

7 August 2014

**Titan Energy Services announces FY14 NPAT increase of 34% to \$12.2m and targeting 14% FY15 EBIT growth**

[www.titanenergyservices.com.au](http://www.titanenergyservices.com.au)

ASX ticker: TTN

**FY14 Highlights**

- Record full year result
  - Net profit after tax (NPAT) up 34% to \$12.2m
  - Earnings before interest and tax (EBIT) up 28% to \$18.5m
  - Robust cashflow from operations, up 82% on FY13 to \$17.0m
- Enhanced shareholder returns
  - Full Year earnings per share (EPS) of 24.3 cents – up from 21.6<sup>1</sup> cents in FY13, including \$3.2m capital issued in relation to Atlas Rig 3 acquisition
  - Fully franked final dividend of 4.0 cents per share announced, bringing FY14 dividends to 7.5 cents per share (FY13 – 5.5 cents per share)
- Business growth
  - Record revenue and EBIT results for Atlas Drilling, up 18% and 37% respectively
  - First full year result for Hofco Oilfield Services - sales growth achieved in both halves of FY14
  - Resources Camp Hire room capacity expanded to 1,138 room at year-end - up 69%
  - 105% year-on-year revenue growth for Nektar Remote Hospitality
- Diversification
  - New water and waste business (BASE Transport & Logistics) started in December 2013 - modest profit achieved during start-up phase
  - Nektar secured two new permanent camp contracts
  - Hofco secured a new revenue stream by investing in drill pipe products, which yielded immediate results and improved utilisation during second half
- Safety
  - Significant improvement in safety following the implementation of targeted strategies resulting in TRIFR (Total Recordable Injury Frequency Rate) of 11.4 (FY13 – 16.9).
  - No lost time injuries this reporting period
  - Engaged leading consultant to assist with developing an improved safety culture

<sup>1</sup> EPS previously reported at 30 June 2013 has been retrospectively adjusted to reflect the impact of the shares issued during the current year relating to the Performance Rights Plan that if in existence at 30 June 2013, would have impacted the EPS calculation, per the requirements of AASB133 (FP) Earnings per Share.

## FY15 Outlook

- Targeting at least 14% underlying growth with EBIT to exceed \$21.0m<sup>2</sup> for FY15
- Ready to capitalise on further growth in QLD CSG market as construction nears completion
- Continuing focus on diversification
- Geographical expansion, with investment into NT, WA and SA
- Ongoing consideration of opportunities to grow organically and through acquisition

Note

<sup>2</sup> Excludes potential expenditure in relation to the realisation of the contingent liability relating to the retention payment to key personnel of up to \$1.9m remaining under the Hofco acquisition agreement, which is subject to conditions being met. If realised this would reduce targeted EBIT by up to \$1.9m.

## Results summary

	FY14	FY13	Change
Revenue (\$m)	97.4	72.9	34%
EBITDA (\$m)	23.5	18.9	25%
EBITDA margin %	24.2%	25.9%	-1.7%
EBIT (\$m)	18.5	14.5	28%
EBIT margin %	19.0%	19.9%	-0.9%
Net Profit After Tax (\$m)	12.2	9.1	34%
NPAT margin %	12.5%	12.5%	0.0%
Basic earnings per share (cents)	24.3	21.6	13%
Dividends per share (cents)	7.5	5.5	36%

## Results overview

Titan Energy Services (TTN) today released audited results for the 12 months to 30 June 2014.

As foreshadowed in the unaudited results release on July 10, the company achieved record full year EBIT of \$18.5m, 28% growth on the \$14.5m EBIT reported for FY13.

Other highlights included:

- NPAT of \$12.2m – up 34% on the prior period; and
- Solid earnings per share of 24.3 cents per share, compared to 21.6 cents per share during FY13.

Titan's directors also returned additional funds to shareholders by declaring a fully franked 4.0 cents per share final dividend.

This represents a 31% dividend payout of NPAT to shareholders, which is slightly above the company's dividend policy and reflects the business's strong financial position.

The final dividend takes total dividends declared during FY14 to 7.5 cents per share, a 36% uplift on FY13.

"We are pleased to report another successful year for the company, with strong growth and many positive achievements," managing director Jim Sturgess said.

"In addition, we continue to focus on executing our strategy which includes investing in new opportunities, expanding into new regions and territories and building further on our existing businesses.

"Our company is, of course, relatively young.

"Our diversity helped us achieve robust growth during FY14, and while we endured some setbacks with a few contracts delayed or cancelled, we were generally happy with the progress made."

Titan's Board has also declared that the company's Dividend Reinvestment Plan (DRP) will apply to the final dividend and a 5% discount will apply to the price of shares issued under the DRP. A timetable for the final dividend payment, along with key DRP details, is included in the appendix to this announcement.

