

19 August 2021

Engenco FY21 results

- Revenue \$165.6 million
- NPBT \$8.3 million
- Net operating cash flow \$14.5 million
- Final dividend 1.5 cents per share, fully franked

Engenco Limited (ASX:EGN), the specialist engineering services group, today announced a net profit before tax of \$8.3 million (FY20: 10.2 million). Net profit after tax, after taking account of the progressive recognition of past tax losses, was \$12.0 million, down from \$13.4 million in the previous year.

Revenue was \$165.6 million, down 7.0% (FY20: \$178.1 million), largely reflecting constrained trading conditions during the pandemic. Net operating cash flow was \$14.5 million, up 2.8% (FY20: \$14.1 million). At 30 June 2021 the Company had no debt and maintained undrawn bank facilities of \$20 million.

The directors have declared a fully franked final dividend of 1.5 cents per share (FY20: 1.5 cents), payable on 28 September 2021 to shareholders on the register at 7 September 2021.

Results summary	FY21 \$000	FY20 \$000	% change
Revenue	165,593	178,063	(7.0)
Earnings before interest and tax (EBIT)	9,713	11,596	(16.2)
Net profit before tax	8,269	10,150	(18.5)
Net profit after tax*	11,961	13,423	(10.9)
Earnings per share (cents)	3.82	4.28	(10.7)
Final dividend (cents) – fully franked	1.5	1.5	0.0
Total dividends (cents) – fully franked	2.0	2.0	0.0

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

Kevin Pallas, Engenco's Managing Director and CEO, said: 'In a challenging environment this was a solid performance. Although customer demand was constrained by factors some of which were related to the pandemic, we continued to advance our multi-year growth strategy which is building a stronger platform for our business. We continue to develop a high-performance business culture, and this enabled our services to adjust effectively to meet health guidelines. We have prioritised the safety of our team while meeting customer expectations.'

“Our capital investment program continued to focus on growth assets, and expenditure was \$9.9 million for the year. Gemco Rail’s facility at Gladstone exceeded performance expectations. As demand for wheelset machining services grew, we invested in a new underfloor wheel lathe which positions this facility to increase its share and diversity of rolling stock maintenance work in Queensland.

“We continued to diversify the range of products and services that we offer through Drivetrain, and also consolidated branches, relocating services closer to large mining and industrial customers. This included starting a new branch at Kalgoorlie, where the Group purchased land and a workshop facility to capitalise on opportunities presented by the booming hard rock mining sector. We also expanded our Newcastle facilities to manage work previously serviced in Sydney.

“Across our Workforce Solutions businesses we innovated to deliver services online, and have a pathway to new growth through integrated workforce services offerings, and the acquisition of the Eureka 4WD Training business. This enables us to offer a broader set of training services for the key industries, with plans to roll out these services using our national platform.

“Net assets increased to \$94.3 million, continuing the positive trend of recent years and up from \$88.6 million in FY20. We maintained prudent control of cash flow and completed the year with a strong balance sheet.”

Operational report

	FY21 revenue \$000	FY20 revenue \$000	FY21 NPBT \$000	FY20 NPBT \$000
Gemco Rail	78,572	87,241	11,583	11,938
Convair Engineering	16,459	14,817	1,539	946
Drivetrain	42,676	46,001	3,626	4,181
Hedemora	7,229	9,401	(682)	883
Momentum Rail	12,502	14,419	1,456	1,518
CERT Training	9,285	10,215	1,995	1,277

Rail and Road

Gemco Rail experienced lower demand in Western Australia and New South Wales, with reduced volumes of heavy maintenance and wheel bearing refurbishment. Activity in Queensland, where the company has extended its services for rail rolling stock at Gladstone, continued to increase. This facility opened in 2020 and has proved the group’s capability to manage long-term maintenance contracts. Tight control of costs was maintained, and during the year Gemco Rail realised \$2.2 million through the sale of legacy wagon assets. A solid fourth quarter showed encouraging signs of a return to sales growth.

Convair Engineering improved revenue and earnings, benefiting from sales of aluminium tankers which were expected to take place in FY20, but were delivered and reported in FY21. Demand grew during the year for the Group’s dry bulk goods road tankers and spare parts, including from the burgeoning infrastructure market.

