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Emeco Holdings Limited (ASX: EHL) reaffirmed its full year NPAT guidance of $75 million to $81 million at its AGM today. Why are you confident about achieving the targets? Is your business adapting to the changing economic environment?

MD Laurie Freedman
There are a number of factors underlying our confidence about earnings in 2009. Firstly, our first quarter performance across the business has been in line with our expectations, which gives us a solid foundation for the year. This is principally the result of significant improvements in our utilisation in Australia, Indonesia, Canada and the US, which has been at approximately 85 percent utilisation across the board in the first quarter of FY09, which is near full utilisation.

Secondly, despite the international turmoil, the markets we're servicing and our customers remain focused on volume. Our business model is driven by mining volumes rather than pricing of the resources and to a lesser extent construction industry activity levels. We've seen no signs of any substantial decrease in volumes and that's validated by our utilisation. Hence, we're confident about achieving the NPAT targets we've reaffirmed.

Finally, we consider the nature of our business to be somewhat counter cyclical. In this current market, capital constrained customers defer their purchasing decisions and continue to rent, or approach us about rental solutions. We're helping solve some of their fundamental problems caused by performance indicators such as commodity prices, and assist them in mitigating the impact. There's a high level of enquiry and we believe that will underpin our business performance for the next nine months, and into the future.

Having said all of this, we're in unprecedented times and the macroeconomic landscape is changing globally and we're not immune from that, so we will continue to monitor the markets that we operate in and act cautiously in the short-term to manage our business accordingly.

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What has been the trend in plant and equipment utilisation over the first quarter of 2009? Can you give a breakdown of performance by region?

MD Laurie Freedman
In the US, we've come from about 40 percent asset utilisation early in the second half of FY08 and running consistently over 80 percent utilisation now. There's an increase in enquiry level and we're attempting to engage in servicing those opportunities which would result in maximum utilisation as we move out of the first half of the year. In Canada, we have made significant progress over the past six months with utilisation. We've repositioned our fleet from small to larger mining equipment and our utilisation rates are currently at 80 percent. In Indonesia, we saw a dramatic improvement in the re-engagement in the fleet and recently the fleet has been operating in excess of 90 percent.

CFO Stephen Gobby
Australia has maintained utilisation levels between 85 and 95 percent this year. Queensland and New South Wales have remained strong particularly from coal market activity with utilisation between 90 and 95 percent. Enquiry levels remain strong for our equipment, so we remain positive about these regions.

In WA, utilisation has been between 80 and 90 percent due to some logistical delays in redeploying equipment from one project to another. Whilst these delays have resulted in earnings being slightly below expectations in the first quarter, the impact is minimal and the business has returned to strong utilisation in recent weeks and was offset by the out-performance in Queensland and New South Wales over the same period.

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One of the problems you've been facing historically is getting traction in the development of your international expansion. Can you provide an update on your international operations?

MD Laurie Freedman
We've now established recognition and brand equity in the Appalachian Coal Region after 24 months of effort to establish ourselves in the US. Given the strength of the Appalachian coal fields, we're fully engaged in the market and we are continuing with the positive trend in earnings we reported in August. Our strategy now is to build some further scale in the US business and with a relatively minimal amount of capital investment; we believe we can pursue additional opportunities that could improve our overall returns in this business.

Similar to the US, we are now seeing the benefits of having established our brand and reputation in the Western Canadian market. Whilst it has been some time coming, we believe the step out into these offshore markets is starting to deliver tangible value to Emeco.

With respect to Indonesia, the return to historical utilisation levels and margins is largely the result of significant expansion in mining activity as underlying thermal coal demand has increased over recent times.

Once again, the combination of the factors mentioned and the capital constrained environment globally is driving this positive performance in these businesses.

Whilst we are pleased to report the strong performance of the three larger international operations, unfortunately our trading business in Europe has operated at a break-even level in the first quarter. We are working diligently to restore it to profitability; however the current depressed European economic environment is hampering our ability to deliver improved earnings in the short-term.

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You refinanced and increased your senior debt facility from $515 million to $630 million, 3-year senior bank facility in August. Given capital constraints in the broader market, what advantage does your funding facility provide?

CFO Stephen Gobby
In the current environment, having secured our funding certainty for the next three years with our new facility enables the board and management to focus solely on successfully executing our strategies and not be distracted by the need to raise capital in very challenging markets, either by way of debt or equity.

Laurie and I have touched on the upside opportunities for the Emeco business model in a capital constrained environment, as we are all experiencing today. Without sufficient funding we would not be able to exploit opportunities that become available. However with the current asset base generating annual free cash flow after maintenance capex in excess of A$100 million and with the headroom under our facilities of approximately A$200 million, we have the flexibility to deliver the rental solutions to our capital constrained customers. In addition, we now consider the senior debt facility well priced relative to cost of capital in the current environment. This gives us a pricing advantage when looking at solutions for our customers relative to them purchasing equipment.

Whilst we have over A$200 million of headroom, given the short-term volatility and uncertain outlook, we're operating cautiously with respect to investing additional growth capital and consuming our debt facility headroom. Our business model generates substantial free cash and our strategy will supplement the headroom and put us in a strong financial position so when there's certainty in the market to capture some mispriced assets, we will accelerate our growth aspirations.

