

# ASX ANNOUNCEMENT

28 August 2024

## Engenco FY24 Results

- Revenue \$214.8 million
- Net profit before tax (NPBT) \$5.2 million
- Net profit after tax (NPAT) \$3.9 million
- Final dividend 0.5 cents per share, unfranked

Engenco Limited (ASX:EGN), the engineering services group specialising in the transportation industry, today announced a net profit before tax (NPBT) of \$5.2 million, slightly below the prior year (FY23: \$5.5 million). Earnings before interest and tax (EBIT) excluding significant items were \$6.6m, up 10.4% on the prior year (FY23: \$6.0 million), reflecting the positive impact of higher margins. Net profit after tax (NPAT) of \$3.9 million (FY23: \$5.9 million) was lower than the prior year; the prior year result benefited from recognising unbooked tax losses of \$2.5 million.

As advised in the May 1 2024 trading update, the second half was softer than expected, with full year revenue of \$214.8 million (FY23: \$217.1 million). While sales from the Power and Propulsion division grew, Gemco Rail's customers deferred maintenance and Workforce Solutions experienced soft demand.

Results summary	FY24 \$000	H1 FY24 \$000	H2 FY24 \$000	FY23 \$000	% change (FY)
Revenue	214,847	108,311	106,536	217,082	(1.03)
Earnings before interest and tax (EBIT)	7,793	3,175	4,618	7,398	5.34
Earnings before interest and tax (EBIT) excluding significant items*	6,645	3,175	3,470	6,022	10.35
Net profit before tax	5,246	1,998	3,248	5,519	(4.95)
Net profit before tax excluding significant items*	4,098	1,998	2,100	4,143	(1.09)
Net profit after tax	3,930	1,478	2,452	5,932	(33.75)
Net profit after tax excluding significant items**	3,126	1,478	1,648	4,969	(37.09)
Earnings per share (cents)	1.24			1.88	(34.04)
Final dividend (cents) – unfranked	0.5			0.5	-
<p>* Significant items consist of insurance proceeds of \$1,148,000 (FY23: \$1,376,000).</p> <p>** Significant items excluded from net profit after tax represent significant items after applying an income tax rate of 30%</p>					

Dean Draper, Engenco's Managing Director and CEO, said: "It is pleasing that the second half delivered an improvement on first half profitability. In challenging business conditions, we were able to realise the benefits of investment in our platforms. Strengthened margins in Drivetrain and Gemco Rail partially offset the impact of lower Group revenue. This showed the resilience of our operations, and we remain focused on achieving better outcomes for our stakeholders.

"While we had targeted a material improvement in financial performance for FY24, initial revenue expectations were not met. The May 1 trading update outlined factors affecting our Gemco Rail and Workforce Solutions businesses, which impacted this goal.

"Power and Propulsion performed well. Drivetrain improved its market penetration and value proposition to customers, delivering higher margins. Hedemora achieved material revenue growth, although goals for market expansion in North America have not yet been realised. Convair experienced strong revenue growth, but profitability was disappointing, as we were unable to mitigate increased sea-freight costs for orders on hand and experienced adverse foreign exchange movements. Measures to reduce exposure to supply chain costs are now in place.

"Whilst Gemco Rail continues to experience deferral of customer maintenance spend, demand has now stabilised and is expected to progressively return to normal levels in FY25.

"The strategy for Workforce Solutions has been refined in response to softening customer demand for labour hire of train drivers. Trainer utilisation, driven by demand for training programs has returned to previous levels."

"Net working capital reduced, with better management of customer credit and an effective integrated supply chain."

## Operational report

	FY24 revenue \$000	FY23 revenue \$000	FY24 NPBT \$000	FY23 NPBT \$000
<b>Drivetrain</b>	65,054	62,517	8,713	5,193
<b>Convair</b>	31,577	20,681	1,356	1,267
<b>Hedemora</b>	8,321	5,754	1,526	(188)
<b>Gemco Rail</b>	93,597	106,212	9,969	13,095
<b>Workforce Solutions</b>	18,052	23,872	755	586

## Power and Propulsion

**Drivetrain**, the leading supplier of technical products and services to the mining, energy, transport and defence industries, experienced moderate revenue growth from established customers, particularly from the mining and defence sectors. A new Drivetrain branch at Mount Isa was opened in April 2024, providing maintenance support to mining customers. Kovatera mining utility vehicles are now also being sold through a long-term rental model, providing flexibility for customers nationally. Investment in workshop capability contributed to improved productivity. Continued focus on management of cost structures and working capital have realised positive results. There was also material improvement in margins.

**Convair** designs and manufactures tankers for the transportation of dry bulk products and specialised liquids by road and rail. While the business had strong revenue growth, the significant time from customer order to delivery, particularly on imported Feldbinder tankers, exposed the business to increased costs that it was ultimately unable to fully mitigate. Convair continues to have a strong order book and measures to reduce its exposure to supply chain costs are now in place. The Group is exploring opportunities to expand its range of tankers.

**Hedemora Turbo & Diesel** is the original manufacturer of Hedemora turbochargers and Hedemora diesel engines. Hedemora continued its expansion into the turbocharger market, through the HS7800, which offers greater environmental efficiency for rail operators' diesel locomotive fleets. Revenue and profitability increased significantly with the completion of a turbocharger retrofit program in Mongolia. Trials of the HS7800 turbocharger for Canadian rail operator are progressing well.

