15th August 2017

ASX announcement

Mastermyne Group Limited – FY17 Full Year Results

Key highlights for the financial year include:

- Return to profitability in the second half of FY17
- Contract Order Book of $280 million with $150 million to be delivered in FY18
- Workforce numbers approaching 800 (mobilisation continuing)
- Equipment utilization at 80%
- Tendering Pipeline of $220+ million (excluding Whole of Mine) and $750+ million in Whole of Mine opportunities.

Mastermyne Group Limited (ASX Code: MYE) ("Mastermyne" or "the Company") today released its Full Year results noting a return to profitability in the second half of FY17.

FY17 Revenue was down on the prior corresponding period by 26% and the company reported an underlying net loss after tax of $1.56 million, up from the prior period (underlying net loss after tax of $3.78 million). The second half result included the negative impact of one off expenses associated with the Board's decision to exit workshops. In taking these one off expenses into account the Group's underlying second half result was a pre-tax profit of $0.28 million.

The Company reduced debt by $3.7 million over the period along with a net investment of $4.3 million in capital expenditure to overhaul the Group's Mining Equipment fleet as it came back on hire over the course of the year.

Mastermyne's Managing Director, Tony Caruso said, "We have come through a very tough cycle with the business well positioned as we move back into a period of growth. Our second half results improved quarter on quarter and we have maintained this momentum into the new financial year. The Company has continued to bring on new contracts which will support sustained equipment utilisation and push workforce numbers back over 1000. The decisions made over the past financial year will see the company deliver significantly improved financial performance over the coming year".

Operational Summary

Mastermyne Group's second half result was highlighted by $16 million in increased revenue from new contracts and scope increases. The increase in revenue underpinned a return to profitability for the Company. In addition to the work secured in the second half, the Company has also secured new projects which will be mobilised over the first half of FY18.

During the FY17 year the Board approved significant restructuring of the Company to reduce overheads, exit non-core and underperforming revenue streams and focus on our high quality contracting services. Taking these decisions early positioned the Group well to maneuver through the continued revenue decline in the first half of the year and to maintain the financial strength of the Company. As a result, the Company has been well positioned to react quickly to the growth opportunities in the second half and to absorb the working capital requirements as labour numbers increased quickly and equipment capex was required to prepare the fleet for a return to hire.

The improved price environment in the Coal sector has driven a significant increase in tendering activity. This, combined with changes in the competitor landscape, has meant that the Company is well positioned for these new opportunities. Owners in the coal sector are relying on contractors to mobilise rapidly to help them supply coal into the stronger market. As a result, the Company has experienced a significant increase in underground roadway development tenders.

The Mining division has seen equipment utilization increase as new projects incorporate the Company's equipment fleet. The company has funded $4.3 million of capex in the second half to prepare the mining equipment for projects and this equipment has now been deployed. Additional capital expenditure (within the Group's finance facilities) is budgeted in the first half of FY18 to prepare further equipment for contracts which will be mobilised during the period.

Our strong focus on safety continues to be core to what we do. Our leading indicators of safety performance continue to demonstrate the efforts we make to ensure safe workplaces and the majority of our projects continue to deliver exceptional safety outcomes. Despite this, a small number of our projects experienced higher injury rates meaning our TRIFR has increased from 8.4 at June 2016 to 19.5 at the end of June 2017. Appropriate safety improvement plans have been implemented at all projects with higher incident rates.

With the securing of new projects and the expansion of scope on our existing projects we have increased our workforce numbers significantly from the half year. At the conclusion of FY17 workforce numbers were at 752, slightly short of the 800 forecast in the half year results. The shortfall in workforce numbers was a result of delayed mobilisation on South32's Appin project which experienced some prolonged downtime due to operational gas issues. Once these issues are resolved by the mine owner the remainder of this workforce will be immediately engaged.

The Group's Order Book currently stands at $280 million, of this total order book approximately $150 million will be delivered in FY18. In addition to the contracted works, forecast recurring and purchase order work is expected to be approximately $20 million in FY18. The tendering activity remains strong with the current pipeline exceeding $970 million, of which $750 million relates to multiple whole of mine operations.

