

ASX ANNOUNCEMENT**26 FEBRUARY 2020**

VALMEC CONTINUES TO DELIVER STRONG GROWTH

Valmec Limited (ASX: VMX) (“Valmec”, “Group”, or “the Company”) reports its financial results for the half year ended 31 December 2019.

Performance Highlights:

- Revenues of \$70.1 million a 47% increase on the corresponding period last year
- EBITDA of \$5.4 million, up 65% on H1FY2019;
- Profit after tax \$2.2M, up 69% on H1FY2019;
- Cashflow from Operations of \$1.7M (positive swing of \$5.5M compared to H1FY2019)
- Continued strong order book (\$80M) and expanding opportunity pipeline for H2FY20 and FY21.

Revenues

Valmec recorded sales revenues of \$70.1 million for the half year, reflecting our strongest ever revenue generation for a six month period since inception.

Revenues for the period represented a 47% increase on the previous corresponding period and were reflective of the stronger order book entering FY20. With the continued replenishment of order book levels during the period via secured and preferred status projects, Valmec remains strongly positioned to continue to deliver record revenues for the full year.

Revenue generated from the Energy Construction segment for the period was \$47.8 million, more than double that of the corresponding period whilst the Services division contributed revenues of \$22.3 million, down 8% over the corresponding period. The growth in the Energy construction division can be attributed to the strong order book levels entering into FY20 with projects such as Jemena Atlas Pipeline, Water Corporation and Newmont Gold Corp Tanami expansion works.

With forecast 2nd half (H2 FY20) revenues underpinned by secured works, Valmec’s growing pipeline of project tender and ECI prospects within its Energy and Infrastructure sectors, is able to provide it with increased visibility and confidence into FY21.

Indicative of the change within our industry sectors from their investment phase to the production and operations phase of the cycle, further development of the Valmec Asset Services strategy during H2 FY20 will generate larger scale integrated Service contracts and opportunities going forward. On this basis, FY21 is quickly shaping as a year of further revenue growth with a sales mix orientated more towards increased recurring service revenues.

Earnings

Reported earnings before interest, tax, depreciation and amortisation (EBITDA) for the period was \$5.4 million delivering an increase of 65% on the previous corresponding period.

Stronger revenue contributions from the Energy Construction Division during the half contributed to a diluted Gross Margin of 16.2%, compared to the corresponding period of 18.8%. This differential is a result of the larger mix of construction revenues as a percentage of total revenues generated in the current six month period.

Valmec expects gross margins to be maintained into the second half, with an orderbook currently dominated by construction works.

With revenue activity across all Valmec divisions forecasted to be along similar mix within the second half, earnings are also expected to maintain at current forecasted levels.

Earnings per share for the reporting period was 1.81 cents, a 66% increase from previous year of 1.09 cents.

Balance Sheet

During the financial period, the company adopted the new accounting AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees of property, plant and equipment, eliminates the classifications of operating leases and finance leases. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). Further detailed explanation of the impact of this new standard is provided within the notes to the financial statements.

Increasing service activity toward the second half of the period resulted in increased inventory requirement as demonstrated by growth within inventory holdings of circa \$1.4M. Valmec ended the half year with a cash balance of \$3M and cash generated from operations of \$1.7M, representing 146% increase on the previous corresponding period.

Outlook

Entering the 2020 calendar year with an Order Book of circa \$80m, consistent with June 2019 levels, Valmec remains strongly positioned to continue to deliver on its growth objectives for the full year in line with the previous guidance provided to the market.

Together with further advancement of its Asset Services opportunities during H2 FY20, Valmec's growing pipeline of project tender and ECI prospects within its Energy and Infrastructure sectors provides the Group with increased confidence into FY21.

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