

26th February 2015

ASX announcement



Mastermyne Group Limited – FY2015 Half Year Results

Key highlights for the financial half year include:

- Continuing to maintain a strong market position and well placed as the sector recovers
- Maintaining a strong balance sheet after substantial investment
- DMS acquisition will provide a platform for diversification and growth and will enable us to move into new sectors
- Market conditions will remain subdued through the remainder of H2
- Continued focus on safety with TRIFR remaining similar to previous period at 3.54
- Revenue of \$77.7 million (guidance range of \$75-\$80 million)
- Underlying NPAT of \$0.013 (guidance of breakeven)
- Order Book (including DMS) \$317m with \$80 to be delivered in the 2nd half of FY2015 (excludes recurring and purchase order work)
- Tendering Pipeline at \$1.66 billion
- Second Half guidance: \$95-\$100 million of revenue and NPAT of \$0.8-\$1.2million

Leading underground coal contractor Mastermyne Group Limited (ASX Code: MYE) (“Mastermyne” or “the Company”) today released its Half Year results which were in line with the guidance provided to the market in November 2014. Revenue was similar to the prior corresponding period (up 0.6%) with underlying NPAT at breakeven. The Company generated \$7.2 million in free cash flow during the half year and net debt reduced to \$4.8 million after the acquisition of leading Engineering and Maintenance provider Diversified Mining Services (DMS).

Mastermyne’s Managing Director, Tony Caruso said, “We are pleased to have maintained our strong market position over the first half and we have successfully retained a strong order book with no loss of major contracts or customers. The sector continues to focus on short term cash costs and whilst we have benefited from increased production we aren’t seeing many new major project opportunities and in particular projects that would see the utilisation of the company’s development fleet. The first half saw us complete a number of short term projects and this will continue into the second half. To date the company has tendered and won \$18 million of these shorter duration projects which will be delivered starting from March 2015”.

In the first half the Company delivered on two major strategic objectives, renewing the Anglo Drivage contract and the acquisition of Diversified Mining Services. Mr Caruso said “achieving both of these objectives was a pleasing result and they will be integral to the Company’s longer term growth. The Anglo contract will position us for the next 3 to 5 years with Anglo American as they continue to ramp up their underground coal operations and the DMS acquisition provides the platform to expand our services and customers as well as provides us entry into new sectors”.

Operations Overview

Over the first half we have continued to see operators focus on reducing costs and increasing production. This has underpinned the project work and seen our workforce numbers remain static on the

major projects. We have also seen an increase in short term projects where operators are utilising the services of contractors for defined pieces of work and immediately demobilising the workforce when the work has been completed. This is in line with minimising costs and using a contractors workforce as a flexible turn-on turn-off alternative to full-time or long-term employment. Over the first half we have also seen operators reducing internal workforce and staff to again minimise the cost of operations. The Company's links to production and long established operations have seen the revenue remain resilient compared to construction and greenfield organisations that have seen few revenue opportunities.

In the first half the Company successfully undertook a number of short term projects and this will continue into the second half. To date approximately \$18 million in short term projects have been secured for the second half and the tendering pipeline has a number of similar projects. These works have relatively short mobilisation periods and whilst they make forecasting difficult they can contribute revenue immediately as opposed to major projects which typically require several months of planning and mobilising before contributing revenue.

Safety performance remains a focal area of the business and we have continued with our strong proactive safety focus. Although the number of actual injuries has decreased over the period injury rates have increased slightly as a result of the reduced man hours. Second half safety focus will be on improving on the first half performance and integrating the workforce and management systems of the recently acquired DMS business.

Whilst there remains a reasonable pipeline of major projects we continue to see projects deferred as operators focus on preserving cash. The first half has seen at least one major project deferred after the Company had been awarded preferred tender status.

Our Engineering division delivered a solid result in the first half primarily due to a large fabrication contract with Anglo American to supply a number of items for the new Grosvenor Mine. This order book along with strong sales in the consumables business has underpinned the first half result. Consumables sales remain strong as operators focus on increased production. Consumables sales are inextricably linked to underground coal production. During the period we have also seen an increase in refurbishment work as existing equipment is repaired and rebuilt in lieu of purchasing new equipment.