## **Operational Review**

TTN continues to grow and is well placed to capitalise on the ongoing demand for its services within its core markets, which are principally in the Queensland Coal Seam Gas (CSG) sector.

While Group EBIT for FY14 was below the Company's initial guidance, earnings increased 28% to \$18.5m (FY13 – \$14.5m) and the company delivered stronger returns to shareholders, in the form of improved earnings per share and increased dividend payments.

At the same time, the company invested significantly in its foundations to drive future returns.

Operational highlights during the year included:

- Nektar winning two permanent camp management and catering contracts, with a combined room capacity of 400 rooms;
- Establishment of Base Logistics to take advantage of the water and waste haulage opportunities in and around the Surat Basin; and
- Successful deployment of Atlas Rig 4 to a tier one contractor and the opportunity to purchase Rig 3, which was previously leased on a dry-hire basis, at a cost equivalent to 20 months rental.

The start-up water and waste haulage business is in line with the company's diversification strategy.

The business, now known as Base Transport and Logistics was established in December 2013 to capitalise on the ongoing demand for water delivery and waste disposal from permanent and temporary camps in and around the Surat Basin. Most of these camps are remote and not connected to town water or sewerage systems.

Titan's other business units - Atlas (drilling), RCH (temporary camps), Nektar (camp management and catering) and Hofco (rental business) - also continue to expand in their respective markets.

### Oilfield Services

During FY14, the Atlas team deployed a new rig (4) aimed at providing cost-effective solution to clients for the initial drilling of wells. Rig 4 completed its initial contract ahead of schedule.

Atlas's management team focused on optimising the business during the year, which has delivered a strong profit for the year despite utilisation dipping to 78%, down from 91% in the prior year.

Rigs 1 and 2 are currently on contract with a tier one client through to the end of August and November respectively. Rigs 3 and 4 are currently being marketed to a range of customers for a number of different projects and applications.

Since the acquisition in March 2013, Hofco has invested heavily in its people, capacity and premises. This investment is starting to pay dividends with trading in the second half showing solid growth.

In addition, Hofco branched into hiring of drill pipe, initially by sub hiring the equipment to test the market. Hofco has since purchased its own drill pipe, which will generate an improved margin.

EBIT margin declined during FY14, as a result of the investment and sub-hired drill pipe noted above.

During the year, Kerstine Plummer moved to a part-time BDM role and Mark Leal was appointed General Manager. Mark has substantial experience in providing drilling services in the minerals market.

## Accommodation Services

The RCH portable accommodation business has grown capacity from 674 rooms in June 2013 to 1,138 rooms at year-end, 69% growth.

This capacity growth will allow RCH to take advantage of ongoing activity over the next 12 months.

As announced previously, trading results for FY14 were impacted by a number of delayed contract start dates throughout the second half.

These contracts are now in place and extend through the first half of the new financial year.

During FY14, RCH has been contracted to provide a number of larger camps and currently has four camps in field ranging from 80 to 213 rooms.

The movement to larger camps impacted both rates and utilisation during the year. Customers have experienced delayed starts to their projects and the impacts have flowed through to RCH. In addition, customers have also sought to bundle products and services. These factors have led to a reduction in room rate to \$109 per room per night though the bundling of services will provide benefits to Nektar and Base Logistics in the future.

Base Logistics was initially launched as a division of RCH but became a standalone operation in July 2014. Darren Bishell has been appointed general manager of the new opportunity, with the Titan Group's chief financial officer, David Thornton, to become RCH's general manager early in the new financial year, once a replacement for his position commences.

Nektar continued to grow and performed strongly during FY14, its second full year of trading since its inception in March 2012.

The business delivered a record EBIT of \$2.6m (\$1.9m in FY13). Margins were in line with expectations, but lower than the prior period because of the shift to higher volume permanent camp contracts.

After securing its first permanent camp contract in the first half of the year for 200 rooms, Nektar has since secured a second permanent camp contract and is now building its capability in this sector to capitalise on further growth opportunities.

In conjunction with RCH, Nektar has appointed business development managers (BDMs) in the Northern Territory and Western Australian markets, as part of the group strategy to expand into new geographic territories.

## **Safety**

Safety remains a key focus for the Group and a number of initiatives have been implemented to improve the outcomes in this area.

Titan, along with the wider industry, uses Total Recordable Injury Frequency Rate (TRIFR) as its primary measure of safety performance. For the year just ended, Group TRIFR was 11.4, a 32% improvement on the prior year (FY13 – 16.9), which is a strong outcome and the result of a continuing focus in this area.

Key safety initiatives included the appointment of a leading consultant in February to help the Group develop the safety culture that is required for Titan to reach best practice in this field. Titan is now five months into an 18-month plan and is already starting to hear positive feedback from employees and clients.

## **Balance Sheet and Cashflow**

The Group has continued to ensure it maintains a strong financial position through the careful management of cashflow and debt levels.