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The Australian dollar is currently trading at about 68 cents to the US dollar compared with an average of 90 cents in June 2008. To what extent are your earnings and balance sheet value impacted by the movement in the currency?

CFO Stephen Gobby
The currency movements have had varying impacts on the business, however overall it is positive. In terms of our Australian sales business, we bought equipment above 90 cents for our sales inventory and we're able to sell that equipment into the domestic market now at higher margins with the currency depreciating, so that has a short-term positive impact on the sales business. However, we're also reducing our offshore inventory purchases in the short-term until we see currency volatility settle, because we don't want to have overpriced inventory if the currency was to appreciate rapidly. This may trim some opportunities for the Australian sales business this financial year; however this risk is offset by the improved margins being achieved in the short-term.

Also, the majority of our parts in the Australian rental business are priced in US dollars through Caterpillar. With the CAT parts index getting repriced every six months, we expect the Australian dollar CAT parts index to increase materially at the end of this calendar year. That will result in an overall increase in our repairs and maintenance costs for the Australian rental business.

In terms of our international businesses, we manage our balance sheet currency risk through natural hedging and therefore have limited exposure towards currency movements. Our assets and liabilities and net operating cashflows are all in the local currency and translate back into Australian dollars at the same rate, so there's no balance sheet impact. The impact of currency moves in the short-term is on the translation of net earnings from our overseas operations. As a result of the recent currency devaluation, the translation effect of the net earnings of our Indonesian, US and Canadian businesses are all positive.

Overall, assuming the Australian dollar remains at its current trading rate, we see this as having a slightly positive short-term impact on our net earnings in 2009.

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Working capital was reduced by $49 million in the second half of FY08 in relation to the first half. What is the trend for working capital in FY09?

CFO Stephen Gobby
Our objective and strategy around working capital as I mentioned in August is to deliver a stable working capital base year on year and we're on track to deliver that. We have indicated to the market that sales and parts inventory is expected to grow by up to five percent in FY09, however it may actually remain flat over this year, as we continue to focus on the stock turns in those businesses and reduce procurement in the Australian business in the short-term due to the volatile currency. In terms of general working capital, we're targeting flat general working capital year on year, which we see as a net gain given revenue is growing from 2008 to 2009, and we remain on track to deliver that.

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Emeco's rental revenue is 84 percent sourced from commodity production, including coal, gold, zinc, oil and iron ore. How are your customers' operations placed given a weaker commodity price trend?

MD Laurie Freedman
There has been a great deal of focus on the mining services sector as a result of declining commodity prices in recent times. Interestingly, all mining services companies have been priced by the market in the same way; notwithstanding the respective companies have different exposures to the various stages of the resource exploration, development and production phases, and varying exposures to commodities, customers and regions. Our business is very much exposed to the volume aspects of development and production phases, unlike some other service providers. We are not directly impacted by commodity price movements. So in this light, despite the recent volatility in commodity prices we generally feel comfortable about the outlook for each of our operating theatres.

It is also worth noting that we are diversified across commodity types and geographical regions, which provides us with a diversified earnings base. Whilst coal and gold make up over 55 percent of our earnings contribution, we continue to see strong activity with our customers in other commodities such as oil sands, iron ore and civil infrastructure.

Also, our top 20 customers include blue chip mining companies such as BHP, Rio Tinto, Anglo Coal, Xstrata, Newcrest and Newmont. Although commodity prices are weaker, the overall level of activity in existing operating mines remains high and that's reflected in our utilisation rates.

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What exposure do you have to small cap mining companies?

CFO Stephen Gobby
We provide equipment to small mining companies. However, it's not a major part of our customer profile. About 50 percent of our earnings over the first quarter have come from our top 20 customers who are blue chip or large mining companies. That gives us great comfort about the quality of our customer base. We also have very stringent credit risk management procedures and use credit risk

insurance for non blue chip companies to assist us in managing this commercial risk.

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One of your competitive advantages versus manufacturer aligned dealers and other independent rental companies is the ability to supply a fleet for large contracts and have a global procurement capability to purchase low cost machines. How is the market for the supply of large earth moving equipments?

MD Laurie Freedman
It's important to understand that Original Equipment Manufacturers (OEMs) and dealers, like Caterpillar, Komatsu, Hitachi, Liebhher and the like aren't major players in the rental of this gear. Their business models revolve around selling new products and supporting it with service and spare parts.

Our ability as an independent allows us to supply best of breed equipment, whilst not being tied to any product loyalty. The availability of large earth moving equipment of nearly all the OEMs is currently very constrained. As a consequence of our global procurement expertise and the presence of our buyers around the world, we're able to buy good quality, low-houred machinery and place it either in our rental or sales fleets. Supply time on new orders of large rigs or trucks is about two to three years, and so we have a distinct advantage in that we have over 1,600 pieces of equipment readily available to rent or sell.

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Thank you Laurie and Stephen.

For more information about Emeco, please visit www.emecoequipment.com or contact Stephen Gobby, Chief Financial Officer, Emeco Group, telephone + 61 8 9420 0222.

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