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Austin Engineering – Half Year Results to December 2013

Financial Highlights

	HY 13-14	HY 12-13	%
	$m	$m	Change
Revenue	**106.41**	**156.98**	**- 32%**
EBITDA	**8.22**	**30.05**	**- 73%**
NPBT	**1.15**	**23.95**	**- 95%**
NPAT	**0.86**	**17.21**	**- 95%**
Net assets	**172.66**	**135.61**	**+ 27%**
Basic earnings per share	**1.17cps**	**23.80cps**	**- 95%**
Interim dividend per share	**4.5cps**	**4.5cps**	**-**

Brisbane, 26 February 2013: Austin Engineering Limited (ASX trading code: ANG) has today announced half-year EBITDA of $8.2m and NPAT of $0.86m consistent with guidance provided in December 2013. The result was due to very subdued business conditions in the period. Net assets increased 27% due to the successful capital raising in December 2013.

A much improved performance commencing in March 2014 is expected due to contribution from Servigrut, new maintenance contracts secured in the first half, the Vale contract and anticipated new contracts.

Underlying productive performance was solid and existing operations have maintained margins in difficult conditions, with the overall Group margin in the period increasing to 35% (up from 31% in the prior corresponding period) as a result of new business in South America. The Company overall has maintained its market share and has made some important gains in key South American markets.

Review of Operations

Business conditions and the associated workload for the period to the end of December 2013 were much quieter than anticipated for Austin. This reflected constrained capital spending in the mining sector which delayed expenditure on new and replacement equipment and maintenance programs. This in turn resulted in much lower utilisation of productive capacity and directly impacted results.

Revenue for the Australian business units decreased by 43% over the previous year. The main workshop facilities in Perth, Western Australia experienced lower demand in the period due to the slow-down in equipment capital expenditure and the deferral of the truck body replacement cycle. The business units on the eastern seaboard of Australia, which mainly service coal mining operations, also had reduced levels of activity due to cost reduction initiatives by miners and contractors. The COR Cooling business produced a result in line with expectations for the period.

The Americas generated a very similar level of revenue to the previous year. The Westech business in North America produced a relatively consistent result against a background of flat market conditions. The La Negra manufacturing operation in Chile produced a lower than expected result due to reduced expenditure on equipment by miners as well as a delay in the award of the Vale contract (since won as announced in January 2014). The Calama operations in Chile, comprising of on and off site repair and equipment lifting services, produced a satisfactory result. The Servigrut business, which was acquired in October 2013, performed very well in the three month period to December 2013. The Peru operation produced a result below budget due to a number of expected maintenance contracts not eventuating as expected. However in December 2013 this operation completed the company's first shovel dipper which was an important milestone as a significant market for this product exists throughout South America. The Colombian workshop facility in Barranquilla produced a result below budget with clients holding off purchases due to lower than expected coal pricing.

The group's Indonesian business unit on Batam Island experienced very low revenue contribution from mining products. This was due to difficult market conditions in the regional mining sector; however the operation was successful in securing more oil and gas-related manufacturing work.

The company has a 50% interest in the Majan Aluminium Services Company, which had previously undertaken a number of projects related to the aluminium smelter industry in the Middle East. These projects have now ceased and this joint venture is in the process of being closed.

EBITDA was lower than the previous corresponding period with reduced activity levels, inconsistent workloads and an associated reduction in overhead recoveries impacting the result. However gross margins showed solid growth to around 35%, reflecting the above average margin contributions from the new business acquisitions in South America and a general improvement in internal efficiencies.

NPBT of $1.2m and NPAT of $0.9m were both down on the prior corresponding period, reflecting the movements in the underlying EBITDA result. The depreciation expense of $5.1m for the period was up on the prior period level of $4.3m due to additional depreciation charges from investment in new facilities in Indonesia and South America. Additional interest costs were incurred on the draw-down of bank loans to finance the acquisition of the new Servigrut operation in October 2013.

