21st February 2017

ASX announcement

Mastermyne Group Limited – FY2017 Half Year Results

Key highlights for the financial half year include:

- First half loss as a result of weaker revenue
- Overheads reduced by 37% compared to H1 FY16
- Secured $126 million of new contract wins and extensions late in the first half which underpins increasing revenues for the second half and into FY18
- Order Book has increased from $123 million at June 2016 to $241 million with approximately $50 million to be delivered in the second half of FY17 (in addition to purchase order and recurring work)
- Debt reduced by an additional $2.9m during H1 2017, maintaining strong balance sheet
- Significant increase in tender activity as clients pursue mine development work previously deferred
- Tendering Pipeline at $860 million
- Second half outlook returning to profit

Mastermyne Group Limited (ASX Code: MYE) ("Mastermyne" or "the Company") today released its Half Year results noting the strong finish to the half year with $126m in contract wins and extensions and a significant reduction in overhead costs.

The Company flagged in its FY16 full year results that it expected to see a softening in revenue in the first half based on the timing of projects expected to run off, which has been the case. The Company was well advanced in rebasing its cost structure to offset the decline in revenue with restructuring of overheads and consolidation of its business units having commenced back in April 2016. The result was a reduction in overheads of 37% compared to the prior period.

The Company recorded a loss after tax of $1.5 million for the half year ended 31 December 2016. This result is down on the previous corresponding period (net loss after tax for the half-year ended 31 December 2015 of $0.5 million).

Revenues of $56.9 million represented a decrease of 42.9% on the previous corresponding period ($99.7 million for the half-year ended 31 December 2015). The reduced revenues were primarily attributed to run off of contracts in the mining division and the closure of non-core revenue streams in the Mastertec division. Margins were down in the first half as a result of one off costs on three Mastertec projects, costs associated with the mobilisation of the recently awarded Appin Contract (with corresponding revenue not ramping up until January and February) and the lower Mining division activity and employee numbers.

The Group maintained its focus on reducing debt with an additional reduction of $2.9 million during the half-year ended 31 December 2016. The overall cash position decreased during the half-year which was largely the result of the timing of Debtor payments. Consistent with the previous two reporting periods the majority of these overdue debtors were paid in the first week of January 2016.

Mastermyne's Managing Director, Tony Caruso said, "We have had a strong finish to the calendar year and that has continued into the start of this year. The recent contract wins, which are in the process of mobilising now, will see a return to profit in the second half and a much stronger performance in FY2018". He also noted "we have seen a material increase to our order book with several tendered opportunities still pending".

Operational Overview

Our strong focus on safety continues to be core to what we do. Our leading indicators of safety performance clearly demonstrated the efforts our people make to ensure safe workplaces. Despite this we were unable to continue the downward trend in injury rates due to an increase in injuries at two of our project sites. All other sites maintained an excellent safety performance over the six months. Comparatively our TRIFR has increased from 8.4 (1.68 using 200,000 hrs) at June 2016 to 13.2 (2.63 using 200,000 hrs) at the end of December.

The recent recovery in coal prices has resulted in a significant increase in tender activity, in particular roadway development contracts. Workforce numbers are increasing from January 2017, based on new work already secured, and will continue to increase through to March / April this year. This will increase the Mining division revenue and profits for the 2H17 and throughout FY18. Development equipment demand has also increased on the back of a number of roadway development tenders released late in the second half of FY17.

At the completion of the first half the Company's combined order book has increased from $123 million to $241 million. Of this total order book approximately $50 million will be delivered in the second half of FY17 along with recurring and purchase order work.

Mastermyne Mining

The Mining division has delivered a solid financial result exceeding revenue expectations across the majority of sites. However, the end of the Grosvenor Civil, Development and Umbrella contract and other smaller Queensland sites during the course of the last financial year has resulted in an expected reduction in revenues from the comparative period last year. The latter half of 1H17 has seen an increase in the number of mining contract tenders received, many of which will be awarded early in 2H17. Of significance to date, Mastermyne was awarded a new 2 year contract at Appin Colliery valued at approx. $25 million per annum. This represents a much larger scope than the superseded contract.

The Mining division has also secured:

- an increase in scope on a Qld project to include a roadway development crew starting in March 2017;
- the hire of a continuous miner into a NSW site; and
- preferred tenderer status on a roadway development tender also in NSW.

At the end of year there was a further 3 roadway development contracts that the Company has tendered, two of which require the contractor to engage its own roadway development equipment to carry out the long term projects.

Mastertec

The Mastertec division underwent a significant restructure during the course of FY16 which included consolidating the services offered through this division and the closure of several workshops. The discontinued activities were non-core and do not erode the long term strategy for the Mastertec business which focuses on scaffolding and protective coatings work on major infrastructure and ports on a long-term contract basis.

The restructuring has resulted in an improvement in the financial position for the half year but the result was undermined by three under-performing projects and workshop warranty costs. These events were one-off in nature and will not be repeated in the 2H17 results given these projects have concluded and are non-core to Mastertec going forward.

The Mastertec division has also seen increased tender activity late in the half with the awarding of a contract at the NCIG port in Newcastle and the notification of preferred tenderer status for a multi-year scaffolding contract with a tier 1 mining company in NSW encompassing their coal handling preparation plants and port facility. Both of these projects are core to Mastertec's strategy and will commence in the second half of FY17.

Outlook

The improvement in the coal price in the latter part of 2016 has resulted in a significant increase in activity, particularly within the Mining Division. The awarding of the Appin contract, being preferred tenderer on a NSW road way development tender along with the scope increase on an existing Qld project to include a roadway development workforce will underwrite a stronger performance in the second half.

In addition to the above contracts there are also a number of projects still pending early in the second half including three roadway development tenders. The work already secured along with the tenders pending are all long term contracts that will continue into FY18 and beyond.

The Mastertec division is also showing signs of a stronger second half with project wins in NSW that will commence in the second half. Overall the outlook for the Mastertec division remains subdued in the short-term compared to the Mining division as we are still experiencing strong competition and less opportunities in the engineering and maintenance sector. However, the stronger tender pipeline in this area is likely to contribute to a recovery of revenue in FY18.

The recent contract wins along with the tender projects in the pipeline and overhead reductions delivered in the past 12 months will deliver stronger second half revenues for the Group and a return to profitability in the second half and throughout FY18.

Further information:

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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 coal mining industry. Mastermyne listed on the ASX on 7 May 2010.

It has two operating divisions, Mastermyne Mining (underground roadway development, installation of conveyors and longwall relocation), Mastertec Products and Services (access solutions (scaffolding & rigging), protective coatings, pipeline services, structural, mechanical, electrical & line boring, fabrication & machining)

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