Engenco

ASX ANNOUNCEMENT

18 February 2022

Engenco announces H1 FY22 Results*

- Stable revenue of $85.5 million during challenging period
- NPBT $2.6 million with stronger second half expected
- Interim dividend 0.5 cents per share, fully franked

*all figures compare H1 FY22 with H1 FY21 unless otherwise stated

Engenco Limited (ASX:EGN), the specialist engineering services group, today announced a first half net profit before tax (NPBT) of $2.6 million (H1 FY21: $5.3 million). As previously advised, profitability was influenced by skilled labour shortages impacting productivity and labour costs, COVID restrictions particularly on the group's Workforce Solutions business, and general supply chain disruptions. Earnings before interest and tax (EBIT) were $3.2 million, down from $6.1 million.

Revenue was $85.5 million (H1 FY21: $86.4 million), as the group continued its multi-year strategy to build a stronger platform through expanding its range of goods and services and investing in people, capacity, and innovation. Net operating cash flow was $8.6 million (H1 FY21: $11.2 million). At 31 December 2021, cash on hand was $9.2 million.

In line with expectations that FY22 will be a year of stabilisation with improving performance in the second half, the directors have declared an interim dividend of 0.5 cents per share, fully franked, consistent with the previous corresponding period. The interim dividend will be paid on 18 March 2022 to shareholders on the register at 3 March 2022.

Results summary	**H1 FY22 $000**	**H1 FY21 $000**	**% change**
Revenue	85,493	86,423	(1.1)
Earnings before interest and tax (EBIT)	3,200	6,085	(47.4)
Net profit before tax	2,622	5,316	(50.7)
Net profit after tax	2,597	5,316	(51.1)
Earnings per share (cents)	0.82	1.70	(51.8)
Dividend (cents) – fully franked	0.5	0.5	-

Kevin Pallas, Engenco's Managing Director and CEO said: 'In a challenging environment that generated a sub-optimal result, the outcome nevertheless demonstrated the strength of the investments that we have made, the resilience of our staff, and the diversity of our business. We provide a diverse range of engineering solutions and products, supporting transportation across multiple industry sectors including

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defence, marine, power generation, heavy industrial, mining and infrastructure. While these industries have been disrupted by the pandemic and supply chain issues, they are robust, providing opportunities for our business.

"Our rail business performed consistently overall, with strong sales on the west coast balanced by reduced demand from customers for our east coast operations. Staff shortages and supply chain delays impacted our Convair business, which has a strong order book for tankers.

"The Drivetrain business experienced revenue growth including the win of some longer-term contracts. Operations at Kalgoorlie were constrained by shortages of labour and parts, and product support sales to customers at Newcastle were lower but are anticipated to grow in the second half with expanded product range and capacity. Shipping delays affected sales of the Kovatera underground mining utility vehicle including a battery electric version, with some sales deferred to the second half.

"Our people-facing Workforce Solutions business was impacted by a shortage of trainers and skilled staff and, in New South Wales, mandated closure of CERT's branches for around three months due to the pandemic. These disruptions, with lower government support in H1 FY22, resulted in reduced performances in CERT and Momentum, whilst the recently acquired Eureka 4WD and truck training business met expectations. Expansion of the Western Australia-based Eureka business is planned and the operations have been brought onto Engenco's corporate platforms with integration nearing completion."

"During the half we have focused on inventory management to protect the supply chain, achieving good results, and cash flow remains sustainably positive. We are continuing our People programs to inspire a high-performance business culture powered by our people and to improve operational efficiency. "

Operational report

	H1 FY22 revenue $000	H1 FY21 revenue $000	H1 FY22 NPBT $000	H1 FY21 NPBT $000
Gemco Rail	**41,366**	39,160	**4,952**	5,008
Convair Engineering	**6,454**	9,920	**354**	1,110
Drivetrain	**24,129**	22,235	**1,835**	2,386
Workforce Solutions*	**10,540**	12,359	**1,453**	2,815
*H1 FY21 comparatives restated for the current year with the change in identifiable reporting segments				

Rail and Road

Gemco Rail experienced strong demand in Western Australia, including increased orders for heavy-haul wheels and bearings and securing new wagon refurbishment work. East coast demand, however, fluctuated and volumes at Gladstone for wheelset maintenance was lower, reflecting customers' schedule changes and altered maintenance cycles. Gemco's east-coast operations continue to build diverse revenue streams, demonstrating the value of the group's investment in upgrading these facilities and introducing new locomotive and wagon maintenance services.

