had adopted for our Telarah facility in the Hunter Valley in FY19, and we will follow this process as we roll out services in new locations, such as South Australia.

“We are preparing for expansion in Western Australia with the purchase of a 1.3 hectare site at Forrestfield alongside Gemco Rail’s rolling stock maintenance facility. This is expected to provide an opportunity to integrate our heavy maintenance operations in Perth.

“Engenco’s return on capital employed (ROCE) of 10% was encouraging and demonstrates the efficiency of our capital deployment. Although lower than last year (FY19: 15%) this year included the impact of higher capital investment to support future returns. The group continues to generate healthy cash flow and the balance sheet remains strong.”

## Operational Report

	FY20 revenue \$000	FY19 revenue \$000	FY20 NPBT \$000	FY19 NPBT \$000
<b>Gemco Rail</b>	87,241	68,009	11,938	10,313
<b>Convair Engineering</b>	14,817	17,128	946	1,250
<b>Drivetrain</b>	46,001	47,902	4,181	5,158
<b>Hedemora</b>	9,401	10,278	883	566
<b>Momentum Rail</b>	14,419	23,685	1,518	2,808
<b>CERT Training</b>	10,215	11,475	1,277	1,855

## Rail and Road

**Gemco Rail** continued to perform strongly, expanding operations with the establishment of a facility in Gladstone, which commenced operations in January 2020 to service bulk freight customers in Central Queensland. The Gladstone facility adds to Gemco’s rail-connected heavy maintenance network major nodes in Newcastle, Dynon and Forrestfield. Gemco continued to secure increased work, capitalising on the business’ long-term strategy of building a national, sustainable platform to service rail rolling stock.

The Inland Rail project, which will allow greater volumes of freight to be moved by rail, is an attractive growth opportunity and the group is ready to establish new facilities when there is further clarity regarding terminal locations.

**Convair Engineering’s** revenue and earnings were affected by the COVID-19 pandemic, which slowed the importation of aluminium tankers from Germany, and by the lower Australian dollar which affected margins. Demand weakened in the second half and local production was cut from four to three steel tankers per month on average. The business continues to focus on production efficiency improvements and on developing more efficient bulk materials tankers customised to customers’ specific needs.

## Power and Propulsion

**Drivetrain's** earnings were affected by the lower Australian dollar, which reduced margins on imports, and by one-off costs of approximately \$1 million incurred in closing poorly utilised sites in Sydney, Brisbane and New Zealand as part of recalibrating the business. Customers in these regions are being serviced through other sites and the new facility in Thornton, New South Wales, which has been expanded to cater for the increased volume on top of additional work it is securing from the mining and transport sectors. The Perth facility performed well, and a new facility was opened in Adelaide to take advantage of growing demand for maintenance work in South Australia, including a programme for a major mining contractor.

**Hedemora Turbo and Diesel** continued its penetration of the diesel turbocharger market, with customers responding positively to its product technology. A sales team was established in the United States and the business is in the process of gaining U.S. Environmental Protection Agency certification to allow its HS Turbocharger to be used on the major Class I Railroad and other sectors within North America. COVID-19 impacted operations in Sweden, reducing workforce capacity and disrupting the European supply chain. This also led to some customers deferring capital purchases.

## Workforce Solutions

The **Workforce Solutions** division was formed during the year, combining the group's two people-focused businesses, Momentum Rail and CERT Training, in order to unlock the substantial synergies available between these operations. Following the appointment of an executive general manager, the division is focusing on growth opportunities in mining and resources, as well as in logistics and other industrial sectors.

**Momentum Rail's** revenue was lower following the completion of recent large projects. The business is a leading provider of supplementary rail personnel and is expected to benefit from increased investment in rail infrastructure.

**CERT Training** continued to benefit in the first half from government-funded vocational training for the rail industry, but COVID-19 social distancing restrictions reduced classroom training capacity in the second half. The business has pivoted to online learning which is increasing in popularity.

## Outlook

Mr Pallas said: "Engenco's focus is on servicing the needs of our customers in the transport, logistics, resources and defence industries, capitalising on our expertise in the heavy machinery and rail sectors. Over recent years, we have been strengthening our capabilities, increasing scale and broadening our range of services, and our performance is beginning to reflect this long-term investment.

"After several successful years, Engenco is well positioned to take further advantage of growth opportunities, particularly after COVID-19 restrictions are eased and the economy begins to recover. Our multi-year investment strategy, including our staff development programmes and the opening of new facilities to meet customer demand, is enabling us to take on longer-term and more sustainable projects.

"We are continuing to streamline our operations and develop our people's expertise, with safety being our top priority. We have significant opportunities to grow organically, and also are open to acquisitions of various types that complement our core expertise. We move into FY21 cautious about the risks presented by the COVID-19 pandemic, but optimistic about the group's potential."

This announcement has been authorised for release to the ASX by the Engenco Board of Directors.

## About Engenco

Engenco (EGN) is an industrial services group specialising 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
- Leasing of wagons and other rail equipment
- 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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