

# Mining Services Sector

*“...getting back to work!”*

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# Agenda

- Economic Outlook
- Australian Resources Sector:  
Prices/Volumes/Infrastructure
- Mining Services Sector
- Recent CEO Feedback
- Stock Picks

# Economic Outlook

It's been global, synchronised and deep...

	2008	2009 (est.)	2010 (est.)
<b>Global</b>	1.6%	-2.9%	2.6%
<b>Developed Economies</b>	0.7%	-3.7%	2.0%
<b>Australia</b>	2.1%	-1.2%	1.5%
United States	1.1%	-2.5%	2.7%
Euro	0.7%	-4.1%	1.2%
United Kingdom	0.7%	-3.6%	1.7%
Japan	-0.7%	-6.8%	2.3%
<b>Emerging Economies</b>	4.9%	0.1%	4.7%
China	9.0%	7.2%	8.5%

Source: JPMorgan. Annual percentage change in GDP

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# Economic Outlook

...with Australia doing better than most

- Australia is in recession for the first time since 1991

...but we are in better shape than most due to having:

- Substantial fiscal & monetary policy ammunition
- A variable interest rate structure
- A resilient & undersupplied housing market
- Well capitalised banks
- And we export primarily to China and emerging Asia (the only economies on the planet not in recession).

# Economic Outlook

...and the rest now slowly starting to recover.

- Global GDP to fall 2.9% in 2009 with developed economies down 3.7% (worst since WWII)  
...but global manufacturing indicators have stabilised and the start of the recovery is taking shape:
- Global financial system is becoming functional again
- The correction in the global inventory cycle is ending
- Fiscal & monetary policy responses are gaining traction
- US to rebound - late 2009/early 2010

# Australian Resources - Prices

- Oil prices underpin future investment – Pluto, Gorgon, CSM to LNG at Gladstone.
- Bulk commodities still receiving historically high prices despite recent falls – underpins long term investment in the Pilbara, Bowen Basin, Surat Basin & Galilee Basin.
- Precious metals prices remain high.
- Base metal prices are recovering.

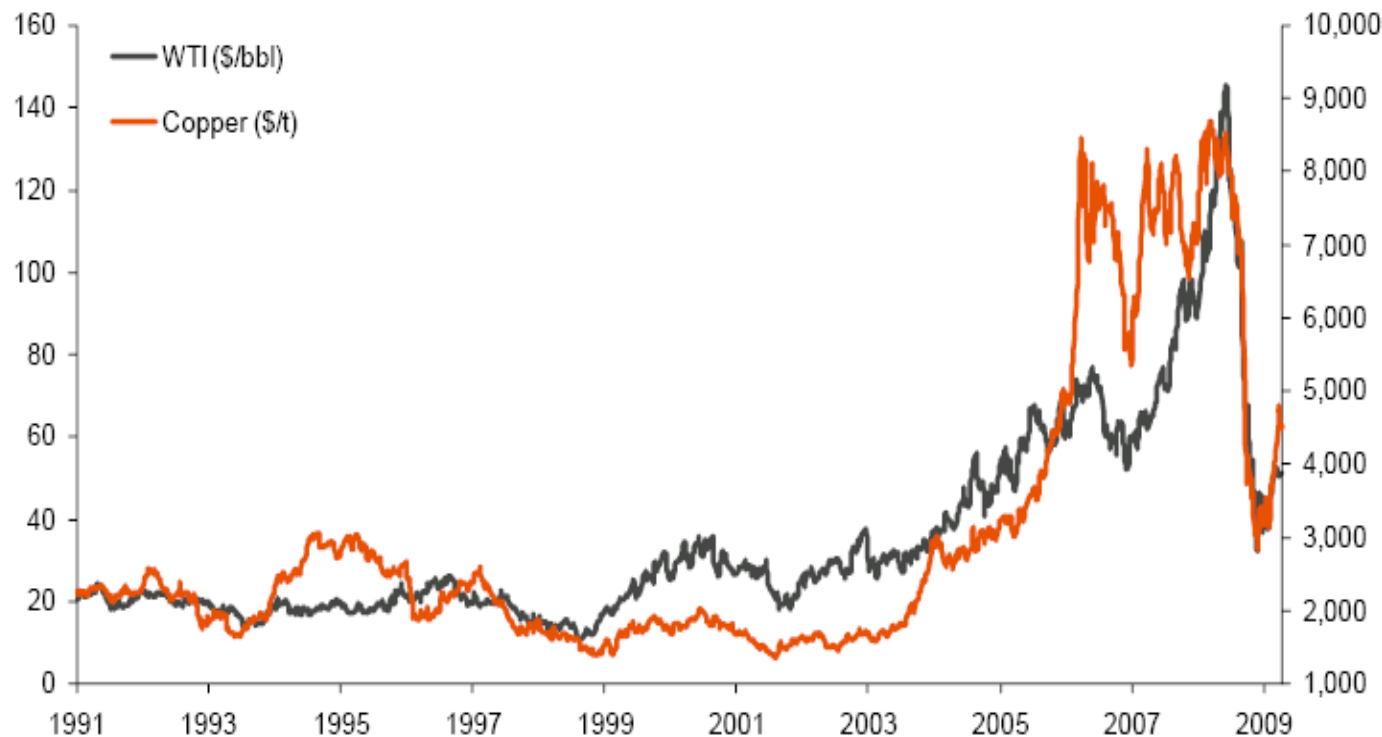
# Prices seem to have bottomed...