At year-end, Titan had \$8.7 million of net debt and gearing of 12%. Gearing was 19% at 30 June 2013 and 16% at 31 December 2013.

Titan's funding increased with additional capex facilities of \$13.0m, taking total facilities to \$37.7m, of which only \$12.9m is drawn. Titan expects this funding will be sufficient to meet its capital expenditure requirements over the medium term.

Capital expenditure for FY14 was \$14.2m (FY13 – \$9.7m), with the majority of the increase related to the acquisition of Atlas Rig 3.

## **Outlook**

Titan starts the new year with solid foundations and expects continued profit growth and business expansion during FY15.

At this early stage of the year, the company will initially target EBIT growth of at least 14% on the record FY14 result which, if achieved, will deliver an EBIT result in excess of \$21.0m<sup>3</sup>.

This guidance reflects a degree of uncertainty relating to rig contracts for the Atlas business during the second half of FY15.

As announced previously, rigs 3 and 4 are currently being marketed to prospective clients and Rig 1 is off-contract from later this month (August).

The company is proactively taking steps to improve Atlas's contracted position and will update the market of significant future developments.

Titan's growth in FY15 is expected to be driven by:

- Strong growth and a full year contribution from the BASE water and waste business
- Further growth in room utilisation in RCH and improved margins through cost saving initiatives
- Improvement in Hofco utilisation and strong sales growth under the leadership of a broadened management team; and
- Continued growth in Nektar with additional permanent camp opportunities and geographic expansion

Looking ahead, Mr Sturgess said he expected to see more measured growth within the Queensland CSG sector as the major CSG-LNG projects commence the production cycle over the next 20 plus years.

"We are positive about our near-term growth prospects as we look to build on the solid footprint we have already established," he said.

"We see clear opportunities within the CSG sector in Queensland and have strategies in place to diversify into other sectors and into new locations."

## **TTN Full Year Results Conference Call**

Titan will present its results to the market in a conference call that will be held at 11am (AEST) today. Dial-in details for analysts and investors are outlined below.

Time: 11am Thursday, 7 August (AEST)  
Dial-in: +61 2 9007 3187  
Conference ID: 466 815

## **ENDS**

Note

<sup>3</sup> Excludes potential expenditure in relation to the realisation of the contingent liability relating to the retention payment to key personnel of up to \$1.9m remaining under the Hofco acquisition agreement, which is subject to conditions being met. If realised this would reduce targeted EBIT by up to \$1.9m.

For investor or media inquiries:

Mr Jim Sturgess  
Managing Director  
Tel: 0402 890 654

### **About Titan**

Titan Energy Services Limited (ASX: TTN) provides diversified energy and infrastructure services to the oil and gas, mining, pipeline, rail, road and infrastructure sectors.

Through its operating businesses Atlas Drilling, Hofco Oilfield Services, Resources Camp Hire (RCH), BASE Transport & Logistics and Nektar Remote Hospitality, Titan provides expertise in CSG drilling, drilling equipment hire, camp hire and camp management, water and waste transport and catering services.

Titan operates four drilling rigs, is a leading provider of oilfield down-hole tool rental in Australia and overseas, operates and rents remote self-contained camps, provides water and waste logistics services, manages camp catering and camp management contracts.

## APPENDIX

### Summary Results

Annual Result (\$ million unless otherwise stated)	FY14	FY13	Change
Total Revenue	97.4	72.9	34%
EBITDA	23.5	18.9	25%
EBITDA margin - %	24.2%	25.9%	-1.7%
Depreciation	5.0	4.4	14%
EBIT	18.5	14.5	28%
EBIT margin - %	19.0%	19.9%	-0.9%
Interest	1.0	1.2	-16%
NPBT	17.5	13.3	31%
Tax Expense	5.3	4.2	26%
Rate	30.2%	31.7%	-1.5%
NPAT	12.2	9.1	34%
Basic earnings per share – cents	24.3	21.6	13%
Dividends declared per share – cents	7.5	5.5	36%

### Proposed Dividend Timetable and DRP details

Date	Details
7 August 2014	Announcement of Dividend and shares commence trading on a 'cum basis'
13 August 2014	Shares commence trading on an 'ex basis'
15 August 2014	Record date
18 August 2014	Final date for submission of DRP election forms
18 August 2014 to 1 September 2014	DRP pricing period
16 September 2014	Dividend payment date

The shares issued under the DRP will rank equally with existing shares issued by the company.

The ten-day DRP market pricing period of shares sold on the ASX will commence on Monday 18 August 2014. The calculated DRP price per share will be announced on Tuesday 2 September 2014.

Shareholders wishing to participate in the DRP will need to submit their DRP election forms with Link Market Services Limited no later than 5.00pm AEST on Friday 18 August 2014.

Information about the DRP and a complete copy of the DRP rules can be found on the company website at [www.titanenergyservices.com.au](http://www.titanenergyservices.com.au).