AUSTIN ENGINEERING LTD
Head Office | ABN 60 078 480 136
Kings Row 1, Level G
52 McDougall Street (PO Box 2052)
Milton, QLD 4064 Australia
P +61 7 3723 8600
E enquiry@austineng.com.au

ASX ANNOUNCEMENT (ASX Code: ANG) **27 February 2019**

Restructuring and Productivity Gains lift Margins and Profit

Austin Engineering Limited (ASX: ANG - "Austin") has delivered a net profit after tax, before one-off charges, of $4.5 million. This represents a 16% increase on the previous corresponding period (pcp) on a reduced asset base as the Company continued to restructure and sell non-core assets. Statutory profit before tax increased 157% to $6.8 million as Austin reduced the level of one-off restructuring costs from prior periods.

Summary of Business Performance

- EBITDA of $11.4 million, up 19% from $9.6 million in the first half of 2018, reflecting a significant improvement in margins from 6.5% to 9.3%.
- Group revenue of $122.1 million, a 17% decline on pcp.
- One-off restructuring costs in the two prior reporting periods were replaced in this half by a $0.4 million one-off net gain from the sale of assets and the payment of redundancy and other costs.
- EBITDA from Australia increased 34% on pcp to $4.7 million as margins improved from 5.4% to 8.0% on reduced revenue of $58.5 million.
- Earnings and revenue from the Americas were impacted by restructuring activities in Peru and Chile. Overall earnings (EBITDA) fell 28% on pcp to $3.9 million, however operations in the USA delivered a material improvement in earnings through production efficiency gains.
- Asian operation continues to generate the highest profit margins, maintaining revenue at $8.0 million and EBITDA at $2.4 million on pcp.
- Net debt and gearing continued to decline as proceeds from asset sales and increased operating cash flows were directed towards the repayment of debt. Net debt reduced by $12.4 million to $33.5 million.
- Significant improvement in cash flow from operations which generated $10.7 million in cash compared to $0.6m in pcp. $8.3 million net cash position at 31 December 2018.

Financial Summary	1H19	1H18 Statutory	Change	1H19	1H18 Normalised*	Change
	$m	$m	%	$m	$m	%
Revenue	**122.1**	146.9	(17%)	**122.1**	146.9	(17%)
EBITDA	**11.4**	9.6	19%	**11.0**	11.5	(4%)
Net Profit Before Tax	**6.8**	2.7	157%	**6.4**	5.5	16%
Net Profit After Tax	**4.8**	4.4	10%	**4.5**	3.9	16%
EPS (cents)	**0.84**	0.76	11%	**0.78**	0.67	16%
Cash from operations	**10.7**	0.6	↑	**10.7**	0.6	↑
Net debt	**33.5**	46.6	(28%)	**33.5**	46.6	(28%)
Net debt (continuing operations)	**22.3**	n/a		**22.3**	n/a	

*Excluding impairment/one-off costs

Results Commentary

Austin's Managing Director Peter Forsyth commented that this half year result is significant, not only for the fact that it demonstrates the strong underlying performance of our core business but also because it is confirmation that after two years of restructuring and laser-like focus on debt reduction, that the strategy is delivering.

"We have seen a significant increase in cash flow which has supported our ability to reduce net debt by $12.4 million since 30 June 2018. Further reductions are expected during the second half with the majority of $13.2 million already raised from asset sales going towards debt repayment."

While Group revenue fell 17% on pcp, normalised EBITDA margins lifted from 7.8% to 9.0%, highlighting the strong improvement in productivity in our Australian and North American operations and reflecting the benefits from revisiting business arrangements that were not delivering as expected"." Mr Forsyth said.

Australia

While Australia's revenue fell 10% on pcp to $58.5 million, the efficiency gains from the extensive restructuring activity undertaken over the past 12-18 months led to the 48% lift in margins from 5.4% to 8.0%. This underpinned the 34% increase in EBITDA from $3.5 million in pcp to $4.7 million. Austin's Perth operations improved EBITDA on the pcp on increased revenue.

On the east coast, Austin's operations in Mackay improved with increased sales from new product into the Bowen Basin. The Aust Bore machining business delivered consistent earnings on pcp and in February 2019 a sale and leaseback was completed on its operating facility for $2.9 million.