## Oil Prices

(\$/bbl, June 1991 to April 2009)

## Copper Prices

(\$/t, June 1991 to April 2009)



Source: BHP Company Presentation

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# ...& analyst now upgrading forecasts

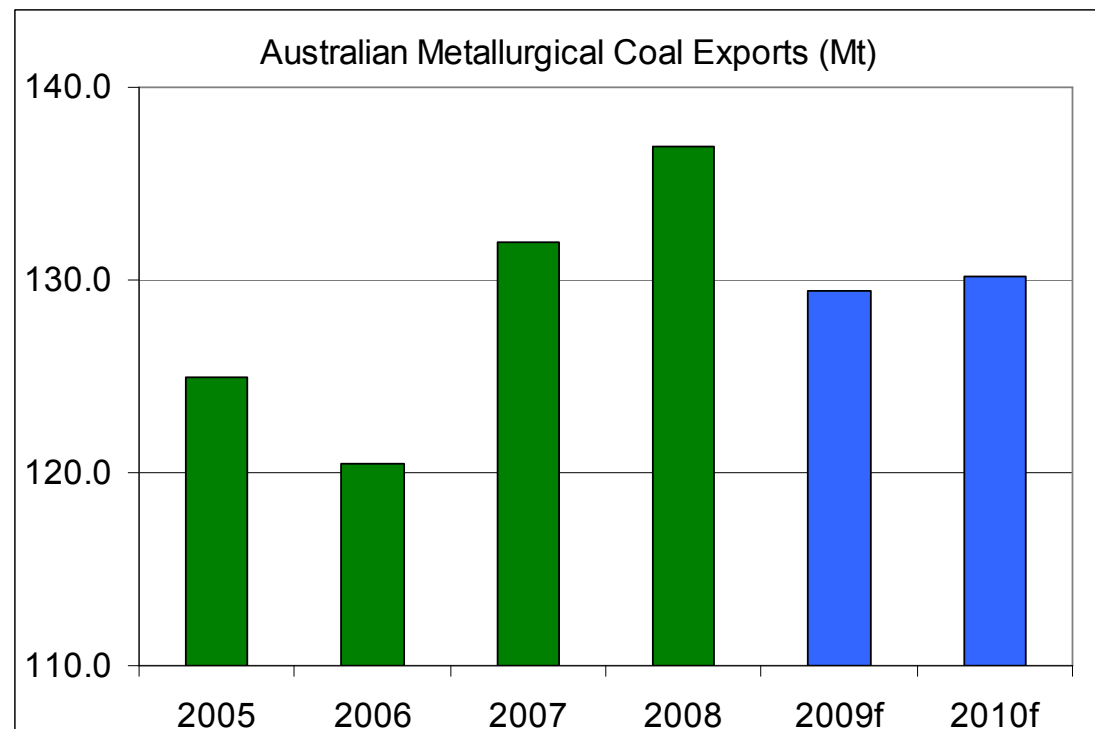
## Old and New Forecasts for Base and Precious Metals