Convair Engineering reported lower revenue and earnings as sales of Feldbinder aluminium tankers were subject to shipping delays. These sales have moved into the second half. While demand from the infrastructure and construction sectors for Convair's premium products remain strong, labour shortages continue to effect production capacity. The business is focussed on continuously improving production efficiency and developing innovative bulk materials transportation equipment.

Power and Propulsion

Drivetrain continued to benefit from previous consolidation of branches and broadening of its range of technical products and services. Revenue improved although margins were lower. The Perth workshop continued to operate at high rates of capacity. Although experiencing strong demand, the group's Kalgoorlie workshop operations were constrained by skilled-labour shortages and the lack of availability of parts due to supply-chain disruptions. At Newcastle, deliveries to the mining and mining contractor sectors were lower, but workshop and parts demand remained strong. Sales of the Kovatera underground mining utility vehicle grew in central Queensland, although shipping delays have deferred some sales to the second half.

The Hedemora Sweden business continued to build, with revenue increasing compared to the previous corresponding period and on a profitable basis. This business is in the process of monetising its innovative HS Turbocharger range, which allows OEM diesel and gas engine turbochargers to be replaced with modern equipment that offers ease-of-maintenance, environmental and efficiency benefits.

Workforce Solutions

Total Momentum, which provides supplementary rail personnel, experienced difficult conditions with reduced locomotive driver demand due to flood damage to rail infrastructure, and complicated trans-state border service provision due to COVID restrictions. Increased workforce training requirements and insurance costs reduced margins, and profitability was lower compared to the previous corresponding half. **CERT Training**, which is a registered training organisation providing services to the Australian rail industry, experienced a shortage of skilled staff with trainer shortages in several states, as well as constraints from some customers not adapting to online training service provision.

Integration of the **Eureka 4WD** and truck training, which provides specialised driver training services for commercial vehicles, is proceeding well, although slower than anticipated. Costs increased slightly during the half due to a shortage of qualified truck trainers, higher diesel costs and the closure of state borders in Western Australia and Queensland impacting trainer utilisation.

The Workforce Solutions business is expected to benefit when pandemic restrictions are lifted.

Investment in Group Platforms

The group's focus on improving workplace-culture and providing premium products and services has demonstrated benefits, with exceptional operations staff performance despite the adverse environment.

The group is continuing to focus on improving its risk framework and is leveraging next-generation analytical tools including the introduction of automated vendor payment systems. In modernising these systems, investments in software-as-a-service (SaaS) products are assisting in rapid deployment of integrated, scalable solutions.

Outlook

The group expects FY22 will be a year of stabilisation with a stronger second half. Profit is expected to exceed the first half. The run-rate for the second half will be in line with management's current expectations of on-going performance. The group anticipates that full-year profit before tax will be materially in line with the FY21 full-year result, assuming no material change to trading conditions.

Mr Pallas said: "We are continuing to prioritise our staff safety and are focussed on meeting customers' needs as they adapt to the ever-changing COVID environment. Our multi-year investment strategy has enabled our business to become more resilient, with differentiation through maintaining an excellent reputation and the provision of a diverse range of high-quality modern products and services. We are concentrating on building a deeply engaged workforce and driving business development to further broaden our scope and generate new revenue streams in growing industries.

"The Gemco business is capitalising on a track record of delivering to customers' expectations and is experiencing strong support from rail operators including major heavy-haul customers. While we are seeking greater consistency from our east coast operations, we are encouraged by recent business development opportunities arising at Dynon in Victoria and Telarah in New South Wales. Our Convair road tanker business has a strong order book, and significant demand but remains capacity constrained. Supply chains are however showing signs of normalising, and our recruitment drive is beginning to bear fruit.

"The Drivetrain business has above trend levels of work-in-progress, a solid order book, and has secured longer-term supply and service contracts. The hard-rock market remains robust whilst the soft-rock market has been strengthening in recent months, with the defence and energy segments still providing good opportunities. We are investing in apprenticeships and building programs to attract and retain staff.

"Our Workforce Solutions business is expected to improve as cross-border pandemic constraints lift and face-to-face training resumes. Further developing the integrated Workforce Solutions package offering is expected to generate growing revenues.

"Entering the second half, we are confident that with the adjustments we continue to make, and despite COVID related disruptions, our business is well positioned to improve significantly on the first half performance. We are also able to benefit from the stronger, more scalable platforms we have developed, allowing us to take advantage of new opportunities as they emerge."

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

About Engenco Limited

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.

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