



ASX Release
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Level 3, 71 Walters Drive
Osborne Park WA 6017, Australia
PO Box 1341, Osborne Park DC WA 6916, Australia
T +61 (0) 8 9420 0222 F +61 (0) 8 9420 0205
E corporate@emecogroup.com
emecogroup.com
Emeco Holdings Limited ACN 112 188 815

INDONESIAN STRATEGIC REVIEW AND OPERATING UPDATE

- Strategic review complete with decision to exit the Indonesian business
- Closure will remove annual operating costs of \$3.5 million and realise cash of \$40 million in 2H14
- Allows focus on driving improved utilisation in three core markets and exploring broader strategies
- Early cessation of oil sands winter works in Canada due to abnormally warm weather in late March, reducing utilisation earlier than expected
- Largest customer suffered unplanned outage at processing facility which unexpectedly impacted Canada's Q4FY14 earnings
- Recent contract wins in Australia slower to be awarded than expected, however provides positive start to FY15
- FY14 Operating EBITDA now expected to be between \$72 million to \$75 million
- New debt structure ensures capital structure certainty and flexibility

Emeco Holdings Limited (ASX:EHL) today announced the outcome of its strategic review of the Indonesian business and provided an update on trading conditions across the business.

INDONESIAN STRATEGIC REVIEW

In August 2013 Emeco announced the downsizing of the Indonesian business following a slowdown in Indonesian coal mining activity and a number of significant contract losses. Emeco also announced that its long-term position in Indonesia would undergo a thorough strategic review. This review was conducted by Emeco's recently appointed Managing Director Ken Lewsey with the executive leadership team and Board.

With this review now complete, Emeco has decided to exit the market due to expected poor earnings from the business over the long-term given the unfavourable conditions in the Indonesian mining industry.

"The dynamics of the Indonesian mining industry do not support us maintaining an ongoing presence in this market," Mr Lewsey said.

"Our strategic review considered a range of factors, including uncertainty of government policy for the mining industry, significant excess equipment in the market and the diminishing quality of the customer base. This has led us to conclude that utilisation is likely to remain very low for an extended period."

The closure of the Indonesian business will result in charges of \$41 million (pre-tax) in 2H14. This amount includes non-cash charges of \$38.5 million, which primarily relates to impairment of rental equipment sold in 2H14. Further non-cash charges of \$13.5 million (post-tax) in relation to Deferred Tax Assets and Foreign Currency Translation Reserve will also be incurred.

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The exit from Indonesia will remove operating costs of approximately \$3.5 million per annum. Furthermore, Emeco will realise cash of approximately \$40 million in 2H14, which includes assets already sold during the current half. Additional fleet of approximately \$10 million will be relocated to the Australian business.

“Closing the Indonesian business removes an operation that has been loss making in recent years and releases capital which can be directed towards other opportunities in the future. This will also allow us to focus our time on driving improved utilisation across our three core markets of Australia, Canada and Chile and also exploring broader strategic options for the Company,” Mr Lewsey said.

Indonesia will be reported as a discontinued operation for the 12 months to 30 June 2014.

OPERATING UPDATE

Emeco has reviewed its FY14 forecast and now expects FY14 Operating EBITDA to be between \$72 million to \$75 million. Emeco previously provided operating EBITDA guidance of \$82 million to \$94 million for FY14.

In February 2014, Emeco reported an increase in group utilisation to approximately 54% due to the award of several new contracts late in 1H14 in Australia and Chile and the commencement of winter works in the Canadian oil sands market. Continuing volatility in activity levels across all of Emeco’s markets has resulted in utilisation fluctuating around the 50% level with no material improvement in utilisation expected until the new financial year.

The reduction in expected utilisation over Q4FY14 and the consequent reduction in expected FY14 earnings is due to the following factors:

- Earlier-than-expected cessation of the winter works program in oil sands as a result of abnormally warm weather in Western Canada in late March which has reduced utilisation
- Emeco’s largest customer in the Canadian business has suffered an unplanned outage at its oil processing facility, temporarily reducing earthmoving volumes over May and June 2014
- Contract awards in recent weeks in Australia have been slower than expected with no earnings contribution in FY14 as previously expected

LOOKING FORWARD

Despite the fact that contract awards have been slower than expected which has impacted earnings for 4QFY14, we have been successful in winning some new longer term contracts that will provide Emeco with a positive start to FY15. Pleasingly these contract wins are Australian based and are a strong demonstration of our ability to work closely with our customers and to provide real value during a difficult time in the market. The current business development activity also provides a positive outlook for the Chilean and Canadian business moving into FY15.

Net debt is currently \$328 million with cash on hand of \$40 million providing the Company with a sound liquidity position which is expected to grow in the short term from operating cashflow and disposals arising from ongoing fleet optimisation, while limiting operational capital expenditure given current utilisation levels. The structure of Emeco's US\$335 million Senior Secured Notes, which is Emeco's principal source of debt, also provides the Company with capital structure certainty and flexibility to manage through these market conditions and be positioned to participate in a broad based recovery in activity levels in the future.

Emeco will be releasing its FY14 financial results on 21 August 2014.

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Investor enquiries

Ken Lewsey
Managing Director & CEO
+61 8 9420 0222

Stephen Gobby
Chief Financial Officer
+61 8 9420 0222

Brendan Shalders
Investor Relations Manager
+61 8 9420 0222

Media enquiries

Adrian Watson
FTI Consulting
+61 8 9485 8888

About Emeco

Established in 1972, Emeco is the world's largest, independent mining equipment rental business and services major resource projects across Australia, Canada and Chile. 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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