		Calendar Average Forecasts					Change	
		2008	2009	2010	2011	Long term real	2009	2010
Aluminium*	New	2,624	1,608	1,775	1,800	2000	10.9%	8.4%
	Old (May 2009)		1,450	1,638	1,800	2,000		
Copper*	New	6,890	4,775	5,563	5,750	4,250	16.2%	20.9%
	Old (May 2009)		4,111	4,600	5,000	4,000		
Nickel*	New	21,327	15,556	15,750	15,000	1,4000	30.0%	21.2%
	Old (May 2009)		11,969	13,000	13,500	1,4000		
Zinc*	New	1,908	1,517	1,713	1,750	1,800	13.3%	13.7%
	Old (May 2009)		1,339	1,506	1,650	1,400		
Lead*	New	2,105	1,498	1,525	1,650	1,250	17.0%	17.9%
	Old (May 2009)		1,281	1,294	1,400	1,000		
Gold†	New	872	939	950	900	850	-2.1%	0.0%
	Old (May 2009)		959	950	900	850		
Silver†	New	15	13.90	13.40	10.50	10.00	-0.9%	-0.2%
	Old (May 2009)		14.00	13.40	10.50	10.00		
Platinum†	Current	1,570	1,127	1,244	1,425	1,500		
Palladium†	Current	355	229	289	450	600		

Source: J.P.Morgan \* US\$/tonne † US\$/oz

# Australian Resources – Volumes

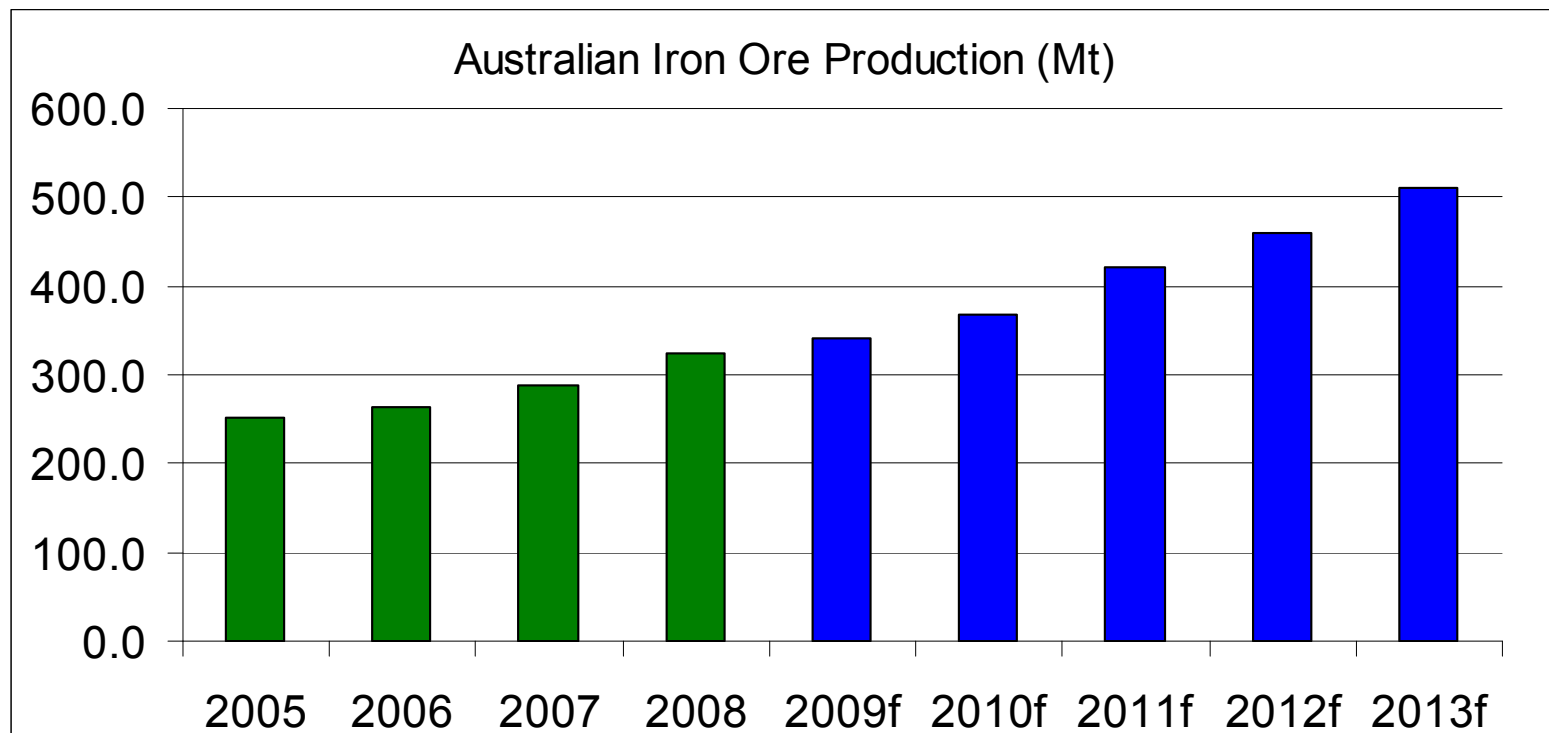
**Despite falling exports in 2009 & 2010 Metallurgical Coal Production Volumes will growth just under 5% pa over the next 5 years**



