mastermyne
Group of Companies

19th February 2019

ASX announcement

Mastermyne Group Limited – FY19 Half Year Results

Mastermyne Group Limited (ASX Code: MYE) ("Mastermyne" or "the Company") is pleased to announce its Half Year results. Mastermyne has continued to capiltise on the strong coal market recovery and is well positioned for future growth. For the half year ended 31 December 2018 the Company recorded a profit after tax of $3.2 million. This result is a significant increase on the previous corresponding period, which was a net profit of $1.8 million.

Revenue in the period of $116.8 million was an increase of 28% on the previous corresponding period ($91.0 million). The increase in revenue is attributed to the award of new contracts in the mining division along with scope increase and extensions of existing mining contracts. Despite the increase in activity and revenue, the overhead cost has remained relatively unchanged. EBITDA for H1 FY19 was $9.3 million with an EBITDA Margin of 8.0% compared to 7.3% in the previous corresponding period.

A significant focus on debt reduction has resulted in a Net Cash position of $2.5 million at the end of the period (compared to a Net Debt position of $3.5 million at the end of FY18). The outstanding cash advance facility of $1.5 million is expected to be fully repaid by 30 June 2019. The Company maintains substantial capacity in its current bank facilities to support growth investment as momentum in the sector continues to improve.

Whilst the Company's balance sheet is much improved, the Board remains conscious of the cyclic nature of mining services and the lack of support from financiers in low parts of the cycle. For these reasons, the company won't pay a dividend for this period.

The Company retains previous guidance for Revenue ($230-250 million) and EBITDA ($20-23 million) excluding any opportunities from whole of mine contracts.

Mastermyne's Managing Director, Tony Caruso said, "the continued strong financial performance, significantly improved order book, our favourable position as the leading underground coal contractor, and a robust coal market outlook has Mastermyne well positioned to capiltise on the continuing strong market conditions."

Operational Summary

Key highlights for the half year include:

- 9 sites had zero recordable injuries and Mastermyne's injury rate continues to improve;
- Significant increase in roadway development meters;
- Workforce numbers continue to increase with a forecast workforce of 1250+ by year end;
- Equipment hire fleet ultilisation of 86%;
- Strong first half financial performance with stronger H2 based on current run rate and new projects;
- Significantly improved Order Book at $489 million (includes Anglo contract extension) with $324 million contracted beyond FY19; and
- A positive industry outlook including Brownfield and Greenfield expansion is supporting a strong pipeline.

The Company is very pleased with the safety outcomes achieved across all the projects with nine stand out sites that worked the entire period without a recordable injury. The Company also boasts six projects that have achieved over twelve months without a recordable injury. The relentless focus on building a self-supporting safety culture underpins the strong result, and the Company continues to challenge the safety management paradigm with pleasing results. Lagging safety performance continues its overall downward trend with the Total Recordable Injury Frequency Rate of 7.7 remaining below the last published industry average.

During the period Mastermyne has operated a record seven development units. The total output of these units was also a record for Mastermyne since its inception. This, and the general strength of the market has delivered growth in the workforce and increased man hours across all projects. These results are being driven by a buoyant coal sector which continues to deliver record levels of coal production for the export market. These high production levels will continue to support strong demand for mining services, and in turn underpin continued growth for the Company.

Whilst up compared to H1 FY18, revenue and margins were affected by the suspension of the North Goonyella contract and difficult mining conditions incurred on the Narrabri and Wambo unit rate development contracts. Both the Narrabri and Wambo contracts will see improved margins in the second half as these contracts were renegotiated with better terms insulating the Company from the full impact of poor mining conditions.

The Company has maintained its strong focus on a low overhead base with only minimal escalation to support the increased activities. Subsequently, overheads have materially decreased as a percentage of revenue, resulting in improved EBITDA margins. Overheads will remain largely unchanged in H2 FY19 and are expected to continue to decrease as a percentage of overall revenue.

Over the past six months the majority of the equipment fleet has been hired out and where the opportunity has presented, improved hire rates have been secured. Capital investment of $3.7 million was expended to overhaul the Company's mining equipment for hire into new contracts. As a result, the group's equipment utilisation rate improved to 86%, and has been a strong contributor to the improvement in the EBITDA margin. With the ongoing demand for mining equipment the Company has taken the opportunity to acquire additional equipment which has also been placed on hire. Whilst the demand for equipment remains strong there has been no material change in the availability of equipment or the introduction of new equipment and the company continues to leverage the fleet to secure further work and stronger pricing.

The Mining division has underpinned the strong first half performance with revenue of $100.5 million, representing a growth of 30% from H1 FY18. The division has successfully secured contract extensions on several projects which underpin the significant improvement in the order book. Contract extensions were secured at Wambo (2 additional years), at Integra, where purchase order work was converted to contract work for a 2 year period with 2 x 1 year options, and lastly at Appin, where the option period was triggered for another 12 months. Negotiations on extension of the Anglo Moranbah Regional Umbrella Contract are well progressed. Given the value of the three year contract (plus options), it is expected to take most of the second half to finalise approval. The relationship with Anglo remains very positive and the Company remains confident this contract extension will complete.

The Mastertec division delivered improved financial results with revenue up 18% on H1 FY18 to $16.3 million and a significantly improved EBITDA contribution compared to a loss in previous results. The consolidation back to core business in scaffolding and protective coating services has resulted in improvements across all aspects of the division. The Company has maintained its strict focus on operational flexibility enabling it to move quickly to increase and decrease costs as work necessitates. Margins should remain strong in the second half and will improve further where the Company can increase revenues and leverage the fixed overhead costs.

Outlook

The outlook for Mastermyne remains very positive underpinned by a buoyant coal sector. The Company will continue to focus on growth through the depth and quality of the order book and the significant pipeline in both the contracting area and the whole of mine projects. The Order Book currently stands at $489 million (includes Anglo contract extension) with $115 million to be delivered in the second half, (excludes purchase order and recurring revenue that tracks at approximately $30 million per annum). In the outer years, revenue of $166 million for FY20 and $208 million beyond FY20, exclusively with Tier 1 mining clients, provides a very strong platform for growth.

Second half activities will be dominated by recruitment and resourcing of new projects and will require a continued focus on project execution to unlock the margin upside still within the current projects. Equipment will continue to be on-boarded as new projects are mobilised and the Company will remain focused on maximising utilisation as this occurs. Any capital expenditure will continue to be aligned with contract terms ensuring satisfactory returns.

The robust outlook further supports the re-emergence of greenfield and brownfield expansion projects with several proponents undertaking feasibility studies, or recommencing stalled underground projects. The Company continues to be involved in discussions with proponents who are acquiring existing underground mines and are looking to restart operations utilising contract miners. This is driving the Company's Whole of Mine growth strategy. Whilst the most advanced Whole of Mine opportunity has not proceeded due to external factors outside the control of the company, other opportunities continue to present.

The group maintains its FY19 Revenue and EBITDA guidance of $230-$250 million and $20-$23 million.

Further information:

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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 relocations), Mastertec (access solutions (scaffolding & rigging) & protective coatings)
- Based in Mackay Queensland, Mastermyne has operations in Queensland's Bowen Basin and the Illawarra and Hunter Valley regions in New South Wales.