During the first half the Company undertook the acquisition of a niche engineering and maintenance company. The Diversified Mining Services (DMS) acquisition was completed on the 23rd of December 2014 and will diversify the Company's revenue streams through a range of services predominately targeted at above ground infrastructure in coal and other sectors. There are substantial synergies between the organisations and since completion of the transaction the Company has put in place over \$3.5 million in annualised overhead savings. The work and contracts of DMS are similar in structure to the Mastermyne contracts. Already we have seen an increase in tendering opportunities from our existing customers through the expanded capability and similarly DMS has provided the Company with new and expanded customer base. We continue to explore the cross selling opportunities and also look for new tender opportunities. To date we have secured work at one new port and are tendering at a second.

With the acquisition of DMS, Mastermyne will create a new business group with effect from 1 January 2015 to complement the existing production based mining operations. The Mastermyne Group will now operate under two main business groups – Mastermyne Mining Services and Mastertec Products and Services. Mastertec Products and Services Group integrates the services previously provided through DMS and incorporates the existing Mastermyne Services and Engineering divisions. This group comprises three project based divisions: Industrial and Maintenance - includes piping, protective coatings and access solutions; Fabrication and Machining - includes design, drafting and manufacture of

high quality machined products, and Engineering and Technical - includes project scoping, design and management.

During the first half the existing Mastermyne Services Division has been primarily focused on the acquisition and integration of the DMS business. As a result of this and the increased competition and deferral of project construction work no revenue was contributed by this division in the period.

At the completion of the first half the Company's order book is \$317 million, inclusive of DMS, with approximately \$80 million to be delivered in the second half of FY2015. Recurring and purchase order work sits over and above this order book number. In the first half the Company successfully rolled over the Moranbah development contract and successfully increased this scope to include all Anglo underground operations. This contract renewal is very strategic as Anglo brings on line their new Grosvenor underground mine.

In the first half we have seen margins compressed by approximately 2.6%. The compression in margins has been driven by the competitive tendering environment and the continued deterioration of the equipment utilisation. Margins are forecast to remain similar in the second half.

The significant operational highlights for the financial half year include:

- Continuing to maintain a strong market position and well placed as the sector recovers
- Maintaining a strong balance sheet after substantial investment
- DMS acquisition will provide a platform for diversification and growth and will enable us to move into new sectors
- Market conditions will remain subdued through the remainder of H2
- Continued focus on safety with TRIFR remaining similar to previous period at 3.54
- Revenue of \$77.7million (guidance range of \$75-\$80 million)
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- Order Book (including DMS) \$317m with \$80 to be delivered in the 2nd half of FY2015 (excludes recurring and purchase order work)
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Outlook

With little change expected in the second half the Company forecasts a similar result to the first half. Operators have seen some relief from the exchange rate however coal prices are not expected to increase materially from current levels. This will see the focus remain on preserving cash which will most likely result in deferred projects pushing out past the second half. The Company will focus on its diversification strategy utilising the DMS acquisition as the platform to expand the tendering pipeline to include surface infrastructure both within and outside the coal sector.

Mr Caruso concluded by saying, "The first half results were impacted by project deferrals and noticeably more competition for projects but the Company maintains a strong market position amid continuing tight trading conditions".

Further information:

Tony Caruso – Chief Executive and Managing Director: (07) 4963 0400

Chris Kneipp – Company Secretary: (07) 4963 0400

Colin Bloomfield – Chairman: (07) 4963 0400

Or visit www.mastermyne.com.au

About Mastermyne

Mastermyne Group Limited (ASX:MYE) was established in 1996 and is a leading provider of specialised services to the Australian Resources and Infrastructure industries. Mastermyne listed on the ASX on 7 May 2010.

It has two operating divisions, **Mastermyne Mining Services Group** a leading provider of production based underground coal mining services and **Mastertec Products and Services Group** comprising of three project based divisions: Industrial and Maintenance (includes piping, protective coatings and access solutions); Fabrication and Machining – (includes design, drafting, fabrication and manufacture of high quality products), and Engineering and Technical – (includes project scoping, design and management).

Based in Mackay Queensland, Mastermyne has operations in Queensland's Bowen Basin and the Illawarra and Hunter Valley regions in New South Wales.

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