Source: ABARE Commodity Outlook March 2009.

# Australian Resources – Volumes

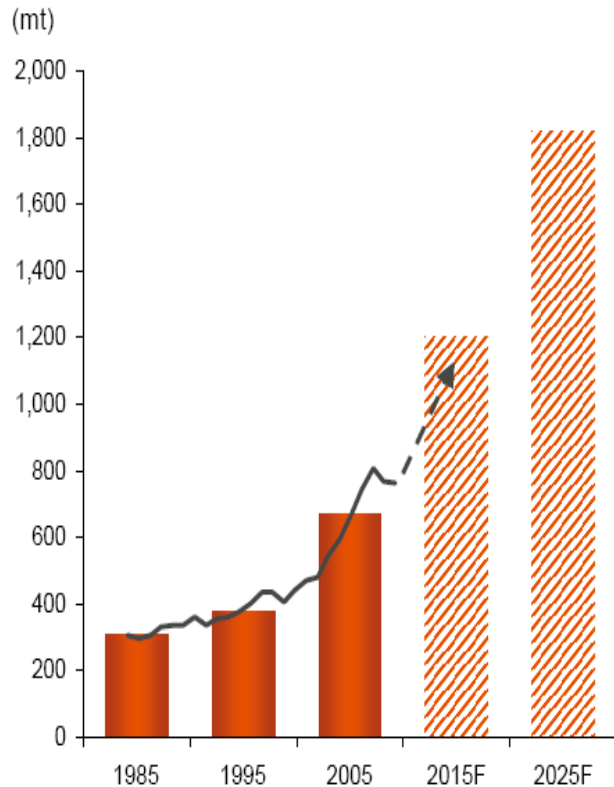
**Australian Iron Ore Production Volume to growth ~ 10%pa**



