Emeco

Earthmoving equipment solutions

Market Release
9 November 2012

EMECO OPERATING UPDATE

Emeco Holdings Limited (ASX:EHL) ('Emeco' or 'the Company') today provided an update on operating conditions and outlook.

In Emeco's full year results announcement in August, global utilisation was reported at 76%, down from an average utilisation of 88% in 2H12. The decline in utilisation was caused by a combination of contracts ending in line with expectations and the slowing activity in the Australian market. Since that time, global utilisation has moderated to 72% with further softening in the Australian market offset by improving utilisation in Emeco's offshore businesses.

It was expected that lower average utilisation across 1H13 would result in Operating Net Profit After Tax (NPAT) being materially in line with 1H12 NPAT of $29.2m, with Group NPAT expected to improve in 2H13 through a recovery in Australian utilisation and increased earnings from the offshore businesses.

Trading information for October was consistent with prior forecasts of Group NPAT. However, continuing low activity levels in Australia have resulted in revised assumptions on contract renewals which, together with ongoing renegotiations over contract terms and pricing with some customers in Australia, have led to earnings expectations in 1H13 being lower than previously anticipated. Accordingly, following the finalisation of updated forecasts on 6 November 2012, 1H13 Operating NPAT is now expected to be in the range of $23m to $26m.

Keith Gordon, Managing Director and CEO said "While we are seeing some utilisation challenges in Australia as a result of lower commodity prices and subdued mining activity, strong trading conditions in Canada and Chile, together with a solid customer base in the Indonesian business, is expected to help offset some of this softness."

OPERATIONS UPDATE

The **Australian** business has been working closely with key customers as they adjust to an environment of lower commodity prices. Utilisation in the Australian business currently sits at 66%, down from 76% at the announcement of full year results in August and significantly below average utilisation of 91% in 2H12. Recent activity in key commodities is as follows:

- *Iron ore:* Equipment deployed to a major miner was off-hired as expected over the past few months. In addition, some mining contractors have off-hired equipment as their contracts with customers were reviewed during periods of low iron ore pricing. Discussions have commenced with major customers in Western Australia regarding potential opportunities, however, any return to work of this equipment is unlikely to take place until the second half rather than during this half as had been expected. A significant fleet of equipment commenced work at an iron ore project in South Australia at the start of November.

- *Gold:* In the gold sector, two customers in Western Australia have downsized their mining operations, choosing not to extend their contracts which had not been anticipated. Another gold customer in the state has significantly increased its fleet as expected which is now complete.

- *Coal:* In New South Wales and Queensland coal, some individual equipment items have been returned (amounting to 4% of the Australian fleet) across a number of customers. In its full year results outlook statement, Emeco flagged that a number of thermal coal contracts would be due for renewal late in 1H13. These contracts, as well as further contracts that had previously been considered highly likely to extend, comprise approximately 15% of the Australian fleet. Although visibility regarding renewal is poor, the Company considers it likely that a number of these contracts will not be renewed.

- *Other commodities:* As expected, the balance of the fleet from the Macarthur River mine in the Northern Territory was off-hired as that contract came to an end.

The Australian team continues to work on business development opportunities for idle fleet as well as fleet which may be subject to potential off-hiring. Discussions are underway with a number of potential customers regarding rental opportunities in the second half.

The competitive nature of the Australian equipment market, along with some reductions in production volumes and deferral of mine expansions, is leading to competitive pricing on new and re-tendered contracts. Emeco will seek to remain competitive in these situations, whilst maintaining a disciplined approach to achieving our return targets.

Canada's year-to-date utilisation has averaged 78% versus 60% in the prior corresponding period. The improved performance is attributable to working directly with the large oil producers and strategic relationships with various indigenous contractors in the oil sands. Utilisation, which is currently at 86%, is expected to increase further over the next month with high activity levels expected throughout the winter period in the oil sands. As a result of a significant growth capital program in FY12, the Canadian utilisation is being applied against a larger asset base.

Indonesia's utilisation has averaged 77% year-to-date (74% pcp) and includes the successful deployment of $30m in growth capital over 1Q13. A number of new contracts executed in late FY12 will provide Indonesia with a solid utilisation base through FY13. More broadly, Emeco is observing a more cautious approach to activity in the Indonesian coal sector and hence further growth capital investment in that market is unlikely in the short term.

In Chile, Emeco has successfully executed its second contract taking total fleet under contract to $55m, representing approximately 70% of the $80m committed in FY13. General activity in the copper producing region is robust and further growth in earth moving volumes is expected to underpin demand for Emeco's offering in the future. In addition to the previously announced growth capital, Emeco is redeploying a fleet of trucks (amounting to $16m in value) from Queensland to Chile to meet emerging demand in this market. With this additional fleet, it is anticipated that the Chilean business will be operating with a fleet valued at approximately $100m by the end of FY13.

OPERATIONAL FOCUS

In light of the changing market environment, the Company has been focused on adjusting operating cost and capital expenditure plans to maintain strong cashflow through the cycle.

The Australian business is reducing operating costs through various initiatives including the removal of sub-contract labour, reduced parts expenditure and overhead reductions. While the offshore businesses are prudently managing costs, these cost initiatives are most relevant in Australia where the utilisation outlook is less certain.

Capital expenditure remains a primary cashflow lever for Emeco during periods of lower utilisation. Sustaining capex (excluding disposals) in FY13 is now expected to be approximately $80m, down from previous guidance of $120m due to lower expected utilisation. Previous guidance for growth capital expenditure of $80m in FY13 remains unchanged. Most of this growth capital will be deployed into Chile and Indonesia by the end of 1H13, with no further growth capital anticipated for the balance of the financial year. In the immediate term, the Company is focused on redeploying idle fleet between markets where possible to meet sustaining capex needs and growth opportunities.

ROBUST CASHFLOW & BALANCE SHEET

Operating cashflow is expected to remain strong through FY13 despite utilisation volatility and free cashflow is expected to be positive in 2H13 as capital expenditure significantly reduces. Emeco's cashflow will provide flexibility to maintain an appropriate capital structure while maintaining capacity to capture value creating opportunities that may arise. The Company intends to continue with its previously announced share buy-back program.

The recent refinancing of Emeco's bank debt facilities and the US Private Placement provides total committed debt facilities of $621m. As a result, the Company now has good visibility on its long term funding profile with average tenor approaching 5 years and there is sufficient available headroom to pursue opportunities that may arise through the challenging conditions facing all market participants. Furthermore, gearing is expected to remain within the target range of 1.5x to 2.0x Net Debt:EBITDA throughout FY13.

OUTLOOK

The Company will continue to pursue the benefits of a geographically diverse portfolio of businesses. Collectively, the offshore businesses are expected to deliver higher earnings in the second half, however, limited visibility in the Australian business makes the provision of full year guidance difficult at this stage. The Company is aiming to deliver a step up in group earnings in the second half, although this is contingent upon securing new opportunities in the Australian market. The Company will continue to pursue business development opportunities across its various markets, and remain focused on managing its cost base and capital expenditure during this volatile period.

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About Emeco (ASX: EHL)

Established in 1972, Emeco provides safe, reliable and maintained equipment solutions to the global mining industry. Operating out of Australia, Indonesia, Canada and Chile, Emeco's experienced teams provide the highest levels of customer service and maintenance capabilities to safely deliver best-in-class equipment to the go line for mining companies. Emeco is not aligned with a single original equipment manufacturer (OEM), instead it operates a global fleet of (OEM) machines to deliver the most suitable equipment rental solutions for customers.