



Emeco Holdings Limited

ACN 112 188 815

Market Release
25 February 2009

EMECO ANNOUNCES RECORD 1H09 NPAT OF \$39.0M (UP 27.9% PCP) AND DECLARES INTERIM DIVIDEND OF 2.0 CENTS PER SHARE

- First half NPAT of \$39.0 million, up 27.9% pcg
- Operating cash flow including sustaining capex of \$51.4 million
- Free cash flow including growth capex and dividends of \$5.4 million
- Debt facilities headroom of \$273.6 million, after \$13.2 million net cash repayment in 1H09
- Comfortably compliant with debt covenants
- Declares interim dividend of 2.0 cents per share, fully franked
- Management confirm NPAT guidance of \$65–\$72m for FY09

Financial Performance Summary

Emeco Holdings Limited (ASX: EHL) today reported a record interim net profit after tax of \$39.0 million for the six months ended 31 December 2008 representing a 27.9% increase on the prior corresponding period (“pcg”) and in line with FY09 earnings guidance on a pro-rata basis previously provided to investors.

Emeco’s Managing Director, Laurie Freedman said “Consecutive strong periods of performance signify increasing maturity and acceptance of the rental model in domestic and international markets. In particular, we were very pleased with the performance of our international operations during 1H09.

However, the entire resource and construction sectors are facing unprecedented volatility from which Emeco is not immune and we expect this to impact earnings to some degree. Emeco is actively managing these inherent downside risks, and the company’s ability to generate free cash flow under such conditions demonstrates the flexibility of the business model and positions us to capitalise on a return to less volatile market conditions.”

	1H08 A\$M	2H08 A\$M	1H09 A\$M	Change PCP (%)
Revenue	288.2	329.7	309.8	7.5
EBITDA	98.6	114.8	128.6	30.4
EBITA	55.4	64.9	69.7	25.8
<i>Margin (%)</i>	<i>19.2%</i>	<i>19.7%</i>	<i>22.5%</i>	-
NPATA	31.4	37.2	39.2	24.5
NPAT	30.5	37.0	39.0	27.9
EPS (cents)	4.8	5.9	6.2	28.7
Working capital	285.8	237.0	262.3	(8.2)
Funds employed	870.8	843.3	918.3	5.5

The Group’s revenue for 1H09 of \$309.8 million was up 7.5% pcg while EBITA of \$69.7 million was up 25.8% when compared to 1H08 reflecting an increased contribution from the global rental division which operates at higher margins than the Equipment Sales and Parts divisions. The combination of increased rental contribution to group EBITA and higher average rental utilisation resulted in EBITA margins increasing from 19.2% in

1H08 to 22.5% in 1H09. Contribution of the international operations was also positively impacted by a lower AUD during the period.

Profit on sale of rental assets (POSA) contributed \$1.5 million in 1H09 against \$2.2 million in 1H08. Due to high utilisation and significant demand during the period, asset lives were extended to meet demand resulting in minimal disposals during the period. With lower utilisation expected in the short term, the Company will revert to a standard disposal program in line with its asset management practices. Net borrowing costs were 23% higher due to increased debt levels and increased margins on the new senior debt facility renegotiated in August 2008.

Group funds employed increased 8.2% or \$75 million over 1H09. The growth in funds employed was primarily attributable to the translation effect of the AUD devaluation from 30 June 2008 to 31 December 2008. If the AUD remained unchanged, funds employed would have remained relatively constant over the six month period, in line with the Company's focus on capital efficiency. Despite earnings growth in 1H09, working capital excluding currency translation effect has remained constant which was in line with Management expectations.

Due to the higher utilisation levels in 1H09, ROFE increased to 14.9% at 31 December 2008 on a 12 month rolling basis up from 14.0% at 30 June 2008.

1H09 Regional Review

The 1H09 group result is characterised by relatively flat earnings growth in the Australian Rental division with strong earnings growth contribution from Indonesia, Canada, USA and Australian Sales on a pcp basis.

The Australian Rental division contributed approximately 50% of the group's revenue for the half year and delivered \$42.4 million EBITA, up 3% pcp. The division was experiencing strong demand in thermal coal, gold, iron ore and coking coal for most of the period, however there was a rapid deterioration in customer activity in coking coal and base metals during December. WA Rental division earnings were adversely impacted by fleet redeployment logistics in the first quarter and significant customer churn during the period, however this was offset by strong earning contributions from QLD, NSW and Victoria.

Australian Sales division contributed \$5.1 million EBITA in the period; up 39% pcp. This EBITA growth was underpinned by strong demand and higher margins achieved by way of inventory purchases at higher AUD rates during FY08 which translated into strong margins in 1H09 as local asset prices increased relatively due to a weakening AUD.

The Canadian Rental division continued its focus on reorientating the fleet towards larger mining equipment. The increased mining fleet and further penetration into the oil sands sector underpinned a 56% increase in an EBITA contribution to \$11.1 million on a pcp basis. While civil construction activity is expected to remain constant, there has been a notable increase in mining equipment churn as various oil sands projects have recently been deferred which has created some surplus equipment capacity in the region.

Indonesian Rental division continues to provide strong EBITA to the group with targeted margins generating a 1H09 EBITA of \$8.7 million up 280% pcp. The significant earnings growth reflects improved earth moving volumes in the region particularly related to coal mining, further penetration of the Emeco model and greater customer diversification across a combination of miners and contractors.

