

Market Release
21 February 2013

EMECO DELIVERS 1H13 OPERATING NPAT OF \$25.1 MILLION IN LINE WITH GUIDANCE WITH IMPROVED PERFORMANCE ACROSS ITS INTERNATIONAL BUSINESSES

Key Points

- ◆ **Emeco delivers Operating NPAT of \$25.1 million in line with guidance of \$23-26 million given in November 2012, down 14.0% on 1H12**
- ◆ **Statutory NPAT of \$22.5 million**
- ◆ **Global fleet utilisation averaged 74% in 1H13, currently at 67%**
- ◆ **Solid earnings growth in Canada and Indonesia and a maiden contribution from Chile partially offsetting softness in Australia**
- ◆ **Chile business on track with recent contract win increasing total fleet under contract to \$76 million**
- ◆ **Previously announced contract roll-offs in Australia now complete with the competitive environment impacting margins on contract wins and renegotiations**
- ◆ **Customer enquiry levels in Australia increasing with early signs of improved trading conditions from late 2H13**
- ◆ **FY13 growth capital program largely completed in 1H13 with cash generation a focus in 2H13**
- ◆ **Interim ordinary dividend equal to prior corresponding period at 2.5 cents per share, fully franked**

Emeco Holdings Limited (ASX: EHL) today reported operating net profit after tax (NPAT) of \$25.1 million for the half year ended 31 December 2012, representing a 14.0% decrease on the prior corresponding period (PCP). Statutory NPAT for the half was \$22.5 million which reflects the write-off of capitalised borrowing costs from the refinanced debt facility; the cost of a number of redundancies in the Australian business; and a bad debt expense incurred as part of the settlement of a long running legal action in Indonesia.

Keith Gordon, Managing Director and CEO said "The first half was undoubtedly very challenging in the Australian market where the difficult circumstances facing many of our customers flowed through to the demand for rental equipment. This, coupled with increasing competition, affected our earnings and returns. However, it was pleasing to see the step up in contribution from Canada and Indonesia and a positive contribution coming from Chile in our first period of operation in that market. Our geographic spread helped to mitigate some of the impact of the downturn in the Australian market."

"As we look forward, we believe that utilisation in Australia has bottomed out as the contract roll-offs we announced in November are now complete and customer enquiry levels have picked up since the New Year. Subject to the successful conversion of a number of customer enquiries currently on foot, we expect activity in our Australian business to begin to recover towards the end of FY13. We anticipate further earnings growth in Canada and Chile over 2H13 while we expect a short term decline in utilisation in Indonesia before a recovery early in FY14."

REGIONAL REVIEW

The **Australian** business continues to work closely with key customers to adjust to the reduced mining activity over the past 6 months. Overall 1H13 performance was adversely impacted by reduced customer activity amid commodity price volatility. Consistent with the wider mining services sector Emeco experienced challenges to fleet utilisation and margins throughout this period.

On 9th November 2012, Emeco provided an operating update which flagged that a number of rental contracts in Australia may not be renewed when they expired. As a result of finalisation of those contract reviews, fleet utilisation currently sits at 55%. There are no further major contracts due for renewal in 2H13. Rolling 12 month (R12) Return of Funds Employed (ROFE) for the Australian business fell to 19.4% at 31 December 2012 (1H12: 22.7%). As a result of the lower activity levels, a number of redundancies were implemented, which resulted in a one-off charge of \$0.9 million in 1H13.

A recent improvement in the outlook for some commodities has seen an increase in enquiry levels as miners make production and capital allocation plans for 2H13 and FY14. Although the equipment market in Australia remains competitive, opportunities to put the asset base back to work are being keenly pursued with a number of rental jobs due to commence late in FY13 and 1H14, as customers are looking to preserve capital in the current environment.

Emeco Canada 1H13 average utilisation of 79% compares to 58% in the PCP. Strong operating performance was supported by high activity in the oil sands market and the full impact of \$72 million growth capital invested during FY12. Current utilisation of 92% is expected to continue over the remaining winter period with a positive outlook for activity in the Canadian summer providing good momentum into FY14.

Emeco continues to diversify its earnings base in Canada with revenue direct from miners increasing significantly over the half. The Company will continue building on its direct supply relationships with the oil sand producers delivering more consistent demand for its fleet over time.

In addition to growing rental revenue, the Canadian business has been pursuing a number of maintenance opportunities. The business has secured its first contract providing maintenance services to an oil sands producer which commenced in early 2H13, with discussions well progressed with other producers regarding similar arrangements.

The **Indonesian** business benefited from growth capital of \$30 million deployed during 1Q13 and the execution of new contracts late in FY12. Utilisation averaged 77% in 1H13 (73% PCP) with EBIT up 118% on PCP. However, the Company remains cautious on the outlook for the Indonesian thermal coal market. It is anticipated that the return of some fleet will reduce utilisation to Australian levels in the short term with enquiries indicating renewed demand for this equipment early in FY14.

Emeco has recently settled two legal actions with an Indonesian customer announced to the market on 1 June 2012. Emeco had pursued an action against the customer to recover US\$1.95 million in rental charges. Agreement has been reached with the customer whereby the customer has agreed to pay Emeco US\$1.2 million in full and final settlement of Emeco's claim. The customer had also subsequently initiated an action of US\$22.3 million for loss and damage for which it claimed Emeco was responsible. The customer has since withdrawn this claim.

The recent expansion into **Chile** has performed well with average utilisation of 94.5% since operations commenced in September 2012. The business is on target to have \$100 million invested by early FY14 which includes \$21 million redeployed from Australia and Indonesia during FY13. Emeco currently has approximately \$53 million of equipment in work in Chile with a recent contract win for a large fleet of equipment bringing the value of equipment in work to \$76 million by early March 2013.