## Rail

**Gemco Rail** is the leading independent provider of rollingstock maintenance, products, and services to the Australian and New Zealand rail markets. Whilst Gemco was largely able to replace the revenue from a sizeable one-off sale of bearings in FY23 with new repeatable business, deferral of customer maintenance spending throughout the year, impacted revenue. The business remains focussed on aligning services with customer demand, and consequently opened a new wagon maintenance facility in Altona, Victoria, coupled with expansion in Rutherford, New South Wales.

## Workforce Solutions

**Workforce Solutions**, comprising Momentum Rail, CERT and Eureka 4WD Training provides training and employment services to the Australian rail and transportation industries.

The Workforce Solutions division was adversely affected by a softening of customer demand for both labour hire of train drivers and for training courses. This reflects a current shift in customer preference in favour of insourced arrangements. Reduced training sales followed the loss of a key customer contract, the financial impact of which is expected to be recovered in FY25.

During FY24, CERT's quality systems were reviewed and verified by the training regulator, Australian Skills Quality Authority (ASQA). Among recent projects, CERT completed a tailored course for the Mass Transit Railway (MTR) in Hong Kong. Eureka 4WD Training benefited from consistent demand and delivered NPBT in line with FY23.

## **People & Safety**

The healthy, safety and wellbeing of our employees remains our number one priority. We maintain a proactive approach, promoting a culture where everyone takes personal responsibility for safety.

Positively, Lost Time Injuries (LTI) across the Group were down 74% to 1.1 incidents per million hours. Despite this achievement, we faced challenges in maintaining our safety performance in other areas and are not satisfied with the result. Disappointingly our Total Recordable Injury Frequency Rate which had decreased from 22.45 in FY22 to 10.45 in FY23, increased to 18.67 in FY24. In response we are reaffirming our commitment to safety and working across all leadership levels to exhibit behaviours which will foster an even greater safety focussed culture.

## **Digital Strategy**

Engenco has embarked on a technology transformation program to modernise our applications and services, open new digital channels to integrate more closely with our customers and drive innovation. Our transformation will be built on cloud services provided by global scale partners. The initial phase of the program will focus on creating a foundation from which future initiatives including customer integration channels, embedding innovation as a process, and increasing automation can be introduced across our operations.

## **Balance Sheet and Cashflow**

As at 30 June 2024, the Group held net cash of \$4.7 million (30 June 2023: net debt of \$4.5 million). Total borrowings at 30 June 2024 were \$14.3 million (30 June 2023: \$13.0 million). This included \$4.3 million used to purchase the property in Karratha, Western Australia that will support Gemco Rail's operations. The Group's net finance costs were higher at \$2.4 million (FY23: \$1.9 million) with increased borrowings used during the year. Capital expenditure was \$8.0 million.

Net cash from operating activities in the year was \$25.1 million (FY23: \$3.0 million), which included grants of \$6.8 million received through the West Australian Government. Higher cash flow from operating activities in FY24 reflected the benefit of improved working capital management.

## **Outlook**

Mr Draper said: "Current demand for Engenco's maintenance services and product range is steady, and the key transport, mining, defence and energy markets that we serve are robust. We anticipate the trend of our business weighting toward the second half will continue in the new financial year and are cautiously optimistic of the outcomes for the first half of FY25. We expect material improvement in profitability in the second half of FY25.

"Our Drivetrain growth strategy is continuing, providing contemporary, innovative products with increased flexibility for customers. We are implementing measures to improve management of inventory and costs. A strong focus on customers in mining and defence is expected to support revenue growth. Convair has a strong order book and financial risks associated with imported tankers have been passed on to customers. Initial trials of bulk liquid tankers have been positive and provide scope to increase Convair's capabilities in FY25. Hedemora continues to support the Australian Navy's Collins Class submarine program and anticipates further growth in turbocharger sales with multiple rail operators.

“In addition to the wagon builds previously announced for Rio Tinto, Gemco Rail has a strong order book for new wagon builds which enables us to invest in large-scale robotic welding and inspection equipment. New business for wagon repair and maintenance has been secured for our east-coast facilities. The new facility in Karratha continues as planned and within budget. Operations are expected to commence in H2 FY2025.

“The Workforce Solutions business is undergoing significant change. We are investing to redefine operations in Momentum and CERT Training and expect improved performance in FY25. Eureka’s performance is expected to remain strong.”

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

## **About Engenco Limited**

Engenco specialises in:

- Supply, maintenance, repair and overhaul of heavy-duty engines, powertrain, propulsion and gas compression systems;
- Design and manufacture of road and rail transportation and storage tankers for dry bulk & liquid products;
- Product development, manufacture, installation, maintenance and spare parts services for Hedemora Turbochargers and Hedemora Diesel Engines, for customers in all parts of the world;
- Maintenance, repair and overhaul of locomotives;
- Rollingstock manufacture, maintenance, products, and services for the Australian and New Zealand rail markets; and
- Nationally Accredited Training, Contract Labour Solutions and Outsourced Workforce Management for the Australian Rail and other transportation industries.

Engenco services a diverse client base across the defence, resources, marine, power generation, rail, heavy industrial, mining and infrastructure sectors.

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