Emeco

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ASX Release

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EMECO OPERATING UPDATE

KEY POINTS:

- **FY14 Operating EBITDA expected to be between $90 million and $105 million.**
- **Meaningful improvement in earnings in H2 FY14 influenced by:**
  - **Activity in Canada building, in line with seasonal effects in the oil sands market.**
  - **Early signs of increasing activity in Australian market, however the recovery expected to be gradual in line with a cautious approach from customers.**
  - **Positive business development opportunities in Chile.**
- **Emeco continues to generate strong free cash flow reducing debt position by $78 million to date in CY13.**

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

Based on Emeco's year to date performance and its review of the FY14 forecast the Company expects full year Operating Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) to be between $90 million to $105 million. EBITDA is expected to be weighted towards the second half of FY14.

Operating Net Profit After Tax (NPAT) for FY14 is expected to be a loss of between $10 million to $17 million, which excludes any potential impairment losses that may arise from asset disposals in the future

Emeco had not previously provided guidance to the market for FY14.

Global fleet utilisation is currently at 43%, which has remained flat from the time of the full year FY13 results. As anticipated, utilisation rates have stayed at these levels due to competitive market conditions and ongoing softness in activity, particularly in commodities such as gold and thermal coal in Australia and Indonesia.

Pleasingly, activity in Canada is improving as the oil sands market enters winter. There are positive signs of improving activity in Australia with an increased level of inquiry, however the Company expects the resumption of activity to be slow but gradual in this market as the mining industry continues to adopt a cautious approach. The Company is also pursuing a number of positive business development opportunities in the copper producing region of Chile.

The seasonal factor in Canada and the anticipated improvement in utilisation in Australia and Chile are the key factors which will influence a meaningful improvement in earnings for Emeco in the second half.

Furthermore, the Company has continued to generate strong free cash flow in 2013. Emeco has reduced its net debt position during the calendar year by $78 million, from $455 million at 31 December 2012 to $377 million today, including a further $13 million to date in Q2 FY14. Debt reduction will continue to be delivered through a combination of operating cash flow, working capital release, asset disposals and lower capex.

Segment conditions

H1 FY14 earnings have been impacted by customers' ongoing caution towards earth moving activities and focus on reducing operating expenditure in light of the ongoing subdued global commodity environment.

The **Australian** business has remained challenging, particularly in Emeco's main commodity sectors of thermal coal and gold. Overburden activity remains depressed as miners focus on production, which has significantly reduced overall earthmoving volumes in the short-term. Furthermore, the Australian market remains highly competitive which has significantly impacted rental rates resulting in margin pressure for this business.

Emeco has experienced a higher level of inquiry from customers in recent months, however, the conversion of these inquiries is expected to be gradual as the industry continues its cautious approach to resuming activity. The strong relationships Emeco has developed with customers means the Company is well positioned to benefit from an improvement in the Australian market.

In **Canada**, utilisation rates have been in line with expectations in Q1 FY14, reflecting typical moderate activity in summer works in the oil sands market. Utilisation is increasing and is expected to continue through to full utilisation in Q3 FY14. This is in line with seasonal trends that Emeco has traditionally experienced and the establishment of direct supply arrangements with the major oil sands producers.

Emeco's performance in **Chile** remains positive as the Company continues to broaden its customer base following a successful entry into the market in FY13. Emeco's expansion into Chile has provided the Company with further geographic and commodity diversification. Emeco is currently working with its customers to renew some contracts early in H2 FY14 and to secure additional work through various tenders currently in the market.

In **Indonesia** utilisation is currently at zero, however, the Company has recently completed a cost reduction initiative and has successfully executed asset sales of $18 million year to date, reducing the level of capital invested in this business. The Company will further downsize its capital base in Indonesia through the redeployment of fleet to other markets, pursuing asset sales where appropriate, and seeking ongoing rental opportunities in the short to medium-term. Emeco's Board will work closely with the Company's newly appointed Managing Director Ken Lewsey and the executive leadership team in considering its long-term strategy for the Indonesian business.

Operational focus

Emeco 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 through strong cash flow generation.

Firstly, Emeco's strategy for diversifying earnings is through targeting new markets over the medium-term. This includes looking at redeployment opportunities in the Americas by leveraging Emeco's operations in Canada and Chile.

Secondly, the Company has continued to work closely with its customers in current markets to ensure it is responsive and flexible, particularly given their unique requirements in the prevailing conditions.

Thirdly, a disciplined approach to balance sheet management has been a core focus at Emeco to ensure the Company remains in a robust position to be able to respond to customers' needs. Emeco is operating within its original banking covenants, however, the Company obtained amendments on two covenants (as announced on 22 October) to provide additional financial flexibility while executing the debt reduction strategy. Over CY13 to date, Emeco's net debt position has reduced from $455 million to $377 million through a combination of free cash flow, working capital release, asset disposals and lower capex. The Company has had particular success with group-wide asset sales, totalling $24 million in the FY14 to date and expects total capex to be between $30 million and $40 million in FY14.

Outlook

While utilisation has been flat in Q1 FY14, we have seen evidence of an improvement in Q2 FY14 in Canada, which is benefiting from expected seasonal effects that will flow into Q3 FY14. As outlined in the review of segment conditions, Emeco is experiencing an increased level of inquiry in Australia and anticipates the conversion of opportunities to be at a gradual rate in H2 FY14. The development of business opportunities in Chile is also likely to result in increased levels of utilisation in the H2.

Furthermore, Emeco will continue to maintain a disciplined approach to balance sheet management to ensure the Company remains well-positioned to respond to customers' needs and deliver shareholder value.

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About Emeco **emecogroup.com**

Established in 1972, Emeco is the world's largest, independent mining equipment rental business and services major resource projects across Australia, Canada, Chile and Indonesia. Emeco pursues a best in class asset management strategy and operates a global fleet of equipment from a range of original equipment manufacturers to deliver the most effective equipment rental and maintenance solutions for its customers. Emeco is a publicly listed company on the Australian Securities Exchange (ASX:EHL).