Earthmoving equipment solutions

Market Release
21 August 2012

EMECO DELIVERS STRONG FY12 OPERATING NPAT OF $71.1M AND ANNOUNCES SHARE BUY-BACK

KEY POINTS

- **Improvement in ROC continues, up to 13.2% in FY12 from 11.3% in FY11 (FY10: 8.3%)**
- **27% increase in Operating NPAT to $71.1 million on PCP basis. Statutory NPAT of $69.7 million**
- **Earnings growth delivered by Australia, Canada and Indonesia. First contract signed in Chile**
- **Strong operating cash flows and balance sheet position provides flexibility**
- **Balance sheet capacity and share price volatility supports implementation of share buy-back program**
- **FY12 dividends total 6.0 cps fully franked, including final dividend of 3.5 cps**
- **$140m fleet growth investment in FY13 focussed on Chile and Indonesian markets**

IMPROVED EARNINGS & RETURNS

Emeco Holdings Limited (ASX: EHL) ('Emeco' or 'the Company') today reported operating Net Profit After Tax (NPAT) of $71.1 million for the year ended 30 June 2012, up 27.0% on FY11 operating NPAT of $56.0 million.

Statutory NPAT was $69.7 million which included a $0.3 million loss from discontinued operations and a historical unpaid superannuation liability of $1.1 million relating to prior periods dating back to 2007.

The higher earnings, strong fleet utilisation and a more productive asset base in FY12, gave rise to further improvement in Return on Capital (ROC) to 13.2% (FY11: 11.3%, FY10: 8.3%).

Keith Gordon, Managing Director, said "We have continued to execute the strategy we detailed to the market in 2010 and are pleased to be delivering a third consecutive year of growth in both earnings and shareholder returns."

STRATEGY DELIVERS

Emeco's strategy leverages the Company's earnings to production volumes across a range of commodities in markets that are well positioned on the global cost curve. The investment in larger assets which are deployed into the core production phase of mining operations has provided more stable levels of fleet utilisation. Through supporting its high quality equipment with maintenance services, Emeco has continued to build on important customer relationships in FY12.

Mr Gordon said "Our consistent strategic focus since 2010 has provided a very strong framework for decision making across our operating businesses. In line with this, $165 million was invested during the year in large mining equipment designated for production activity and this investment contributed solid returns and strong cashflows over the course of the year."

"A critical element of our strategy is to establish further market diversification and we have therefore committed $140 million in growth investment for FY13 to establish a quality mining fleet in Chile and to meet demand from customers in Indonesia" Mr Gordon added.

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STRONG FINANCIAL PERFORMANCE

	FY12	FY11	Var %
Revenue	**565.2**	502.5	▲ 12.5%
EBITDA	**261.7**	223.3	▲ 17.2%
EBIT	**126.0**	101.2	▲ 24.5%
Operating NPAT	**71.1**	56.0	▲ 27.0%
Statutory NPAT	**69.7**	49.6	▲ 40.6%
EBIT ROC %	**13.2%**	11.3%	▲ 16.7%

Group operating revenue was up 12.5% to $565.2 million in FY12 as increasing demand for maintained equipment translated into high utilisation of the rental fleet.

The fixed cost leverage gained through this revenue increase contributed to higher operating EBIT and EBITDA margins year on year (22.3% and 46.3% respectively). Margins were also enhanced through direct cost efficiencies and some small price increases. As a result, operating EBIT was up from $101.2 million to $126.0 million in FY12, and operating NPAT increased by 27.0% from $56.0 million to $71.1 million in FY12.

Emeco's ROC (defined as FY12 operating EBIT divided by average invested capital over the year) increased to 13.2% for the twelve months to 30 June 2012, up from 11.3% in the previous year. Average invested capital increased 6.5% to $955.6 million due to the growth in the Company's rental equipment fleet, whilst EBIT increased 24.5% from the previous year.

During FY12 Emeco incurred significant items totalling $1.4 million (post tax) resulting in a statutory NPAT of $69.7 million for the year. The items relate to a $0.3 million loss from discontinued operations and a $1.1 million charge to recognise the retrospective payment of superannuation relating to prior years.

BUSINESS PERFORMANCE

All operating businesses recorded improvements in revenue and EBIT during the period.

Emeco Australia's rental and maintenance revenue increased 17.1% to $383.3 million in FY12. With high utilisation of its existing fleet, growth capital investment of $93 million largely underpinned the 17.6% increase in Operating EBIT to $115.6 million in FY12. Return on Funds Employed (ROFE) fell slightly from 23.8% in FY11 to 22.7% in FY12, largely due to the inherent time lag between the financial commitment to acquire growth assets and their availability to go to work. The successful execution of the growth capital program in Australia was a significant accomplishment for the business in FY12.

Emeco Canada's performance continued to progress notwithstanding the poor first quarter. Revenue increased by 3.5% in FY12 to $67.2 million and EBIT increased by 15.4% to $16.2 million. Despite the improved earnings performance, ROFE declined from 11.3% to 10% largely due to the subdued first quarter where customer plant maintenance shutdowns and widespread bushfires in the oil sands region temporarily impacted earthmoving activity.

During the year, the Canadian operation successfully grew the amount of business it transacts directly with oil companies. This direct relationship provides greater demand visibility and an opportunity for Emeco to become a key partner with these large customers. A focus on servicing indigenous contractors has also further diversified the customer mix and provided ongoing sources of revenue for the region.