Source: ABARE Commodity Outlook March 2009. Ord Minnett Estimates

# Australian Resources – Volumes

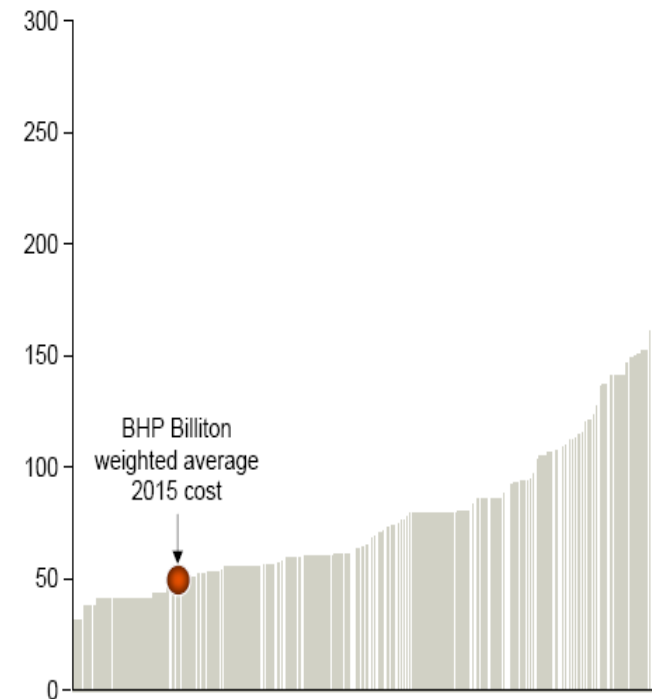
**Seaborne Iron Ore Demand**



Source: BHP Billiton estimates.

**Seaborne Iron Ore Cost Delivered to China – 2015**

(US cents/dmtu, CFR)

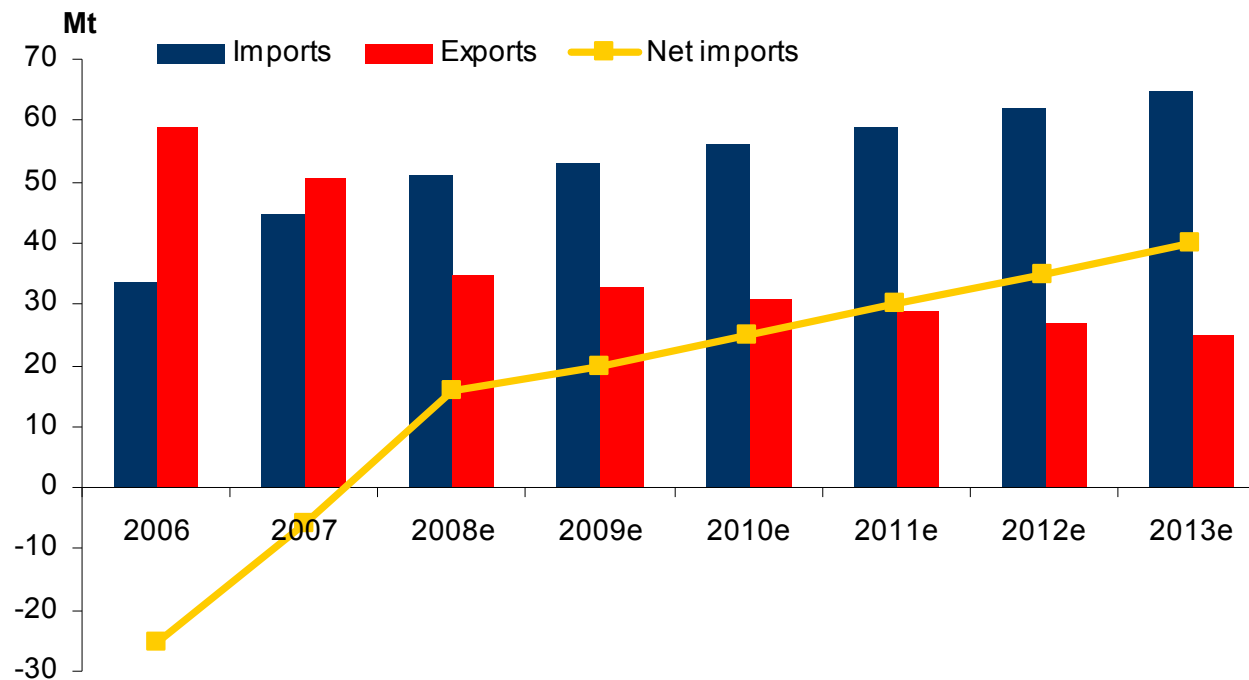


Source: CRU, including BHP Billiton weighted average 2015 cost.

