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Austin Engineering Ltd – Half Year Results to December 2014

Financial Overview

	HY 14-15	HY 13-14	%
	$m	$m	Change
Revenue	102.05	106.41	-4%
EBITDA*	9.04	8.22	+10%
NPBT*	1.80	1.15	+57%
NPAT**	(41.6)	0.86	-4,937%
Net assets	128.31	172.66	-26%
Basic earnings per share	(49.36)cps	1.17cps	-4,319%
Interim dividend per share	-	4.5cps	-100%

***Excluding impairment/one-off costs**
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Brisbane, 27 February 2015: Austin Engineering Limited (ASX trading code: ANG) has today announced half-year revenue of $102.1m and normalised EBITDA of $9.0m, which is consistent with the two prior comparative periods (1H FY14 and 2H FY14). The result was impacted by subdued capital spending in the mining industry.

Review of Operations
Conditions remained subdued within the mining industry despite increases in production levels across the commodity bases. The current half reflects the two prior comparative periods which shows a stabilisation of the bottom of the market, for the range of services Austin supply. Miners' increasing operating expenditure budgets are now playing a major part in the Company's base revenue model.

Revenue for the Australian business units decreased slightly over the previous period. The main workshop facilities in Perth, Western Australia experienced lower demand in the period due to a continuation of the deferral of truck body replacement cycles by major clients although maintenance revenue picked up considerably. Both the Perth and Pilbara hire operations performed as per budget and were able to add new clients to the Company. The business units on the eastern seaboard of Australia, which mainly service coal mining operations, suffered reduced and inconsistent levels of activity due to cost reduction programs by miners and contractors, although recent major tenders suggest some uplift may be forthcoming.

The Americas produced a result below that of the previous corresponding period with revenue down across the board. Westech produced a good normalised result with market conditions similar to the last 18 months. Westech continues to enjoy significant success with its products sold into all parts of the USA, Canada and delivery of its first products into Mexico during January. Westech's result was affected by abnormal legal costs incurred in its vigorous defence of patent infringement claims in the US which it considers cynical and unmeritorious. The Servigrut operation produced an excellent result ahead of budget and has long term contracts in place. The Calama maintenance operation, in its first full 6 month period, performed well winning a number of long-term contracts and is confident of further success within the next 3 months. The La Negra operation produced a result below budget with delays in the placement of orders. The recently announced Collahausi contract has only just commenced to provide the vital base load needed and the operation has been profitable over the last 2 months. A significant amount of tenders are outstanding.

The group's Indonesian business unit on Batam Island produced an excellent result. The operation has a number of contracts which provide work loading well into the first half of the next financial year and will produce a record result for the current financial year.

Normalised NPBT of $1.8m was slightly up on the prior corresponding period. NPAT of ($41.6m) was down on the prior corresponding period, reflecting $40.9m of impairment charges and $3.5m of one-off charges, which is a result of subdued capital expenditure in the mining industry.

CEO Michael Buckland commented on the half-year result saying "The group's performance for the half was on par with the prior periods and reflects a stabilisation of Austin's market. Despite the industry continuation of reduced expenditure while increasing production levels, the Company was able to increase its gross margin percentage versus prior years".

Review of Operations (continued)

"Austin is very well positioned to capitalise on any increase by miners in replacement and new expenditure within a recovery cycle. We anticipate that customers will continue to be seeking productivity gains from their capital allocations for equipment that has exceeded its life cycle. Austin's range of customised products is designed specifically to customer specification to achieve productivity advantages."

Net Assets

Net assets of $128.3m at December 2014 were down by 26% from $172.7m at December 2013. The decrease reflects the impairment recorded during the period, dividends paid in March 2014 and foreign currency translation differences relating to balance day adjustments on foreign equity balances, offset by shares issued in February 2014 in relation to a share purchase plan. At December 2014 the net tangible asset backing per share of 81.4c reduced by 14% from 94.7c for the December 2013 half-year period.

Cash Flow, Liquidity and Debt

Operating cash flows for the half-year to December 2014 were positive $5.2m. This was due to stock reduction initiatives, extended payment terms with suppliers and improved operational efficiencies.

Non-operational cash flows for the half-year included $1.7m spent on capital expenditure projects, the most notable of which was equipment for a new contract in Colombia. Other non-operating cash flows included net repayments of $5.3m, partially offset by $4.3m funds released from escrow in relation to land in Calama.

Dividends

Since the end of the half-year, the Directors have not declared an interim dividend for the financial year ending 30 June 2015 (2014 – 4.5 cents per share).

Outlook

CEO Michael Buckland said that mining companies are continuing to highlight cost cuts and increased usage of equipment and productivity gains, despite increases in production levels.

Maintenance expenditure has increased under operating expenditure budgets and Austin is uniquely positioned to be able to provide services for this, as well as offer solutions for increases in productivity. The Company has a number of long term contracts in place and this is allowing us to converse directly with clients regarding how to optimise their fleet. These types of contracts will continue to provide an excellent revenue base for the Company and in turn lead to further replacement products manufactured in our workshops.

The Company has been able to maintain its gross margin despite offering clients further decreases in the prices of our products. This has been achieved through design changes and reductions in the major components of our products.

New products are continually being developed and during the past 6 months the Company has released another two products that once proven, have the potential to add significant revenue to the Company.

We are also seeing for the first time in 18 months major tenders for the coal industry of Australia and should the Company be successful with any of these, a significant increase in EBITDA levels on the East Coast will follow.

New covenants have been agreed effective from 31 March 2015, which reflect the Company's debt reduction strategy (principally based around realising existing surplus assets) and internal forecast trading results and cash flows over the next 12 months.
Austin enters the second half of the financial year with forward orders above that of the prior three (1H FY14, 2H FY14 and 1H FY15) comparative periods and with a significant amount of tenders outstanding. Should the current tenders convert to orders at the current rate, the Company will see an improved result in the second half of the 2014/15 financial year.

End

For further information, contact Managing Director Michael Buckland or Chief Financial Officer Scott Richardson on +61 7 3271 2622.

About Austin Engineering: Austin Engineering Limited is an engineering company with manufacturing facilities in Australia, the USA, South America, and Indonesia. The Australian facilities manufacture, assemble, repair and maintain (on and off-site) products used in the mining and resources sector. Key product lines include dump truck bodies, large service vehicles, excavator buckets, materials handling equipment, mineral processing equipment, industrial radiator and cooling products as well as large structural steel projects. The USA facility (Westech) based in Casper, Wyoming, services the North American and Canadian mining markets and is an industry-leading designer and manufacturer of high-efficiency dump truck bodies. The operations located in Chile, Peru and Colombia manufacture, repair and maintain dump truck bodies and other mining products for their respective markets and, in Chile, also provide specialised heavy equipment lifting and transportation services for mining and industrial markets. The Indonesian production facility on Batam Island serves the equipment and service needs of mining and oil and gas-related customers in Indonesia and Asia. Austin also own rights to innovative and automated welding processes and these have been introduced into operations in order to improve production efficiencies. For more information visit www.austineng.com.au.