Emeco Indonesia's revenue increased by 12.0% to $49.9 million during FY12 with EBIT increasing by 87.8% to $10.0 million. ROFE increased from 6.5% in FY11 to 12.8% in FY12 as the business successfully recovered from a large fleet redeployment in the second half of FY11, which held back first quarter earnings and diluted the improved operational performance delivered in FY12.

During the second half, the Indonesian business entered into long term contracts with a number of new customers. These contracts, along with a $40 million growth capital program and higher overall fleet utilisation are expected to deliver further improvement in returns in FY13.

In Chile, Emeco established a presence in the second half with the appointment of a Country Manager and the recruitment of a local Operations Manager. Extensive business development activity has been undertaken and relationships formed with prospective customers. The first two trucks designated for Chile are under contract and are now being prepared for work. Good progress has been made on also contracting the next three trucks due for delivery over the next month.

During the second half, a further seven low-houred 240 tonne trucks were purchased in Canada. These trucks are currently in work in that market but will be transferred to Chile as Emeco further establishes its presence in this market.

ROBUST BALANCE SHEET & CASHFLOW

Net debt increased in FY12 by $94.9 million to $386.4 million (gross debt: $459.5 million less cash: $73.1 million) at 30 June 2012 due to the fleet investment program, however the Company maintains significant headroom of $243.0 million with available debt facilities of $629.4 million. Gearing at 1.48 x Net Debt:EBITDA is below Emeco's target range providing capacity to undertake investment in growth and capital management initiatives.

Emeco successfully completed a US$140 million US Private Placement debt issue in May 2012. This has diversified the Company's funding sources and extended its average maturity out to four years providing greater certainty around future access to capital.

Operating cashflow was up 7.2% to $230.5 million in FY12 through strong EBITDA performance. Operating cash flow less net sustaining capex was $114.1 million. This cashflow was reinvested in the business with $165 million committed to fleet expansion which is expected to lead to operating cash flow growth in FY13.

Stephen Gobby, Chief Financial Officer, said "Our focus over the past 12 months has been on generating strong operating cashflows and continuing to improve returns. It is pleasing to have achieved on both of these metrics."

"At the same time the Company has declared 6.0 cents per share in ordinary dividends fully franked and announced a share buy-back which demonstrates our confidence in the future cashflow of the business."

"To that end, strong underlying operating cashflows and the highly discretionary nature of future capital investment provides us with the ability to expand or contract the balance sheet and gearing in response to changes in the external environment," Mr Gobby said.

CAPITAL MANAGEMENT

Emeco today announced the implementation of a share buy-back program to acquire up to 5% of its issued shares over the next 12 months, subject to market conditions and the Company's share price.

Mr Gordon said that the Company's share price had experienced significant fluctuation over the last six months, and that given the strength of the balance sheet, it was sensible to put in place a buy-back program in order to be able to take advantage of any ongoing fluctuation should market conditions allow. The share buy-back program will be undertaken with a disciplined focus on shareholder value.

FINAL DIVIDEND

The Emeco Board revised its stated dividend policy in February 2012 to "distribute to shareholders between 40% to 60% of annual NPAT and to frank dividends to the fullest extent possible".

The combination of earnings growth, strong operating cash flows and a sound balance sheet resulted in Emeco's Board declaring a final dividend of 3.5 cps fully franked. This brings total dividends to 6.0 cps fully franked for FY12.

The final dividend will be paid on 28 September 2012 on shares registered at 5.00pm AEST on 5 September 2012.

OUTLOOK

It is anticipated that mining volumes in Emeco's markets will continue to grow in coming years which is a vital indicator for Emeco given the business is primarily leveraged to volume of earth moved. However, in light of recent global economic trends including fluctuations in commodity prices, Emeco expects some customers to focus on managing their operating costs, and others will seek to preserve capital spend on earth moving equipment.

Mr Gordon said "In Australia, although utilisation has moderated over the last month or two, this is due to the run-off of contracts such as MacArthur River which are in the ordinary course of business. We are continuing to see strong enquiry from the gold sector where we have recently negotiated expanded fleets with a number of our customers in Western Australia and from iron ore where we will be mobilising equipment to our first major project site in South Australia over the next month."

Towards the end of the second half of FY12 the Company renewed a number of major contracts in Queensland and New South Wales in coal, providing good visibility on base load utilisation in these markets for FY13. However, a number of contracts with coal customers are concluding in the middle of FY13, and the Company is yet to commence discussions on contract extensions. Pending the outcome of these discussions it is possible some fleets will need to be transitioned to new projects in 2H13.

"The growth in our geographic and commodity diversity allows for more consistent earnings over time and enables us to apply growth capital selectively. Our major focus for growth in FY13 will be in Chile where activity in the copper sector is expanding and demand from prospective customers is strong. In Canada we will concentrate on improving returns from the existing fleet and we will continue to evaluate investment in the Indonesian business targeted at servicing high quality customers."

"Emeco is in far better shape to perform across the mining cycle than it was three years ago. With a well-defined fleet strategy and a focus on production supported by a strong balance sheet and cashflow generating capacity, we are well placed to implement the most appropriate strategy by region and commodity." Mr Gordon added.

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