# Volumes will hold because long term resource themes remain intact!

- Sustained long run urbanisations in China and India will continue to generate strong resources commodities demand.
- The world will again pay the price for a decade of exploration neglect - very few large new additions to supply while existing mines are ageing.
- Significantly higher energy, labour, infrastructure, transportation charges and supply constraints will underpin long run commodity prices.
- GFC and the ability to fund projects will delay future capacity.

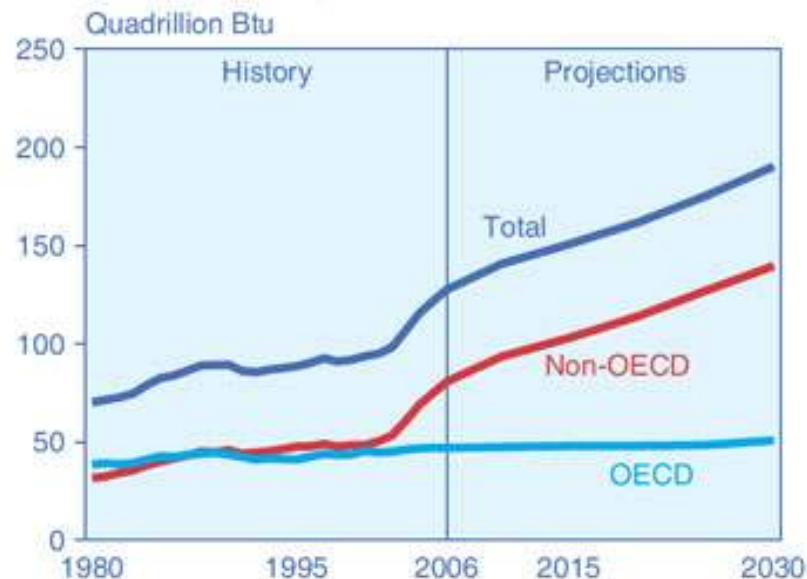
# Volumes – Coal as an example: China is now a net importer of coal...



Source: ABARE, Ord Minnett

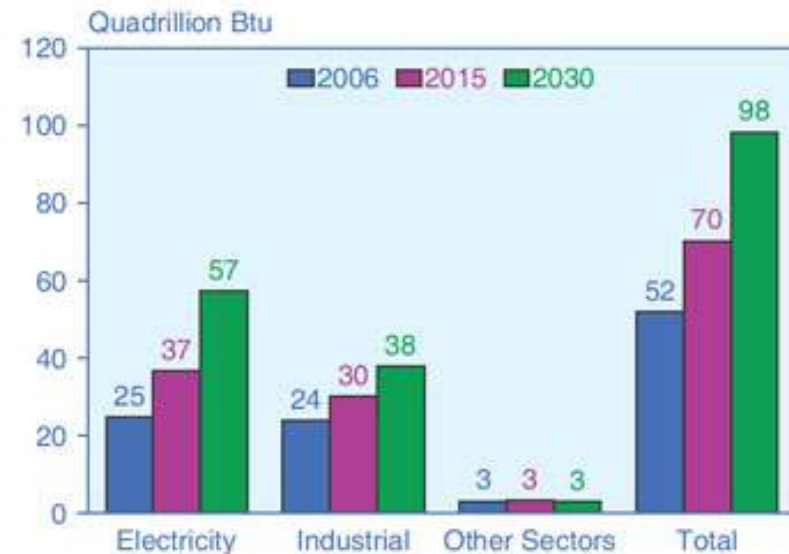
# Volumes – Coal as an example: ...with this trend set to accelerate

Figure 42. World Coal Consumption by Country Grouping, 1980-2030



Sources: **History:** Energy Information Administration (EIA), *International Energy Annual 2006* (June-December 2008), web site [www.eia.doe.gov/iea](http://www.eia.doe.gov/iea). **Projections:** EIA, *World Energy Projections Plus* (2009).