Power and Propulsion

Drivetrain experienced strong demand from hard rock mining and mining contractor markets, although demand from soft rock markets was lower as customers reduced non-essential work and extended maintenance cycles. Consolidation of branches continued as the Company relocated services to optimise efficiency and benefit customers. The Kalgoorlie branch commenced operations in the fourth quarter, receiving encouraging customer orders. Sales of the Kovatera underground utility vehicle increased, and a fleet order in the fourth quarter was received for delivery in FY22. Inventory continues to be optimised to protect the supply chain.

Defence sector business remained consistent. Maintenance activity on the Collins Class submarine program was lower, reflecting the maintenance cycle, and is expected to increase as full-cycle dockings commence.

Hedemora is in the process of monetising its innovative HS Turbocharger range, which allows the replacement of older diesel and gas engine turbochargers with modern equipment that offers environmental and efficiency benefits. Even though travel restrictions in the Northern Hemisphere hampered further market penetration, retrofit projects for customers in Eastern Europe and Mongolia generated a record number of new unit builds in the year, and first orders in North America are expected in coming months.

Workforce Solutions

Workforce Solutions benefited from a restructure, combining the Group's Momentum Rail and CERT Training businesses under a single Executive General Manager. This encourages synergies across the people businesses which are expected to deliver growth as a combined service offering is realised.

Momentum Rail reported strong project revenue in the first half, although rail infrastructure project work slowed in the second half following natural disasters, derailments and other network disruptions. This business is a prime provider of supplementary rail personnel and is well positioned to benefit from the shortage of skilled labour. Investment in a programme to fund CERT trainees who qualify with a view to providing career pathways into customers' workforces is an innovative initiative expected to gain wide industry support.

CERT Training provides training, assessment and recertification services for the rail industry. While social distancing and pandemic-related health requirements impacted class sizes, CERT became the first registered training organisation to be approved by major rail network operators to take a number of training programs online. As training products were reoriented, improved systems provided efficiency, improving margins.

The Group completed the acquisition of Perth-based Eureka 4WD Training on 1 July 2021, which provides specialised driver training services for commercial vehicles and trucks. There are significant opportunities to roll out these services for the mining and energy industries across the Workforce Solutions' national network.

Outlook

Mr Pallas said: "Our multi-year growth strategy to build a larger, more scalable platform that is closely aligned to our customers in the mining, transport, logistics, and defence industries continues. These sectors provide high quality revenue and long-term contracts, and we are investing to improve our range of products and services and capitalise on growth opportunities.

“We remain focused on developing a high-performance culture and building the capabilities of our people, which enabled us to respond effectively to the unique challenges of the pandemic economy. We have ensured that our team is safe and healthy. Our goal is to become an employer of choice in each community in which we operate, and we are making steady progress.

“Customer demand remains strong for our Gemco Rail business. We are benefiting from investment in new capabilities at Forrestfield and Gladstone, and plan to expand our Altona facility in the new financial year. We anticipate that the positive trend of the fourth quarter of FY21 will continue.

“We have commenced marketing activities to build our Drivetrain Kalgoorlie business, and are broadening our range of Drivetrain services. In FY22, this will include the launch of a new battery electric Kovatera vehicle, for which we have already registered significant interest. Additionally, some long-term prospects in our power generation project

“Our Workforce Solutions businesses have been reinvigorated under a new management structure. We offer customers a way to train employees and increase their skilled labour resources, especially in sectors which experience staff shortages. The Eureka acquisition strengthens our training diversity and capability and allows national expansion opportunities.

“Our strategy includes sustainment and growth initiatives, and substantial progress has been made generally. Our ongoing investments in people, processes, plant and equipment are delivering long-term benefits and we are positioned for significant long-term expansion. We expect FY22 will be a year of stabilisation rather than one of material financial improvement and are cautiously optimistic of our future growth prospects as COVID-19 restrictions ease and the world enters a new economic era.”

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

About Engenco

Engenco specialises in:

- Maintenance, repair and overhaul of locomotives
- Manufacture and maintenance of wagons, carriages and associated rail equipment
- Maintenance, repair and overhaul of heavy-duty engines, powertrain, propulsion and gas compression systems
- Project management, training and workforce solutions
- 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.

For further information, please contact:

<p>Kevin Pallas Managing Director and CEO T: +61 (0)3 8620 8900 E: kevin.pallas@engenco.com.au</p>	<p>Paul Burrows Chief Financial Officer T: +61 (0)3 8620 8900 E: paul.burrows@engenco.com.au</p>
--	--