Mastermyne Mining

The Mining division has delivered a strong financial result maintaining its profitability and exceeding revenue forecasts. The result was underpinned by the strong finish to the year and sets the Company up for an improved year ahead. FY17 was a year of two opposing halves with the first half dominated by a major contract running off at Anglo's Grosvenor Site impacting the first half revenue and profitability significantly. In addition, a number of smaller QLD sites ran off which compounded the reduction in revenue and profitability compared to the prior corresponding period.

Towards the end of 2016 there was a sustained increase in project activity with tender opportunities growing and clients commencing discussions around scope expansion. As the second half commenced tenders were converted and mobilised and scope was increased on existing projects. Importantly, roadway development projects increased which was the catalyst for improved utilization of the Company's fleet.

This strong momentum is demonstrated by new contracts and scope expansion as follows;

- Secured a 2 year contract at South32 Appin Colliery, representing a much larger scope than the superseded contract.
- Contract extension secured at Anglo Moranbah North Mine, along with the addition of a roadway development crew that commenced in March 2017 with a further roadway development crew to commence in August 2017.

- Secured a new Development Contract at Peabody Wambo Mine in NSW.
- Contract extension secured at Rio Tinto's Kestrel Mine.
- Additional parcels of work secured at BMA's Broadmeadow site (approx. 12 months tenure).
- Secured additional development scope at South 32's Appin Mine (approx. 120 personnel).
- Advised preferred tenderer on a roadway development tender in NSW to commence in H1 FY18.

Mastertec

The performance of the Mastertec operations over FY17 necessitated the consolidation of the division back to its core strengths in scaffolding and protective coating services. The Company exited all underperforming businesses which included the impairment of the remaining workshop assets. The long term strategy for the Mastertec business is to deliver scaffolding and protective coatings services to ports, mines and other industrial infrastructure on a long-term contract basis.

The Mastertec division has also benefited from the increased activity across the resources sector and has delivered a significantly improved financial performance in the second half despite the smaller revenue base. As part of the geographical expansion Mastertec secured the three year South32 Illawarra Scaffolding Services Contract in NSW and also secured a 12 month contract extension at Dalrymple Bay Coal Terminal in Queensland. Supporting these major long term contracts Mastertec has also seen an increase in shutdown activities across the ports and mine sites and has been successful in securing this type of work leading into the FY18 year.

The restructuring of the Mastertec division has resulted in improved results in the final quarter of FY17 providing the Company with confidence that the business is now structured to deliver better results in FY18.

Outlook

The increased activity across the resources sector has resulted in the Company starting the FY18 year with a solid order book. The Company's recent conversion rate on tenders has been very strong and this momentum has continued into the start of FY18 with projects to mobilise in the first half of the year. The Company has also been shortlisted for further roadway development tenders which are now in later stages of negotiations.

Equipment utilization rates are forecast to remain strong throughout the year with demand coming through the order book and tender pipeline but also directly from clients seeking to hire equipment for their own operations. Some additional capital expenditure is budgeted for the early part of FY18 to overhaul and prepare additional equipment for hire.

The Mastertec division will benefit from stronger market activity in both QLD and NSW and, despite the competitive nature of these services, we expect to secure additional work over the year. The geographical footprint provided through the South32 contract may enable the Company to leverage opportunities on the South Coast of NSW for long term scaffolding and protective coatings contracts for major infrastructure in the area. Queensland operations will continue to focus on the major coal ports with a number of long term maintenance contracts due for tender in the coming months. The Mastertec Division now has a focused approach that will enable it to deliver improved full year results.

The prudent steps that the Company has undertaken over the last 12 -18 months to rebase its cost structure and exit non-core operations has set the solid foundation to generate cash in the coming year. The additional working capital provided through the restructure of our facilities leaves the Group well positioned to grow.

On the back of the secured order book and our pipeline of opportunities the Company is very confident in delivering a strong financial performance in FY18. Our workforce numbers are expected to return to 1,000 personnel at the completion of the first half and we expect full year revenue of between $160-180 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 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.