BETTER EQUIPPED
EQUIPMENT SOLUTIONS FOR MINING

ASX Release

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EMECO OPERATING NPAT OF $35.2M IN LINE WITH GUIDANCE

KEY POINTS

- **FY13 Operating NPAT of $35.2 million down 50.5% on PCP basis**
- **Statutory NPAT of $6.0 million reflecting previously announced one-off charges of $14.8 million (pre-tax) plus impairment of $17.8 million goodwill relating to the Indonesian business**
- **Chile delivers positive earnings in first year of operation, providing market diversification benefits**
- **Performance in Australia and Indonesia impacted by pullback in mining activity and cost reduction focus**
- **Fleet investment in FY12 and strategic customer relationships drive earnings growth in Canada**
- **Operating expenses reduced by 13.2% in FY13 in response to lower operating activity**
- **Positive free cashflow of $60 million during 2H13 used to pay down debt**
- **Board declared nil final dividend. Total dividends of 2.5 cps fully franked in FY13 represent payout ratio of 42.5%**
- **Increased focus on establishing new markets to provide diverse growth and fleet redeployment opportunities**

EARNINGS & RETURNS IMPACTED BY MINING DOWNTURN IN KEY REGIONS

Emeco Holdings Limited (ASX: EHL) ('Emeco' or 'the Company') today reported Operating Net Profit After Tax (NPAT) of $35.2 million for the year ended 30 June 2013, in line with previous guidance of $35 million to $36 million, down 50.5% on the prior year.

Statutory NPAT of $6.0 million included one-off tangible asset write-downs totalling $10.5 million; goodwill impairment of the Indonesian business of $17.8 million; one-off redundancy costs in Australia totalling $1.7 million; bad debt write-off in Indonesia of $0.7 million and debt establishment cost write-offs of $1.9 million due to Emeco re-financing its senior debt facility in September 2012 (all adjustments quoted pre-tax).

Lower utilisation across the Group and Operating EBIT margins reduced return on capital ('ROC') to 7.1%, down from 13.2% in FY12.

Keith Gordon, Managing Director, said "Coming off a period of strong mining activity in FY12, Emeco's operating landscape changed rapidly across our key regions during FY13. Challenging conditions in Australia's thermal coal and gold sectors, as well as Indonesia's thermal coal market resulted in those regions contributing lower returns in FY13."

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FINANCIAL PERFORMANCE

	FY13	FY12	Var %
Revenue	**439.7**	565.2	(22.2%)
EBITDA	**188.3**	261.7	(28.0%)
EBIT	**75.6**	126.0	(40.0%)
Operating NPAT	**35.2**	71.1	(50.5%)
Statutory NPAT	**6.0**	70.0	(91.4%)
ROC %[1]	**7.1%**	13.2%	(6.1%)

1. Operating EBIT divided by average invested capital over the year

Group Operating Revenue declined by 22.2% to $439.7 million (FY12: $565.2 million) due to a broad based pullback in mining activity and customers focusing on operating cost reductions. This resulted in lower utilisation and rental rates in Australia and Indonesia. Operating Return on Capital (ROC) declined to 7.1% in FY13 (FY12: 13.2%) primarily because of lower utilisation of the rental fleet.

Operating EBITDA and Operating EBIT margins in FY13 were 42.8% (FY12: 46.3%) and 17.2% (FY12: 22.3%) respectively. As utilisation and margins fell over 1H13 the business responded by reducing its operating cost base through rightsizing maintenance activity and overhead structures. 89 operations and corporate roles were removed in Australia with the one-off costs associated with these redundancies being $1.7 million.

BUSINESS PERFORMANCE

Although production volumes have remained relatively stable, a combination of lower commodity prices and higher costs has lowered overburden removal and resulted in an intensive cost management program by miners. This impacted both the Australian and Indonesian businesses. However the Canadian business delivered earnings growth in FY13 through fleet growth and increased direct supply to oil producers, while Chile contributed positive earnings in its first year of operation.

Emeco Australia's revenue decreased 34.6% on the prior year to $250.6 million in FY13 as a result of lower utilisation and rental rates. The business began FY13 in a strong position, however, falling commodity prices and a focus by miners to reduce operating costs gave rise to reviews of future operating plans by customers, impacting short-term earthmoving volumes by existing customers and limiting new enquiry levels for equipment rental. The reduced earnings on the existing asset base resulted in Return on Funds Employed (ROFE) falling to 11.4%, from 22.7% in FY12.

The Australian business is currently participating in a number of full fleet tenders and hopes to win a number of these in order to lift utilisation in FY14.

Emeco Canada continued to grow during FY13 with revenue increasing 40.2% to $94.2 million (FY12: $67.2 million) driven by the full year benefit of fleet investments in FY12 and high utilisation over the summer 2012 and winter 2012/13 months. The strategy of aligning the business with oil majors, indigenous contractors and coal miners, combined with investment in an external maintenance capability is returning positive results. The Canadian business improved ROFE to 10.9% in FY13, up from 10.0% in FY12. The Canadian team will continue to focus on these strategies in FY14.

Emeco Indonesia's revenue increased 20.8% to $60.3 million in FY13 (FY12: $49.9 million) representing strong utilisation over 1H13. Utilisation in 2H13 was affected by the loss of two major contracts. Despite earnings growth, ROFE fell to 11.6% (FY12: 12.8%) on a higher asset base following fleet investment in FY12. Delays in approvals for key projects and lower overburden activity in thermal coal impacted Emeco's opportunity pipeline to replace contract losses.

Following the recent announcement regarding PT Indo Muro Kencana's (PTIMK) decision to place the Mt Muro mine on care and maintenance, Emeco will immediately move to reduce its cost base in Indonesia and will conduct a review of the opportunities in this market over the coming months to determine its longer term strategic position.

