

ASX Release
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EMECO REPORTS FIRST HALF RESULTS

KEY POINTS:

- **H1 FY14 Operating EBITDA of \$33.1 million, with increased earnings expected in H2 FY14.**
- **FY14 Operating EBITDA guidance of between \$82 million and \$94 million, as the award and commencement of new contracts are now expected to be at a slower rate than previously anticipated.**
- **Strong free cashflow of \$75 million generated in 1H14, which was used to pay down debt.**
- **Global fleet utilisation averaged 45% in H1 FY14; Currently at 53.7%.**
- **Recent step up in utilisation due to recent contract wins in Australia, Canada and Chile across all major commodities which supports higher expected earnings in H2 FY14.**
- **H1 FY14 Operating NPAT loss of \$16.3 million, and Statutory NPAT loss of \$179.8 million that includes goodwill impairment of \$157.9 million.**

Emeco Holdings Limited (ASX:EHL) ('Emeco' or 'the Company') today released its financial results for H1 FY14 and provided revised guidance for its full year earnings.

Emeco reported an Operating Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$33.1 million for the half year ended 31 December 2013, which represented a 70.1% decrease on the prior corresponding period (PCP). Operating Net Profit After Tax (NPAT) was a loss of \$16.3 million and Statutory NPAT was a loss of \$179.8 million. Statutory NPAT included goodwill impairment of \$157.9 million, tangible asset impairment of \$6.5 million, and redundancy costs of \$1.0 million.

Despite the challenging environment, the Company demonstrated its ongoing capacity to generate significant free cashflow, which enabled \$75 million of cash to be applied to reduce debt over H1 FY14.

Emeco Managing Director Ken Lewsey said the challenging and competitive operating environment caused by softness in mining activity had affected the Company's performance in the December half.

"It was no doubt a difficult half for Emeco with our earnings and margins lower, but I am pleased that we made good progress on our strategy of focussing on those things we can control," Mr Lewsey said.

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“This included prudent measures such as restricting capital expenditure to maintaining existing assets and using our solid cashflow from operations and asset sales to reduce our net debt position.”

“Pleasingly, our tendering activity last year is now converting to a number of new contracts being recently secured which is translating into higher utilisation and is already generating improved earnings in the second half.”

FINANCIAL PERFORMANCE

(A\$ million)	1H13	2H13	1H14	PCP \$
Revenue	246.7	193.0	126.4	(120.3)
EBITDA	110.7	77.6	33.1	(77.6)
EBIT	49.1	26.5	(8.3)	(57.4)
Operating NPAT	25.1	10.1	(16.3)	(41.4)
Statutory NPAT ¹	22.5	(16.5)	(179.8)	(202.3)
Free Cashflow ²	(69.4)	60.1	75.0	144.4

¹ Includes one-off costs (post-tax) comprising intangible asset impairments of \$157.9 million, tangible asset impairments of \$6.5 million and redundancy costs \$1.0 million

² Free cashflow comprises operating cashflow, gross capital expenditure, proceeds from asset disposals and capital management

H1 FY14 EBITDA was down on a PCP basis due to:

- revenue impacted by lower utilisation (H1 FY14 average: 45%, H1 FY13 average: 74%) and reduced rental rates due to competition in Australia;
- impact of lower revenue on the Group’s fixed cost base (including Indonesia); and,
- short-term increase in maintenance costs to ready fleet for deployment following recent contract wins in Australia and Canada.

As a result of these factors, EBITDA margins in H1 FY14 were 26.2%, down from 44.9% in H1 FY13. Margins were also impacted by a greater proportion of revenue from lower margin maintenance services compared to the PCP. Margins are expected to recover in H2 FY14 as recently won contracts are executed providing greater leverage on our fixed cost base and increased contributions from rental revenue, which has higher margins.

Goodwill impairment of \$157.9 million relates to the remaining goodwill that arose when Emeco was acquired by two private equity firms in 2005. Although the Group is experiencing improving utilisation in early H2 FY14 and the Company expects continued growth in mining volumes over the long-term, Emeco’s Board has taken a conservative approach in determining the carrying value of the Group’s goodwill at this time. Emeco notes that the impairment is non-cash and is not included in the calculation of debt covenants.

REGIONAL REVIEW

Emeco global fleet utilisation



Global fleet utilisation remained flat for the majority of H1 FY14, averaging 45% over the period. Utilisation was impacted in the half by customers' minimising earth-moving activities and an industry-wide focus on reducing operating expenditure, as flagged in the operating update on 18 November 2013.

However, as expected, utilisation is now moving higher with global fleet utilisation increasing from a low of 41.7% in September 2013 to 53.7% currently. This has been underpinned by the new contracts in Canada, Australia and most recently in Chile. Emeco's strong, long-term relationships with major mining companies in those geographies positioned the Company well to win new contracts and will remain a core focus for the Group in the second half.

Activity was subdued in **Australia** for most of H1 FY14, with utilisation reaching a low point of 36% in November 2013. In particular, earth-moving activity was lower. However, Emeco expects customers to revert to life of mine operating plans and resume operations at regular strip ratios. Furthermore, activity and margins were affected by the increased level of competition within the Australian market.