Figure 46. Coal Consumption in China by Sector, 2006, 2015, and 2030



Sources: **2006:** Energy Information Administration (EIA), *International Energy Annual 2006* (June-December 2008), web site [www.eia.doe.gov/iea](http://www.eia.doe.gov/iea). **2015 and 2030:** EIA, *World Energy Projections Plus* (2009).

# Volumes the key as they drive the demand for infrastructure & services

- Miners profitability is driven by commodity prices - everyone else is leveraged to production volumes.
- Volumes also determine the infrastructure requirements particularly for the bulks.
- Recent events have again highlighted the strong correlation between volumes and the profitability of service providers.

# Infrastructure – Constraints & Remedies

- During the boom the step limiting factor on export volumes was port and rail constraints.
- Strong pipeline of infrastructure projects “should” remedy the situation:
- WA Iron Ore - 160mt of committed expansion with 3 infrastructure projects under construction (\$1bn).
- QLD Coal – 20mt of committed expansion with 10 infrastructure projects under construction (\$2.5bn).
- Proposed projects are much larger with 4 in WA at a cost of over \$7bn and 12 in Qld at over \$10bn.

# Mining Services Sector - Definition

- Loosely defined as including companies that support exploration and/or mining activities.
- Most often defined by customers – i.e. companies that support BHP, RIO, Vale, Xstrata, Anglo etc.
- Sector includes engineers, drillers, contract miners, equipment suppliers, technology providers, accommodation manufacturers and providers.
- No specific GICS classification but most companies are listed as Industrials in either the Capital Goods or Commercial Services & Supplies category.

# The Mining Services Sector - ex ASX 100

Company	ASX Code	Market Cap
Monadelphous Group	MND	\$908m
Bradken Limited	BKN	\$704m
Boart Longyear	BLY	\$460m
White Energy Company	WEC	\$423m
Emeco Holdings	EHL	\$353m
Mermaid Marine	MRM	\$330m
Ausenco Limited	AAX	\$310m
Macmahon Holdings	MAH	\$295m
Fleetwood	FWD	\$284m
Industrea Limited	IDL	\$262m
Sedgman Limited	SDM	\$243m
Mineral Resources.	MIN	\$227m
NRW Holdings	NWH	\$225m
WDS Limited	WDS	\$204m
Neptune Marine	NMS	\$172m
Ausdrill Limited	ASL	\$158m
AJ Lucas Group	AJL	\$156m

Company	ASX Code	Market Cap
Imdex Limited	IMD	\$125m
Austin Engineering	ANG	\$123m
Decmil Group	DCG	\$99m
Swick Mining	SWK	\$96m
Mac Services Group	MSL	\$95m
GRD Limited	GRD	\$91m
Nomad Building	NOD	\$88m
Runge Mining	RUL	\$87m
RCR Tomlinson	RCR	\$75m
Lycopodium Limited	LYL	\$69m
Structural Systems	STS	\$44m
Brandrill	BDL	\$22m
QMastor Limited	QML	\$18m
Essa Australia	ESS	\$13m
Emerson Stewart	ESW	\$12m
Every Day Mine Services	EDS	\$12m
		<b>\$6,782m</b>

Source: IRESS, Prices as at 4 August 2009.