Americas

This region now rivals Australia in terms of revenue and profit contribution to the Group. However overall performance in this half was impacted by the ongoing work in Chile and Peru to restructure those businesses. EBITDA (normalised) fell 28% from $5.4 million to $3.9 million on revenue of $55.6 million which fell 25% on pcp as underperforming operations were restructured or closed and unprofitable site contracts exited.

The crane hire business in Chile was closed leaving Austin to focus on its two main facilities in Antofagasta and Calama. Timing differences associated with the deferral of deliveries into the second half also impacted the profitability of Chile which reported an EBITDA loss.

Colombia maintained revenue and profitability consistent with 1H18 while Peru made a marginal EBITDA loss.

Operations in the USA delivered the highest contribution to EBITDA in the region, despite a reduction in revenue due to a significant order being fulfilled in the pcp. Earnings improved significantly through a management team refresh and intense focus by the Production Efficiency Group on improving workshop efficiencies.

Asia

The Indonesian facility has assumed a role of increased strategic importance as a key manufacturing plant for distribution into the Australian market following closure of the Hunter Valley operation in Muswellbrook. During the half it supplied $13.3 million of product to Austin Australia in addition to maintaining its existing revenue ($8.0 million) to external clients in Indonesia and Africa.

Asia contributes around 7% of group revenue (excluding sales to Austin Australia) but operates on high margins (30%) and delivered EBITDA of $2.4 million, consistent with the pcp.

Cash Flow and Working Capital

During the first half cash flow generated from operations was $10.7 million, a significant turnaround from the $0.6 million in the pcp. This was due to a reduction in non-recurring expenditure and unlocking accrued income from long term contracts.

Discipline in relation to management of working capital, resulted in Austin finishing the half with a net cash balance of $8.3 million.

Balance Sheet and Gearing

"Continuing to pay down debt and reduce our gearing remains our primary focus in FY19 as we work through the final stages of the restructuring program. Net debt was reduced by $12.4 million during the half to $33.5 million and this will be further reduced as the majority of the $13.6 million in proceeds from the recent sale of the Chile crane assets and property together with the Aust Bore sale and leaseback are applied to the repayment of debt."

"We are confident that the majority of the remaining assets for sale, with a combined book value of $7.9 million will be sold before the end of FY19, giving us the option to reduce debt further or allocate the funds to other capital management activities. Regardless the Group now has a strong balance sheet, is financially stable and is ready for growth opportunities" Mr Forsyth said.

Outlook

The outlook for capital expenditure among Austin's client base remains positive as new surface mining equipment deliveries continue to trend upwards and projections for spending by mining companies indicate sustained growth in capex budgets over the next 2 years.

All key commodities, including those that Austin's operations currently have greatest exposure to, namely iron ore, copper and coal, are expected to remain in strong demand over the next 2-3 years.

Based on our current order book, committed work and tender opportunities, Austin's guidance of an EBITDA (normalised) of $25–$28 million for FY19 remains unchanged. Around 80% of our projected revenue for the year relates to firm orders and committed work which is in line with the same time last year. Austin has a large number of opportunities in the pipeline that we are confident of converting based on our strengthening client relationships combined with market ready key innovation products.

End

For further information contact:

Peter Forsyth – Managing Director on +61 7 3723 8600
Sam Cruickshank – Chief Financial Officer on +61 7 3723 8600

About Austin Engineering: An Australian based engineering company, headquartered in Brisbane, with operations in Australia, Asia, North and South America. In Australia Austin manufactures, assembles, repairs and maintains (on and off-site) products used in the mining and resources sector. Key product lines include dump truck bodies, water tanks, excavator buckets and materials handling equipment. In Australia and South America specialised field services to the mining industry are provided by Austin's site services divisions. The equipment and service needs of mining and oil and gas-related customers in Asia are delivered through a world class production facility on Batam Island in Indonesia. Austin's facility in the USA is based in Casper, Wyoming and is an industry-leading designer and manufacturer of high-efficiency dump truck bodies and water tanks. It services the North American, Mexican and Canadian mining markets. In South America, Austin has operations located in Chile, Peru and Colombia that manufacture, repair and maintain dump truck bodies and other mining products for their respective markets. For more information visit www.austineng.com.au