CEO Michael Buckland commented on the half-year result saying "The group's performance for the first half of FY 13-14 was lower than anticipated but was still within the earnings guidance range communicated to the market in December 2013. The result was primarily impacted by well-publicised expenditure reductions by large miners, despite elevated and in some cases increased levels of production."

"Underlying productive performance remained good in the period and an encouraging improvement in gross margins was realised which will be of benefit when business conditions return to normal. It was also pleasing that there was no loss of available market share and some important gains in market share were realised in various regions."

"Business conditions in the first six months of the current financial year were much quieter for the group's operations. Further investment in South America has caused some higher costs in the first half of this year in the form of setup costs for new contracts and projects. The benefits of these will start to be seen from March 2014 onwards" he said.

Net Assets

Net assets of $172.7m at the December 2013 half-year end were up by 27% from $135.6m at December 2012. The increase reflects the proceeds from the $30m equity raising undertaken in December 2013, partially offset by the FY 12/13 final dividend payment of $7.7m. At December 2013 the net tangible asset backing per share of 94.7c rose by 40% from 67.5c for the December 2012 half-year period.

Cash Flow, Liquidity and Debt

Operating cash flows for the half-year to December 2013 were a net negative $3.2m. This was due to the utilisation of advance payments from customers obtained in prior periods for work done in this period, the short term deferral of some customer receipts and higher than normal steel stocks in South America in anticipation of new orders that have now been won.

Non-operational cash flows for the half-year included $14.0m spent on capital expenditure projects, the most notable of which were the purchase of a new workshop facility in Calama Chile and a 43,000m² block of land in Peru for future expansion. Other non-operating cash flows included $11.1m on the acquisition of the Servigrut business in Chile, a $0.5m distribution from the joint venture in Oman and $7.7m expended on the final dividend payment for FY 12/13. $45.3m of new net borrowings consisted of the funding of the acquisition of Servigrut and the pullback of cash previously offset against debt in June 2013.

The net gearing ratio (net debt/net debt plus equity, including the value of issued bank guarantees) of 32.3% was up from 30.9% at June 2013 but was comfortably within bank covenant requirements.

Dividends

A fully-franked interim dividend of 4.5c per share has been declared, consistent with the previous year's interim dividend of 4.5cps. The record date for determining entitlement to the interim dividend is 7 March 2014 with payment being made on 28 March 2014.

Outlook

CEO Michael Buckland said that the second half of FY 13/14 will see a continuation of the challenging business conditions facing the industry. However Austin is expected to have a significantly better second half due to the level of current and expected orders as well as a full period of contributions from Servigrut.

"The curtailment of expenditure by miners on equipment and maintenance services may be justified in the short term to improve profitability. However the deferral of such expenditure is not believed to be sustainable as equipment wears out and begins to impact operational productivity and output. Accordingly demand for Austin's products and services, which are closely linked to the mining production phase, is expected to become more normalised as miners continue to operate at high levels of production."

"Additionally, Austin is now winning multi-year contracts with key mining customers as confirmed by the Vale contract announced in January 2014. It is also broadening its revenue base by securing more on and off-site maintenance work such as the Gaby, Ministro Hales and El Tesoro contracts for Codelco and Antofagasta Minerals announced over the past six months. All of these contracts together with further contracts to be secured in the coming months will lead to sustainable earnings for multiple years."

"Full-year EBITDA guidance has been adjusted down to a range of $37m-$41m, compared to the previous full-year EBITDA guidance provided of $40m-$50m. This is due to delays in the commencement of a number of orders Austin has on hand as well as delays in the confirmation of a number of major projects previously included in the forecast. To maintain the adjusted full-year EBITDA guidance Austin needs to win a number of current tenders by the end of March 2014. Due to this uncertainty, the full-year EBITDA guidance may be subject to variation depending on the commencement, award and size of these projects."

"Expansion of the business, through the establishment of operations in emerging mining markets such as Africa and by adding new complimentary products and services to the existing range, will also continue to be actively pursued to realise revenue and profit growth in the future" he said.

End

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