Given the Chile business has quickly established a solid earnings base, it is now moving to develop an in-house maintenance capability to compliment the rental offering in this market. Furthermore, in-bound enquiries for other assets classes are emerging, providing an opportunity to redeploy idle fleet from other regions.

OPERATING FINANCIAL PERFORMANCE

A\$ million	1H12	2H12	1H13	PCP %
Revenue	273.0	292.2	246.7	(9.6)%
EBITDA	119.9	141.8	110.7	(7.7)%
EBIT	54.3	71.7	49.1	(9.6)%
NPAT	29.2	41.9	25.1	(14.0)%
Statutory NPAT ¹	28.9	40.8	22.5	(22.1)%
R12 ROC (%)	11.4%	13.2%	11.8%	0.4%

¹ Includes one-off redundancy program in Australia (\$0.6 million post tax)

¹ Includes one-off bad debt write-off of Indonesian debtor (\$0.6 million post tax)

¹ Includes write-offs of unamortised borrowing costs from previous debt facility (\$1.4 million post tax)

Group operating revenue was \$246.7 million in 1H13, down 9.6% on PCP, with the decline primarily attributable to reduced revenue from sale of machines and parts as these businesses were further downsized (down 76.8% versus PCP). Rental revenue of \$206.5 million remained relatively flat compared to PCP, the result of average Group utilisation declining to 74% in 1H13 (1H12: 85%), offset by additional revenue from growth capital invested over the past 12 months. Maintenance revenue was down 22.9% to \$22.2 million (1H12: \$28.8 million) due to the completion of a number of fully maintained projects early in 1H13.

Operating EBITDA and Operating EBIT margins were 44.9% (1H12: 43.9%) and 19.9% (1H11: 19.9%) respectively. The Australian business experienced lower margins primarily due to a lag effect between declining revenue and cost reduction initiatives undertaken. However margins increased in Indonesia and Canada from improvements in direct operating cost performance and higher revenue over fixed overhead costs.

R12 Operating Return on Capital (ROC) increased to 11.8% at 31 December 2012, up from 11.4% achieved at 31 December 2011. This increase captures strong performance across the Group during 2H12. However, when compared to 30 June 2012, ROC was down from 13.2% due to the recent slowdown in the Australian market coupled with the lagged benefit of expansion into the Chilean market.

BALANCE SHEET AND CASHFLOW

The Group generated operating cash flow of \$101.6 million (1H12: \$114.0 million) with free cashflow before growth capital and capital management of \$47.7 million (1H12: \$64.3 million). After growth capital (\$78.2 million), dividends (\$22.0 million) and share buybacks (\$16.9 million) the Group's free cashflow was negative \$69.4 million (1H12: (\$20.2 million)). Over 2H13 the business is expected to generate significant free cashflow due to a significant reduction in capital expenditure.

Emeco's focus on capital management continued during the half with the completion of a 5% share buyback at an average price of 53.4 cents per share. The Board has also declared an interim ordinary dividend of 2.5 cents per share, fully franked reflecting an improving outlook and confidence in the Company's financial position. The dividend will be paid on 27 March 2013 on shares registered at 5.00pm AEDST on 5 March 2013. The declared dividend represents a payout ratio of ~60% of 1H13 Operating NPAT.

The Group's net debt was \$455.1 million at 31 December 2012, comprising total debt of \$471.2 million less cash of \$16.1 million, with undrawn facilities of \$153.9 million. Gearing was 1.80 times (Net Debt : Rolling 12 months EBITDA), which is within Emeco's target range of 1.5 – 2.0 times. The Company completed the refinancing of its \$450.0 million senior debt facility in September 2012 extending the average maturity profile to 4.7 years.

OUTLOOK

“The last 6 months have demonstrated the value of having a presence in major mining geographies around the world to complement our significant presence in Australia” Mr Gordon said. “The contribution from our Canadian, Indonesian and Chilean businesses has been important as the Australian business has been subdued and we are expecting those businesses to step up further as we move forward”.

“However, the performance of the Australian business remains a key driver of overall financial performance for the Group. Following a relatively strong first quarter in FY13, we experienced a drop in activity early in the second quarter resulting in earnings for 1H13 being lower than the PCP. Although we are expecting a lift in utilisation in the fourth quarter, it is likely that Group earnings in 2H13 will be slightly below those of the first half before improving in FY14.”

“Our more positive view towards FY14 is supported by increased enquiry levels in Australia over the past two months. We believe that utilisation in this business has now bottomed out given that we have no significant contracts finishing over the remainder of the second half. Subject to the successful conversion of a number of customer enquiries currently on foot, we expect higher utilisation in the fourth quarter providing momentum as we enter FY14. As we look to future opportunities we understand that our Australian customers still face challenges, particularly in the coal sector, and we will work closely with them to ensure we continue to add value to their operations.”

“We will continue to pursue our strategy for the business, focusing on value creation for our shareholders throughout the mining cycle. In doing so, we will consider more geographic expansion in order to further extend our coverage of attractive markets around the world and to reduce our dependency on the performance of any one region or commodity. The entry into Chile has demonstrated our ability to successfully establish a business in a new market. We will seek to replicate the experience as we actively consider other markets which would provide further growth or fleet redeployment opportunities for the Company.”

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Investor enquiries:

Keith Gordon
Managing Director and CEO
+61 8 9420 0222

Stephen Gobby
Chief Financial Officer
+61 8 9420 0222

Media enquiries:

Samantha Buller
Manager, Corporate Affairs
+61 8 9420 0222

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.