Engenco

ASX ANNOUNCEMENT

20 February 2020

Engenco H1 FY20 highlights*

- Revenue $89.0 million, up 1.1%
- Net operating cash flow $5.7 million, up 23.9%
- Interim dividend 0.5 cents per share, fully franked

*all figures compare H1 FY20 with H1 FY19 unless otherwise stated

Engenco Limited (ASX:EGN), the specialist engineering services group, today announced a first half net profit before tax (NPBT) of $3.6 million (H1 FY19: $6.8 million). The lower comparative profitability, despite the strong performance of the group's rail business, reflects the impact of expansion and restructure costs of over $1.0 million, margin erosion on imported parts and the timing of a large workforce contract completed over previous periods. Earnings before interest, tax, depreciation and amortisation (EBITDA) were not directly comparable due to the introduction of AASB 16 (lease accounting).

Revenue was $89.0 million, up 1.1% (H1 FY19: $88.0 million), as the group continued its multi-year strategy to increase market share through greater capacity, capability and product innovation. Net operating cash flow was $5.7 million, up 23.9% (H1 FY19: $4.6 million). At 31 December 2019, cash on hand was $16.3 million.

Recognising the group's continued record of profitability, the directors have declared the group's first interim dividend for many years. A fully franked interim dividend of 0.5 cents per share will be paid on 20 March 2020 to shareholders on the register at 6 March 2020.

Results summary	**H1 FY20 $000**	**H1 FY19 $000**
Revenue	88,960	88,030
Earnings before interest and tax (EBIT)	4,189	6,964
Net profit before tax	3,552	6,779
Net profit after tax	3,517	6,510
Dividend (cents per share) – fully franked	0.5	0.0

Kevin Pallas, Engenco's Managing Director and CEO said: 'Capital expenditure totalled $6.7 million in the first half as development and expansion of new facilities, particularly in central Queensland, continued. These facilities are expected to support long-term sustainable contracts with reliable, repeatable revenue streams and their development is progressing well.

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'The positive direction of the Gemco Rail business continued with strong revenue and profit growth. This demonstrates the success of our long-term strategy of building a sustainable platform which is now receiving strong customer support and continuing to generate greater value.

'The Convair business performed satisfactorily in a difficult market. Notwithstanding the lower Australian dollar, competition from imported products contributed to lower margins.

'We restructured parts of the Drivetrain business that were underperforming, closing branches in Sydney and in New Zealand with little customer impact. Value-added mining sector work increased as a result of greater focus on attracting repair and maintenance work to better utilise our workshops. While defence markets were soft and commercial vehicles component sales slow, these markets have shown recent signs of improvement.

'Our people focussed businesses, Total Momentum and CERT Training, will in future operate more closely within the newly formed Workforce Solutions division. Total Momentum was impacted as large projects were completed, while CERT Training improved slightly on the previous corresponding half.

'Net operating cash flow was very strong at $5.7 million.

'It is pleasing to declare an interim dividend for the first time in more than a decade. This reflects the increased sustainability and reliability of our business as we continue to invest in growth.'

Operational report

	H1 FY20 revenue* $000	H1 FY19 revenue* $000	H1 FY20NPBT* $000	H1 FY19 NPBT* $000
Gemco Rail	**43,161**	31,040	**5,552**	4,009
Convair Engineering	**7,647**	7,947	**281**	610
Drivetrain	**23,030**	24,978	**1,438**	3,100
Total Momentum	**7,260**	14,708	**614**	2,048
CERT Training	**5,590**	5,383	**702**	704
* Excludes "All Other" segment				

The positive direction of **Gemco Rail** continued. The significant investment in building this platform is now demonstrating value. The group's Newcastle operations continued to strengthen, supporting increased Hunter Valley work, and operations at Forrestfield, Western Australia also grew strongly. Investment continues at the central Queensland facility in Gladstone, which became operational in January 2020. This will increase capacity to service rail rolling stock maintenance contracts and general work for rail operators.

Convair Engineering reported slightly lower revenue and earnings. While demand for dry bulk goods tankers remained buoyant, competition increased. Convair in part relies on imported aluminium equipment and was unable to pass on additional foreign exchange costs. The business continues to focus on production efficiency improvement, and on the development of new and innovative bulk materials transport equipment.

Drivetrain's performance was impacted by expansion and restructuring costs, and the lower Australian dollar relative to US and other currencies. Most trading inventory is imported, and foreign exchange movements could not be entirely passed on in a competitive market, affecting margins. The strategy of increasing the group's proportion of value-added workshop work, in facilities such as that established at Newcastle, has successfully targeted the mining, mining contractor and transport markets. The Perth workshop is operating at higher rates of capacity. A new, larger workshop in Adelaide is now established and expected to generate improved returns in the second half, with several customers seeking reliable partners for maintenance work in South Australia.

Revenue from the Hedemora Sweden business, now included in "All Other" revenue, continues to benefit from the life extension of the Collins Class submarine fleet. Encouraging trials for customers around the world have resulted in increased orders of the HS Turbocharger range. Two business development resources have been employed by Hedemora Sweden in the United States to facilitate HS Turbocharger sales. The business is also investing in US EPA certification for newly developed turbocharger technology so as to address the Class I Railroad and other sectors in the USA.

Total Momentum revenue decreased after completion of recent large projects. While the business has become a prime provider of supplementary rail personnel, opportunities are somewhat cyclical, and it was unable to immediately replace large contracts due to timing of future opportunities. The **CERT Training** business continued to benefit from government-funded and rail vocational training. An Executive General Manager has been appointed to lead the newly formed Workforce Solutions division which now incorporates Momentum and CERT's people focussed businesses. The division has significant opportunities for growth in the mining and resources markets, Inland Rail projects, as well as in general industry sectors.

The new group structure is presented below:

Outlook

A stronger second half is anticipated with net profit before tax expected to exceed the first half. The Group is cautiously optimistic that it will finish the year broadly in line with FY19 net profit before tax, adjusted for the FY19 gain on sale of non-core assets (wagons).

Investment in new facilities at Gladstone and Adelaide continues and a strong contribution from these facilities is expected during the second half. The Drivetrain business is benefiting from recent restructuring. Having completed the majority of the FY20 capital programs in the first half, capital expenditure in the second half is expected to be substantially lower at around $1.5 million.

Mr Pallas said: 'Our multi-year investment strategy is delivering growth and building increased scale, enabling our capacity to take on longer-term, more sustainable projects. Although it is too early to anticipate possible impacts of the coronavirus which may affect customer demand or our supply chain, we are confident that industries we serve will remain strong; the resource segment currently remains robust, and long-term federal government infrastructure investment is continuing.

'The Gemco Rail business is the most advanced in terms of the group's plans to build greater scale, and continues to provide a model for the group's growth which is being replicated in our other businesses.

'To drive the next phase of the group's evolution we have changed the group structure to recognise an additional division. The *Road and Rail* division includes the Gemco Rail and Convair businesses, and the *Power and Propulsion* division will continue to incorporate Drivetrain and Hedemora. We are now adding a third division, *Workforce Solutions*, which includes the Momentum and CERT businesses. This recognises the potential for closer collaboration between our training and labour hire operations and unlocks the opportunity to leverage the substantial synergies that exist between the businesses to the benefit of customers.'

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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