Engenco

ASX ANNOUNCEMENT

24 August 2017

Engenco Announces FY2017 Full Year Results

- $8.3 million after tax profit
- Net positive cash position of $4.7 million
- Final fully franked dividend of 0.5 cents declared

Industrial engineering services group, Engenco Limited (ASX:EGN) (**Engenco** or **Company**) today announced a consolidated Group after tax profit of $8.3 million for the year to 30 June 2017 (FY2016: $4.1 million), on revenues of $129 million (FY2016: $133 million).

Commenting on the result, Engenco's Managing Director and CEO, Kevin Pallas said, "We are very pleased to be reporting the Group's improved performance, which has continued on the positive trajectory that has been the trend in recent periods. Achieving a total profit of $8.3 million for the year demonstrates that the business has reached a far more satisfactory operating position after several years of transformation. Net profit generated from continuing operations was $8.5 million – a 240 per cent increase over the 2016 result which was an important milestone for the Company."

"Total Group revenue from continuing operations in the year of $129 million was marginally lower than in 2016 however the improved earnings outcome is in part a function of a higher quality sales mix."

Engenco's consolidated EBITDA for the 2017 financial year improved to $12.8 million; and cash generation remained reasonably robust.

Mr Pallas said, "We made regular decisions throughout the year to decrease the drawn-down balance of our Elph-supported funding facility. Consequently the Elph facility, which had a limit of $15 million, reached a balance of $4 million at year-end – a decrease of more than $12.5 million compared to the end of FY2016. By the end of this month, the principal owing under the Elph facility will reduce to $2 million. Additionally, our net cash position improved by more than $10 million."

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	2017 $000	2016 $000
Revenue from continuing operations	129,319	132,764
EBITDA from continuing operations [2]	12,785	6,722
EBIT from continuing operations [1]	9,137	2,636
Profit / (loss) after tax from continuing operations	8,478	2,497
Profit / (loss) from discontinued operations, net of tax	(209)	1,643
Net operating cash flow	6,400	11,054
Net assets	57,011	49,094
Net cash / (debt)	4,697	(5,368)

[1] EBIT is earnings before finance costs and income tax expense.

[2] EBITDA is EBIT before depreciation and amortisation.

Note – EBIT and EBITDA 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.

Review of Operations

The majority of business streams in the Power & Propulsion segment performed well during the year in light of a more positive resources sector backdrop. The depressed energy sector demand for capital equipment meant lower total sales for the segment. Notwithstanding, this segment's EBITDA margin performance improved, which was a pleasing outcome and bodes well for the future.

Mr Pallas said, "The Drivetrain business unit operates from a well-integrated network of branches and workshops in Australasia, and is highly respected as a premier player in the heavy machinery applications engineering and support industry. During the year, the Mobile Powertrain stream experienced a resurgence in demand for parts and service as machine operators, mainly from the mining sector, recommenced more normal maintenance patterns. Component and parts sales into the defence industry were also buoyant, whilst our proven reputation helped us penetrate into new areas of the market. We have generated greater volumes of repair and overhaul work in our workshops, and have begun to experience improved operating leverage during the year as a result of the higher throughput. Working closely with our supplier base, we have been able to execute our strategy of expanding our product range and have introduced exciting new lines, including some in the gas-compression equipment support space."

"Hedemora Turbo & Diesel operates from our site in Sweden and is focussed on supporting the legacy Hedemora Diesel engine, and marketing and developing our growing range of HST large engine turbochargers. The business has customers and service agents world-wide, and has a well-developed supply chain for high precision parts and components. Assembly and testing of the products is completed at the facility in Sweden, as is our maintenance and overhaul work. Results for Hedemora were weaker in the year as the population of diesel engines declined, and the revenue growth from turbocharger product sales remained below expectations. During the year we completed the development of our new higher air volume turbocharger and the first units are expected to undergo customer trials shortly."

The Group's Rail and Road segment performed well during the year, particularly the Gemco Rail business unit which recorded EBITDA more than double that of the previous year.

Mr Pallas continued, "The on-going introduction of modern technologies and equipment, coupled with hands-on management and a team comprising some of the best skills in the industry, has placed Gemco favourably in the market, especially with the larger rail operators who are increasingly seeking maintenance outsourcing opportunities.

"The higher volume of work executed in all our facilities - particularly in our heavy maintenance Forrestfield and Dynon sites - has led to greater utilisation rates. We have met the increase in activity with further productivity and capacity enhancing investments in plant and equipment, some of which are yet to be brought on-line but from which we expect to see further benefits in the new financial year. Our strategy to forge closer ties with global high-quality rail products manufacturers has helped grow the Product Sales business stream and further position the business favourably with major rail operators including the large miners."

The Momentum business unit has been positioned to meet the needs of operators who find value in its provision of flexible and responsive skilled labour hire services. Momentum's FY2017 revenue grew modestly and profitability growth was healthy as it realised the benefits of a largely fixed overhead cost structure.

CERT Training benefitted from reasonably good general demand for rail training services, mainly in the Eastern States, but was still faced with a challenging market in those areas affected by lower government funding availability. Profitability margins for CERT were lower for the year compared to last, mainly due to pricing pressures and internal resource costs expended to update and modernise training materials.

Of CERT Mr Pallas mentioned, "This investment has helped set CERT's training delivery quality above competitors and has also helped underpin our meeting more stringent ASQA compliance requirements. Our training scope expansion into rail-aligned industries is gaining momentum and our student reach is increasing through the establishment of appropriate training facilities in strategic locations."

Convair faced very tough market conditions in the early part of the financial year, but as the construction market in particular began to recover, demand for its tankers increased. Investment in a new design Convair tanker was also met with enthusiasm by the market.

"Convair's new, unique design steel tanker has many appealing benefits to customers and is manufactured using advanced and more efficient manufacturing processes – leading to a more satisfactory outcome for the year and a good order book going into the new year" said Mr Pallas.

Mr Pallas continued, "We are working on a number of significant revenue growth opportunities which may require growth capital, but at this stage expect that the new flexible funding arrangements that we have in place, with a facility limit of $10 million, will be adequate. Looking ahead we expect that, subject to general trading conditions remaining favourable, our profit and cash generation outcomes will continue to be positive."

Mr Pallas concluded, "Realising this much-improved set of results is certainly a team-effort and I would like to thank the people who helped make the year a success. The board and senior management have worked tirelessly in leading our business, and our people have all contributed. Our customers and suppliers have been very supportive, as have our shareholders. Overall, we have reached a far more stable state in the development of the company and now look to the future with a good degree of confidence."

Engenco's Chairman, Vince De Santis said, "With the much improved financial performance and balance sheet stability, we are very pleased to declare the Company's first dividend in almost a decade. The relatively modest final dividend of $0.005 per share (fully franked), represents another important milestone in Engenco's progression."

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
- 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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