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ASX ANNOUNCEMENT

21 February 2019

Engenco reports FY2019 Half Year results

- **11.3% revenue growth to $88.0 million from H2FY18**
- **EBITDA increase from H2FY18 of 16.8% to $8.9m**
- **Ongoing investment in growth initiatives**

Engenco Limited (ASX:EGN) (**Engenco** or **Company**), the specialist industrial engineering services group, today announced a total net profit after tax of $6.5 million for the first half of FY19 ended 31 December 2018 (H1 FY18: $7.5 million). Total revenue for the period was $88.0 million (H1 FY18: $78.2 million).

	H1 2019 $'000	H2 2018 $'000	H1 2018* $'000
Revenue	88,030	79,109	78,227
EBITDA	8,875	7,599	9,721
EBIT	6,964	5,593	7,897
Profit / (loss) after tax	6,510	10,463	7,540
Net operating cash flow	4,618	3,284	5,008
Net assets	76,450	73,218	73,218
Net cash / (debt)	8,633	8,318	8,318

* Net assets and Net cash / (debt) comparatives are as at 30 June 2018.

Note – EBITDA, EBIT and Net cash / (debt) 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.

A strong first half

The Group recorded a total net profit after tax for the six months ended 31 December 2018 of $6,510,000 compared to $7,540,000 in the corresponding period last financial year. Revenue grew by 12.5% in the first half to $88,030,000 (H1 FY18: $78,227,000) as a result of improved sales primarily from Total Momentum and Gemco Rail segments. Earnings before interest, tax, depreciation and amortisation (EBITDA) in the half was $8,875,000 (H1FY18: $9,721,000).

Kevin Pallas, Engenco's Managing Director and CEO said, "Earnings before interest and tax (EBIT) of $6,964,000 remained strong and improved when compared to the second half of the 2018 financial year, but moderated when compared to an EBIT of $7,897,000 recorded in the preceding corresponding half year. This was influenced by a shift in revenue mix. There was an increase in revenue for Total Momentum which typically operates at a lower margin, lower revenue in Drivetrain, whilst CERT Training's revenue and margin softened. Additionally, the Group continues to invest in its workforce and facilities to maximise additional outsourced maintenance opportunities, and to support the expanded range of products and services."

"Revenue improvements for the consolidated Group in the first half translated to more moderate profit margins as compared to the same period last year, but actually showed an improvement compared to the second half of last financial year despite a change in sales mix. This diversity of revenue source is a key factor in the delivery of sustainable profitability."

Mr Pallas continued, "There were no major investments nor divestments undertaken in the half. There was some modest capital expenditure and, as expected, net working capital has grown based on investment in strategic inventory. A new NAB banking facility agreement was finalised during the period with debt facilities totalling $13,100,000 now being available to the Group. As at 31 December 2018 this facility remained undrawn."

The Group's net cash position at period-end was $8,633,000 compared to $8,318,000 at the end of June 2018, after paying a dividend of $3,134,000 in September 2018.

Operations deliver positive outcomes

Referring to segment performance, Mr Pallas said, "Gemco Rail reported an improved revenue performance and profitability remained at healthy levels in a highly competitive market. The new facility in the Hunter Valley contributed strongly to the results along with increased workshop demand in Forrestfield, Western Australia and Dynon, Victoria. Investment in our workforce and facilities on the East coast continues to ensure we are well placed to maximise our response to increased outsourced maintenance prospects. Revenue from Product Sales grew on the back of maturing strategic partnerships with premium quality, globally recognised OEM partners. The PQGY wagon fleet was fully utilised throughout the period which also contributed positivity to the result"

Total Momentum was the strongest contributor to the Group's increased revenue for the period. Total Momentum was a key partner in a major rail upgrade project in South Australia between Adelaide and Tarcoola, providing labour services across various aspects of the rail infrastructure project. The Western Australian market remained subdued, and activity in the Eastern states was somewhat impacted by decreased volumes caused by the drought.

Mr Pallas said, "Drivetrain had lower revenue for the period when compared to the prior corresponding period which included significant sales in the gas-compression industry, and to some major mining contractors, that have not been repeated in the first half of FY19. Workshop utilisation levels remained high with additional demand across a number of facilities within the national branch network. There is ongoing investment in our workforce as we address the increased service demand. We continued to serve the Australian defence industry with support of land and marine based assets. Investments made in strategic inventory and expanding the product range are aimed at ensuring that customer demands are met going forward."

Commenting on the performance of the Centre for Excellence in Rail Training (CERT Training), Mr Pallas said, "Our Registered Training Organisation (RTO) continued to react to changing market demand for training services but experienced significantly reduced activity over the period, particularly in Victoria. A number of development projects were undertaken, including the opening of a new regional training centre in Western Australia to support the growing high-risk training scope. There was continued investment in courseware, RTO compliance and technology to broaden service offerings, meet market demand, and to provide high-quality outcomes more effectively."

Convair Engineering (Convair) delivered an improved revenue result compared to the last corresponding half. Convair's fleet servicing, spares and repair business remains steady. The Australian construction industry is experiencing a robust period, and this has helped boost demand for new tankers significantly, leading to a healthy forward order book for Convair.

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The activity of Hedemora in Sweden is recorded in the All Other segment, and makes up the majority of revenue in this segment. This small but profitable business continues to support the life-extension of the Australian submarine fleet through Drivetrain, and are beginning to penetrate the turbocharger retrofit market in the Northern Hemisphere.

Outlook

Mr Pallas concluded, "Looking ahead, the Group remains well positioned to take further advantage of the generally positive industry environment, mainly driven by healthy activity in the Australian mining, transport, and infrastructure construction sectors. The Group has also made calculated investments in development and growth projects, including the establishment of additional capacity to meet anticipated demand. These factors are expected to positively contribute to profitability in future periods."

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.

For further information, please contact:

Kevin Pallas Managing Director and CEO T: +61 (0)3 8620 8900 E: kevin.pallas@engenco.com.au	**Vince De Santis** Chairman T: +61 (0)3 8620 8900 E: vincent.desantis@engenco.com.au