Emeco Chile had a successful first year of operation. Entry into the Chilean copper market brought both geographical and commodity diversification to the Group. In FY13 the Chile business contributed revenue of $17.4 million and EBIT of $6.4 million. $100 million is now invested in this business, including approximately $40 million of fleet redeployed from other Emeco businesses, providing a strong asset base on which to grow earnings in FY14.

Mr Gordon said, "Our expansion into Chile was founded on the strong outlook for copper production and a high quality mining industry. We have quickly established a strong presence in this market through the development of relationships with local contractors and major mining companies who understand the benefits of the Emeco offering."

"Experience gained from this successful expansion provides a strategic platform through which we intend to further diversify the business. High quality assets and strong maintenance support is valued by customers globally providing us a strong basis on which to build a business presence in other new markets".

CASHFLOW

Operating cashflow was down 22.9% to $173.8 million in FY13 largely due to lower EBITDA. Following investment in 1H13 establishing the Chilean business and completing previously committed plans for sustaining capital expenditure across the business, the business curtailed capital expenditure during 2H13. Capital expenditure declined 43.6% to $178.9 million in FY13 (FY12: $317.0 million).

Stephen Gobby, Chief Financial Officer said, "In response to a rapid contraction in market activity mid-way through 1H13 in Australia and Indonesia, we ceased growth capital expenditure and reduced sustaining capital expenditure to what was required to maintain the operating fleet at lower utilisation levels."

Mr Gobby added, "Over the past 6 months we have focused on converting idle assets into cash, generating $33 million from asset disposals including the sale of one equipment package for $26 million to a large mining customer in Australia, of which $23 million was received prior to 30 June 2013. This cash release together with the reduction in capital expenditure enabled us to repay approximately $60 million in debt over the second half," Mr Gobby added.

BALANCE SHEET

Despite net debt peaking at $455.1 million at the end of 1H13, the Group reduced net debt to $414.7 million over the six months to 30 June 2013. Free cashflow generation of $60 million was used to reduce net debt, however, the significant devaluation of the AUD increased net debt by $19 million on translation which partially offset the significant cash reduction. At 30 June 2013 gearing was 2.15x (Net Debt:Operating EBITDA), which remains well below the debt covenant of 3.0x.

Mr Gobby said, "Although our gearing increased over FY13, the ratios remain well within their limits. The business continues to deliver operating cashflow, we are prudently managing our capital expenditure and are continually assessing opportunities to release cash from our asset base so that our debt is maintained at an appropriate level for the current operating environment."

As previously announced, Emeco refinanced its senior secured syndicated loan facility on 28 September 2012. Retaining a $450 million limit the debt facility comprises a three year $200 million, a four year $125 million and a five year $125 million revolving multi-currency facility of AUD, USD and CAD. The refinancing increased Emeco's average debt maturity, which currently sits at 4.5 years.

During the second half the business rebalanced the mix of currencies in its debt portfolio by reducing Canadian and US dollar debt and increasing Australian dollar debt in order to reduce the impact of further declines in the AUD. Based on the balance of USD (US$155 million) and CAD (C$83 million) at 30 June 2013, a 10% decline in the AUD would increase Group debt by $28.1 million on translation. The Company expects USD and CAD debt levels to reduce further over FY14.

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CAPITAL MANAGEMENT

The Emeco Board has declared a nil final dividend for FY13, with total FY13 dividends of 2.5 cents fully franked representing a payout ratio of 42.5% consistent with Emeco's policy to distribute 40% - 60% of annual Operating NPAT, franked to the fullest extent possible.

During 1H13 Emeco completed a 5% share buyback as part of its overall capital management strategy. The buyback was executed at an average price of 53.4 cents per share.

The Board's decision to declare a nil final dividend for FY13 was in consideration of current market conditions, Emeco's focus on maintaining a strong financial position and the level of shareholders returns made during FY13.

OUTLOOK

Moving into FY14 the Company remains focused on its key strategies of diversifying its earnings base, demonstrating flexibility in meeting customer needs and maintaining a disciplined approach to balance sheet management.

Following the successful expansion into Chile, the Company continues to assess opportunities to expand into new markets. Mr Gordon said "Our goal of diversifying the earnings base across geographies and commodities will focus on developing mining industries in areas including, but not limited to, the broader Latin America region. In addition, we will continue to focus on executing our strategy in Canada which has delivered good results over the last 12 months."

"In the current environment in Australia and Indonesia, our customers remain cautious with capital and are focused on reducing operating expenditure given the cost position of some operations relative to commodity prices. This is creating opportunities for Emeco to provide tailored equipment solutions whether it be dry hire rental, rent to buy or asset sales. We are starting to see the emergence of more tendering activity in Australia where we are currently participating in eight full fleet rental tenders which is encouraging. However, we are expecting the market to be very competitive over the course of FY14 due to the volume of idle equipment in the market. In Indonesia, we will reassess our participation in the market and make a decision with regard to our approach to that market over the longer term."

"One of the features of the Emeco business is strong cash flow through the cycle and we will continue to drive this hard through FY14. Managing our balance sheet carefully in current market conditions is critical. We will look to support our earnings through diversifying our operating base and working closely with our customers. We will also look for opportunities to release capital through asset sales to continue reducing debt over the next 12 months," Mr Gordon added.

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About Emeco (ASX: EHL) **emecogroup.com**
Established in 1972, Emeco is the world's largest, independent mining equipment rental business. Emeco is a publicly listed ASX 200 company with a global rental fleet of approximately 1000 machines, servicing major resource projects across Australia, Canada, Chile and Indonesia. 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 its customers.