20th February 2018

ASX announcement

Mastermyne Group Limited – FY18 Half Year Results

Key highlights for the half year include:

- Workforce numbers increased from 752 to 900
- Injury rates decreased as workforce numbers increased
- Mining division underpinned the strong first half performance
- First Half Revenue up 60% on pcp with overhead costs remaining unchanged
- $7m first half EBITDA, with EBITDA Margin increasing from 2.6% to 7.4%
- 2 major development contracts still to contribute at full run rate
- Order Book of $250+ million and Tender Pipeline of over $1.1 billion

Mastermyne Group Limited (ASX Code: MYE) ("Mastermyne" or "the Company") today released its Half Year results noting the Company has emerged from a deep cycle in excellent shape.

For the half year ended 31 December 2017 the Company recorded a profit after tax of $1.85 million. This result is a significant turnaround from the previous corresponding period which was a net loss after tax of $1.45 million.

Revenues of $91.0 million represent an increase of 60% on the previous corresponding period ($57.0 million for the half-year ended 31 December 2016). The increase in revenues is attributed to the award of new contracts in the mining division along with scope increase and extensions of existing mining contracts.

EBITDA for H1 FY18 was $6.7 million with EBITDA % up from 2.6% to 7.4% compared to the previous corresponding period. Net Debt reduced to $7.5 million (from $10 million) with some long term debt converted to current debt as part of the finance facility restructure.

During the first half, as the revenues improved and overhead base remained unchanged the Company upgraded its guidance for Revenue and EBITDA from $160-180 million to $180-$200 million and from $10 -$12 million to $13-$16 million respectively.

Mastermyne's Managing Director, Tony Caruso said, "the strong first half result is a continuation of the momentum generated by the Company in the second half of last financial year. Recent contract wins, scope growth on existing contracts and strong demand for equipment has flowed into a much stronger financial result over the first half.

The Company has emerged from a deep cycle in excellent shape and a healthy contracted order book underpins a continuation of improved profitability. The company is focused on delivering its current order book safely and profitably and expects to see robust cash generation continue into the second half of the year. A strong market outlook is driving increased demand for our services and the pipeline, combined with the contract mining opportunities, underpins the growth outlook".

Operational Summary

The strong first half result is a continuation of the momentum generated by the Company in H2 FY17. Recent contract wins, scope growth on existing contracts and strong demand for equipment has flowed into a much stronger financial result over the first half as the Company returned to profit in H1 FY18. Revenue in the first half increased 60% from pcp as new contracts at Peabody's Wambo mine, South 32's Appin mine and Anglo's Moranbah North mine were fully mobilised and contributed at the full revenue run rate. Also during the first half new contracts at Whitehaven's Narrabri mine and Peabody's North Goonyella mine began mobilisation and as at the end of the half year are still to deliver at the full revenue run rate, including equipment hire.

As revenues grew the Company maintained its low overhead base with only a minimal escalation to support the increased activities. As a result overheads have materially decreased as a percentage of revenue, contributing to stronger EBITDA margins. Overheads will remain unchanged in H2 FY18 and are expected to continue to decrease as a percentage of overall revenue.

With the mobilisation of new projects the workforce numbers have increased materially. Our focus to maintain safe operations has remained over the period and pleasingly we have continued to see the lagging safety statistics trending favourably. TRIFR decreased from 19.54 to 12.43 over the six month period. The momentum around leading safety behaviors has underpinned the improving safety outcomes and pleasingly we have a number of sites that have achieved significant periods of work without any recordable injuries. Our short term focus is to see these behaviors embedded into the new projects and our long term focus remains to reduce all injuries across all our sites.

The Mining division has underpinned the strong first half performance with revenue of $77 million in the half, representing a growth of 93% from H1 FY17. The Company has benefited significantly from the prudent steps taken to be positioned with equipment and capability as the cycle turned. As a result, the mining division has been very successful with its tender conversion rate. Over the past six months the Company has redeployed the majority of its mining fleet and has successfully acquired additional equipment which has also been placed on hire in the new contracts. Equipment demand has been steadily increasing and more recently equipment hire rates have also begun to improve.

Gross Margins have improved over the first half as a result of a shift away from labour hire style contracts back to self-managed contracts. Recent contracts have been negotiated with stronger margin upside linked to performance. The combination of leveraged overheads, stronger equipment utilization and margins and the ability to improve gross margins through performance is expected to result in improved EBITDA margins.

Focus for the mining division in the second half will be on strong delivery from the Narrabri development contract and the North Goonyella development contract which have mobilised late in H1 FY18. The Company has also recently extended the Wambo development contract along with an increase in scope. Mobilisation of additional labour and equipment will occur early in the second half.

During the period $3.7 million in capital was expended to overhaul the Company's mining equipment for hire into the new contracts. This has seen the group's equipment utilization rate improve to above 80% and has been a strong contributing factor to the increased EBITDA margin. Capital expenditure will reduce in the second half to primarily sustaining capital expenditure to maintain the existing fleet.

Following the restructuring and exiting of workshops and engineering revenue streams across the Mastertec division, the result for Mastertec in the first half has been an overall improvement on previous results. Revenue was down 18% on pcp to $13.8 million and EBITDA was slightly positive as compared to losses in previous results.

The consolidation back to core business in scaffolding and protective coating services saw the operational, safety and financial performance improve. The division has been restructured to operate with more flexibility and to move quickly to increase and decrease fixed costs as work necessitates.

Gross Margins remain strong in the Mastertec division and the focus in the second half is to increase revenues and leverage the fixed overhead costs. With several long term scaffolding and protective coating tenders expected in second half the Company is working hard to secure additional revenue and further improve the profitability of the Mastertec division.

Workforce numbers increased by approximately 150 during the first half with total workforce numbers now at 900. Scope growth on current contracts is driving further growth in workforce numbers. Prolonged issues at South32's Appin site has seen development work deferred affecting 150 positions.   When this work is recommenced it is expected to flow through to further increases in manning.

<u>Outlook</u>

Over the first half the depth and quality of the order book has improved and the Company has further diversified its exposure through an increased footprint in NSW operations. The Order Book stands at $250 million, $100 million of which will be delivered in H2 FY18. The tender pipeline remains strong with over $1.1 billion in pipeline divided between core business, $350m, and contract mining opportunities of $750m.

The stronger coal market has supported the reemergence of greenfield projects with several proponents undertaking feasibility studies or considering recommencement on existing underground projects in both Qld and NSW. Additionally, other underground coal projects have recently secured approvals which will create a longer term pipeline.

In addition to greenfield projects, existing underground mines continue to be acquired with new owners looking to restart operations utilizing contract miners. The Company has several of these opportunities in progress with two in late stage negotiations and a further opportunity in early stages.

The Company has emerged from a deep cycle in excellent shape and a healthy contracted order book underpins a continuation of improved profitability. The company is focused on delivering its current order book safely and profitably and expects to see robust cash generation continue into the second half of the year. A strong market outlook is driving increased demand for our services and the pipeline, combined with the contract mining opportunities, underpins the growth outlook.

The group maintains its full year Revenue and EBITDA guidance of $180-$200 million and $13-$16 million and expects to deliver on the higher end of this guidance.

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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.