In recent months Emeco has converted a number of tenders into contract wins in Australia across gold, coal and iron ore late in H1 FY14 as customers increase earthmoving activities, which has benefitted utilisation into H2 FY14 (currently 44.2%). Emeco continues to experience a competitive market, however, current inquiry levels indicate a gradual improvement in activity is expected to continue. Emeco is working closely with its customers to best position the Company to benefit from such activity increases.

In **Canada**, operating conditions in Q1 FY14 were soft, reflecting the seasonal downturn over summer months in the oil sands market. Utilisation increased in Q2 FY14 and this has continued into the second half, with the fleet in Canada now operating at near-full utilisation 84.0%. This has been due to the onset of the oil sands winter works program and the Company's strategy to establish direct supply agreements with the major oil producers.

In **Chile**, H1 FY14 utilisation was in line with expectations, averaging 75%. Segment revenue of \$12.5 million was in line with H2 FY13 (\$12.8 million) and up 170.5% on the PCP (when operations commenced). There was a temporary decline in utilisation due to the short term reduction of fleet at a customer's project, however this was recently replaced with a new contract win resulting in utilisation currently sitting at 77.2%.

In **Indonesia**, utilisation remained at near zero in H1 FY14 due to ongoing weakness in the Indonesian thermal coal market. The Company successfully executed asset sales of \$19.1 million in the half which has continued into H2 FY14 with a further \$25.0 million of asset disposals expected to be completed by the end of February 2014.

It also undertook a cost reduction initiative in October 2013 reducing cash costs from \$3.4 million in 1H14 to approximately \$1.8 million in 2H14. Emeco has a small fleet currently operating in Indonesia and the Company will continue to seek ongoing rental opportunities in the short to medium-term whilst the long-term strategy for the business is finalised.

BALANCE SHEET AND CASHFLOW

As previously flagged, strong cashflow conversion has come via a combination of EBITDA, working capital release, reduced capex and asset disposals. In H1 FY14 Emeco generated \$64.9 million of cashflow from operating activities (H1 FY13: \$101.6 million) and released \$28.3 million in cash from asset disposals (H1 FY13: \$16.8 million). Furthermore, the Company spent \$18.3 million in capex in the period.

As a result, net debt was further reduced from \$416.2 million at 30 June 2013 to \$351.2 million at 31 December 2013, from free cashflow of \$75.0 million. This was partially offset by \$8.9 million from the translation impact of a lower Australian dollar (a portion of Emeco's debt is held in USD and CAD).

As at 31 December 2013, Emeco's gearing was 3.2x (Total Debt:12 months rolling Operating EBITDA), below the recently amended debt covenant of 3.5x.

Emeco continues to prioritise its debt reduction strategy in H2 FY14 and considers it prudent to explore a range of options which may provide a more flexible debt structure for the business, in the current climate.

Emeco Chief Financial Officer Stephen Gobby said "Although we have been experiencing tough trading conditions, our flexible business model has enabled us to maintain strong generation of cashflow which we have used to significantly reduce debt over the past year."

Emeco has had success in asset disposals to date and this has continued in H2 FY14, with a further \$35.1 million expected to be completed by the end of February 2014 which includes disposals in Indonesia. The business also has a strong history of consistently producing cashflow from operations, which is used to pay down debt during periods of lower utilisation. Further cashflow generation early in H2 FY14 is expected to reduce net debt to approximately \$321 million at the end of February 2014.

Emeco also proactively sought to reduce its cost base in advance of and during the challenging conditions over the past 12 months. Operating cash costs have been reduced from \$280 million to \$180 million (annualised) from H1 FY13 to H1 FY14. Similarly, group wide overheads have been reduced from \$84 million to \$66 million (annualised) over the same period.

"We have been proactive in taking the necessary steps to best position Emeco in this competitive market and allowing it to grow as utilisation improves, similar to how the business withstood and recovered strongly from the downturn caused by the GFC," Mr Gobby said.

In line with previous announcements, the Board has declared nil interim dividend for H1 FY14 (H1 FY13: 2.5 cents) given the current market conditions.

OUTLOOK

Emeco expects an improvement in earnings in H2 FY14. The Company has assessed its FY14 forecast and expects FY14 Operating EBITDA to be between \$82 million to \$94 million. This is revised from the guidance of \$90 million to \$105 million operating EBITDA for FY14 provided on 18 November 2013.

Emeco Managing Director Ken Lewsey said the revised FY14 earnings outlook was due to the slower than expected award and commencement of new contracts. However, the expected increase in H2 FY14 earnings implied in the full year guidance is based on the recent contract wins with some further wins assumed through the second half. The Company generated EBITDA of \$8.6 million (unaudited) in January 2014, reflecting the impact of recent improvements in utilisation.

“Emeco is currently experiencing an improvement in utilisation which supports higher earnings in the second half,” Mr Lewsey said.

“This improvement is underpinned by high activity levels in the Canadian oil sands market over winter, recent contract wins in Australia and Chile, and further growth from the conversion of business development opportunities across these three markets.”

“We expect any further recovery in activity to be gradual across our markets, however, we believe our quality fleet, ability to execute and leading safety performance are key strengths that position the Company well to continue winning work in the current competitive market.”

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About Emeco

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).

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