USA Rental division achieved an average utilisation of 77% over 1H09 contributing EBITA \$1.2 million. Activity in the Appalachian coal region remains buoyant due to its demand from domestic power generation with second half rental demand forecast to increase with additional projects already underway.

Trading conditions for the Europe Sales division have progressively deteriorated through the half year which resulted in EBITA loss of \$1.2 million for 1H09. While the company has limited capital of \$32 million invested in this business, the negative earnings contribution was sub optimal, precipitating a strategic review of the business.

Cash Flow

Emeco generated strong operating cash flow after sustaining capex of \$51.4 million for the six months to 31 December 2008 representing 8.2 cents per share. Free cash flow after discretionary items of growth capex and dividends totalled \$5.4m for the period.

The Group's net working capital increased \$25.3 million from 30 June 2008 to 31 December 2008. However this balance sheet movement comprised an increase of \$34.9 million attributable to the translation effect of the AUD devaluation offset by a real net cash reduction of \$9.6 million. Working capital movements on a net cash basis to 31 December 2008 were in line with the Company's guidance provided in August 2008 and reflect an ongoing focus to achieve optimal working capital levels.

Net sustaining (maintenance) capital expenditure which comprises asset replacement purchases and rebuilds less rental asset disposals totalled \$41.4 million for the period. Net sustaining capex is considered a cash outflow necessary to maintain the current fleet size and hence the 1H09 spend is reflective of sustaining capex levels going forward subject to some periodic fluctuation.

While \$30.3 million in growth capex was invested during 1H09 which was largely in the first quarter, this was significantly lower than \$106.8 million invested in FY08, reflecting the Company's current strategy to effectively decrease incremental capital investment in the short term. Emeco has traditionally used available debt to fund growth capital, however Emeco remains cautious and is focusing on achieving maximum utilisation and cash flow from the existing asset base which will preserve capital in readiness for compelling opportunities which the current environment may present.

The combination of stable working capital levels, sustaining capex flexibility and a significant reduction in growth capital is expected to generate significant free operating cash flow going forward which will continue to enhance the balance sheet for future growth opportunities at the appropriate time.

Balance Sheet

The Company's net debt at 31 December 2008 was \$411.7 million comprising \$400.4 million of senior debt less cash of \$9.8 million and \$21.1 million of finance leases representing an overall increase of \$63.2 million. This increase was driven by a \$76.4 million increase due to a lower AUD offset by debt repayment of \$13.2 million, reducing gearing levels to 1.7 times (Net Debt : EBITDA) or 36% (Net Debt : Net Debt + Equity).

The Company remains well capitalised with available headroom of \$273.6 million through its \$595 million 3-year revolving debt facility, \$35 million working capital facility and \$55.3 million of finance lease facilities. The Company remains comfortably compliant with all of its debt covenants.

Stephen Gobby, Emeco's Chief Financial Officer noted "With 2.5 years until our senior debt facility matures, a quality banking syndicate, significant covenant headroom and strong operating free cash flow with capex flexibility, Emeco has no need to raise additional capital and this gives us the opportunity to position our balance sheet according to the evolving outlook for our business. Prudent capital management is our immediate priority, however we expect to be well positioned when the outlook improves and compelling and logical opportunities arise."

The Company continues to observe stable equipment asset values for its equipment fleet range due to a combination of factors including exchange rate movements, production cuts by equipment manufacturers, a trend towards used equipment over new and general quality of the Emeco fleet due to its world class asset management practices. As a result Emeco has net tangible assets per share of \$0.79 as at 31 December 2008.

Final Dividend

A fully franked interim dividend of 2.0 cents per ordinary share has been declared by the Board and is in line with the 2.0 cents declared a year earlier. The interim distribution will be paid on 9 April 2009 on shares registered at 5.00pm on 10 March 2009. The interim dividend is consistent with the companies stated dividend policy of 35% to 45% repatriation of annual profits.

Outlook and Business Model

Since November 2008 the global economy and financial markets have continued to weaken, resulting in a rapid deterioration in the global mining and construction industries in recent months. In particular Emeco is experiencing an emerging decline in demand from customers exposed to base metals and coking coal and from customers forced to close mines due to commodity price pressure rendering them sub economic.

These declines have been to date partly offset by demand from customers exposed to thermal coal, gold and iron ore, and those looking to preserve capital and operating flexibility through the rental model. However, Emeco expects some utilisation volatility in the short term as customers continue to adjust to the current operating environment.

Emeco believes downside risks to the previous FY09 earnings guidance have now emerged and the Company now anticipates net profit after tax for the full year to be in the range of \$65 - \$72 million, broadly in line with average consensus estimates of approximately \$70 million and with FY08 earnings. Furthermore, the present market volatility and the uncertain global outlook for Emeco's customer base have significantly increased the uncertainty of any forecasts made in the current environment.

Notwithstanding an expected weaker second half, Emeco's rental model is expected to capitalise on opportunities resulting from tighter credit and operating conditions for its customers and the significant levels of infrastructure investment targeted by recently announced government initiatives. Mr Freedman said, "The utilisation we have assumed for the balance of FY09 reflects the current uncertainty driving the volatile behaviour in the industries we serve. Despite this outlook, we are tendering on a number of significant rental fleets across the business, which if successful, will improve our current utilisation forecast."

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