

## ASX ANNOUNCEMENT

14 FEBRUARY 2018

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### VALMEC REPORTS STRONG HY18 REVENUE AND EARNINGS GROWTH

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Valmec Limited (ASX: VMX) (“Valmec”, “Group” or “the Company”) reports its financial results for the half year ended 31 December 2017.

#### Performance Highlights

- Revenue up 66% on HY17 to \$49.7 million
- EBITDA increased by \$2.3 million or 209% on HY17 to \$3.4 million
- Net Profit before Tax increased by \$2.1 million
- Significant ramp up in construction activity across all sectors
- Industry leading safety performance currently over 1.6 million hours LTI free
- Stronger balance sheet supported by Jan 2018 equity raise

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***Valmec recorded sales revenues of \$49.8 million for the six month period, a significant increase of 66.2% on the previous corresponding period.***

The result reflects the expected ramp up in construction activity across all sectors. Valmec entered FY2018 with over \$55 million of secured and preferred status contracts which was the impetus for unprecedented levels of project resourcing, mobilisation and execution activity, all successfully implemented during the six month period. Valmec also experienced further growth in sustaining capital works within the gas sector which, due to the shorter lead times to award, were secured and also commenced during the half.

Whilst gas services recurring revenues for the period of circa \$14 million were marginally lower than the previous corresponding period, (down 11%), due mainly to timing of new compression sales, construction revenues of \$35.8 million were more than double that of the prior period.

Valmec expects to see growth in its recurring service revenues during the second half of FY2018 and into FY2019 due to expanded and more active long term service contracts with both existing and new clients. Increased activity levels in the sector continue to be indicative of the change within our industry sectors from their investment phase to the production and operations phase of the cycle.

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***Reported earnings before interest, tax, depreciation and amortisation (EBITDA) for the period was \$3.4 million representing an increase of over 209% on the previous corresponding period (HY17: \$1.1 million).***

Increased activity levels enabled Valmec to substantially improve its six month EBITDA performance compared to the corresponding period. With the increased sales revenue favouring construction activity, gross margins from a Group perspective are diluted as stronger margin service revenues as a percentage of total Group revenues is reduced. With a continued focus on recurring revenue and the expected growth in the existing gas services business, coupled with the recent acquisition of the APTS services business, Valmec expects to see improvement in total Group margins.

Group overheads (excluding finance costs and depreciation) for the period were \$4.3 million, this was consistent with the second half of FY2017. As a percentage of revenues for the current period, overheads were reduced to less than 9% (LY: 10.9%) and as a result, revenue growth of 66% for the period, delivered more than 3 times the EBITDA for the comparative period.

Net profit before tax increased by \$2.1 million on the previous corresponding period, and as a percentage of revenues, is expected to grow in future periods, due to reduced interest expense, after a reduction in Group debt levels during January 2018.

Earnings per share for the reporting period was 1.98 cents.

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***The Valmec balance sheet ended the six month period in a stronger position, with the improved trading performance translating into net assets growth of circa 10% over the June 2017 total, now at \$18.8 million.***

Debt levels at the reporting date, whilst consistent with June 2017, reflect reduced gearing levels for the Group as it continues to improve its equity position. With the January 2018 capital raising and conversions of listed options by option holders during the same period, raising circa \$10.7 million, Valmec debt and gearing levels will be materially reduced during the ensuing six month period.

Significant growth in the Valmec order book during the half was reflected in working capital balances as concurrent project resourcing and mobilisation activities occurred. Cashflow from operations is expected to grow in the second half as these projects realise their embedded margins during the project cycle and the positive impact of reduced debt is realised.

Cashflow from operations excluded \$1.7M in cash receipts from customers which were received after the 31<sup>st</sup> December 2017 cutoff and if received by cutoff would have resulted in a cash generation from operations of \$1.8 million.

Net Tangible Asset backing was 21c per share at 31 December 2017.

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***Valmec enters the 2018 calendar year with an order book of circa \$83 million (secured works \$53M and expected contract extension \$30M) and a tender pipeline of construction and service contracts worth over \$300 million.***

During the period, the Group continued to see significant growth in its tender pipeline and commenced a larger number of diverse projects across Australia including larger construction projects, government infrastructure services and gas operations and maintenance contracts.

Gas sector clients also continued to develop their expansion projects as the much published gas shortages on the East Coast coupled with new mining project developments on the West Coast began to de-risk investment projects.

Entering FY 2018 with an increased order book of circa \$55 million, and with new tender to award timelines shortening in our sectors, Valmec has been able to leverage off its preferred contractor status and quickly establish increased market share during this new growth cycle.

During the period, the Group was awarded the following strategic projects;

1. Construction scope on the Mt. Isa Compressor Station as part of the Northern Gas Pipeline Project ("NGP") for Jemena. Valmec also signed a MOU with Mt. Isa based Kalkadoon Native Title Aboriginal Corporation ("Kalkadoon") to enable Valmec, Kalkadoon and Jemena to work collaboratively in delivering the project;
2. Construction of a compressor station for APA Group at their Murrin Murrin facility on the Goldfields Gas Pipeline in Western Australia;
3. Construction of a 4km gas pipeline and facilities for APA Group on their Mount Morgan Gold gas project for Dacian Gold in Western Australia;
4. Construction, fabrication and installation of metering stations and delivery stations for APA Group at their Yamarna Gas Pipeline facility on the Eastern Goldfields Gas Pipeline in Western Australia; and
5. Infrastructure services works for CBH Group at their Cascades and Mirambeena project as part of their 2018 development and extension program.

***December 2017 saw the Company record 1,593,217 hours or over 6 years being worked without a lost time injury (LTI).***

Valmec continued to achieve significant safety performance milestones during the period. With an ongoing focus on safety leadership, alignment of safety initiatives with an expanding workforce and a continual improvement mandate in safety management and reporting systems, Valmec has been able to continue to record industry leading safety performance.

The Group also finished the year with a total recordable injury frequency rate (TRIFR) of 0.48.

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### **Managing Director Comments**

Commenting on the HY17 results, Valmec Managing Director Steve Dropulich said:

*“Valmec finishes the calendar year 2017 in a strong financial position and with an exciting future outlook – circa \$50 million of revenue executed during the half, EBITDA performance up 3 times compared to the corresponding comparative period and an order book of circa \$83 million (secured works \$53M and Contract Extensions of \$30M).*

*Underpinned by a developing tender pipeline of future works, the recent acquisition of the APTS business and a successful capital raise/option conversion in early January 2018 raising circa \$10.7 million, Valmec is better placed than ever before, to continue the growth experienced in the first half of this year. “*

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### **About VALMEC**

Valmec is an Australian energy and multi-discipline services group providing specialised packaged equipment, construction, maintenance, commissioning and integrity maintenance services to the resources, energy and infrastructure sectors.

Through its wholly owned subsidiary APTS, Valmec is also now a leading provider of Non-Destructive Testing (NDT) Services, Hydrostatic and Pneumatic Pressure Testing, Non-Metallic NDE and Testing Services along with an extensive list of Engineering support services to the Australian Oil and Gas, Power and Water Industries.

Founded by an experienced team of EPC and contracting professionals each with more than 25 years in the Australian gas industry, Valmec’s focus is on the delivery of innovative project solutions, superior service and faster time-to-market options than the competition.

Valmec employs approximately 280 project and support personnel, operating out of modern offices and fully equipped workshop facilities in Western Australia and Queensland.

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