# Ex-100 Mining Service Companies

Mining Services Company (ex 100)	ASX Code	\$m Mkt Cap	FY08a (\$m)		FY09e (\$m)		FY10e (\$m)		FY011e (\$m)		FY09	FY10	FY11
			EBITDA	EPS (c)	EBITDA	EPS (c)	EBITDA	EPS (c)	EBITDA	EPS (c)	PER (x)	PER (x)	PER (x)
AJ Lucas Group	AJL	\$223m	37.4	28.3	270.4	21.0	67.5	40.6	76.7	48.9	16.3	8.4	7.0
Ammtec Limited	AEC	\$60m	11.9	29.8	16.1	32.4	15.0	28.1	15.3	28.6	6.4	7.3	7.2
Ausdrill Limited	ASL	\$217m	88.5	22.7	108.7	26.1	99.2	20.5	107.4	23.3	4.8	6.1	5.3
Ausenco <sup>(1)</sup>	AAX	\$509m	51.9	51.4	83.1	65.7	68.4	48.1	75.9	50.6	6.4	8.8	8.3
Austin Engineering	ANG	\$98m	18.9	23.4	25.9	32.5	24.5	32.2	24.5	32.2	5.5	5.6	5.6
Boart Longyear <sup>(1)</sup>	BLY	\$443m	376.0	11.4	231.1	5.4	187.4	3.6	177.0	3.2	5.5	8.2	9.2
Bradken Limited	BKN	\$704m	127.2	54.2	174.3	61.3	155.0	47.3	175.8	59.1	9.1	11.7	9.4
Emeco Holdings	EHL	\$366m	213.5	10.7	234.5	10.0	200.0	8.0	220.0	11.0	5.8	7.3	5.3
Fleetwood Limited	FWD	\$349m	62.5	67.8	62.6	65.5	60.2	64.7	59.7	71.7	10.1	10.2	9.2
GRD Limited <sup>(1)</sup>	GRD	\$104m	35.7	0.7	18.2	4.3	18.9	4.4	44.3	13.8	12.6	12.3	3.9
Imdex Limited	IMD	\$141m	44.5	13.9	31.2	10.3	30.0	9.7	33.6	11.2	7.0	7.5	6.5
Industrea Limited	IDL	\$307m	78.1	6.3	95.1	4.7	80.7	4.3	84.3	4.0	7.6	8.3	8.9
Lycopodium Limited	LYL	\$68m	19.4	33.0	19.4	33.5	13.3	23.2	12.3	21.9	5.4	7.8	8.2
Mac Services (The)	MSL	\$227m	36.2	12.3	50.9	15.6	55.0	16.8	58.9	17.4	8.8	8.2	7.9
Macmahon Holdings	MAH	\$352m	120.2	9.2	107.7	7.3	104.0	6.3	101.7	6.5	6.6	7.6	7.3
Mermaid Marine	MRM	\$386m	39.4	11.8	46.5	12.9	59.6	16.1	67.7	17.6	16.3	13.0	11.9
Mineral Resources	MIN	\$524m	87.1	38.2	82.5	36.4	88.1	40.1	94.1	45.0	11.6	10.5	9.4
Monadelphous Group	MND	\$950m	104.5	78.4	114.1	79.8	106.3	72.8	108.9	74.8	13.8	15.2	14.8
Neptune Marine	NMS	\$199m	13.5	4.4	41.4	7.2	44.4	6.7	47.6	7.3	8.4	9.0	8.3
Nomad Building	NOD	\$89m	45.1	19.7	42.6	15.4	32.6	10.5	35.2	11.9	4.2	6.2	5.5
NRW Holdings	NWH	\$296m	84.2	16.5	78.0	13.7	87.0	16.6	84.2	16.2	8.6	7.1	7.3
RCR Tomlinson	RCR	\$78m	39.3	14.3	43.6	13.3	41.9	10.6	43.3	10.8	4.7	5.8	5.7
Runge Limited	RUL	\$87m	14.1	6.7	19.7	9.0	23.7	10.9	23.7	10.9	7.8	6.4	6.4
Sedgman Limited	SDM	\$243m	51.8	15.5	57.6	15.8	53.4	14.3	56.3	15.8	8.5	9.4	8.5
Swick Mining	SWK	\$86m	23.3	7.1	24.0	3.9	29.0	4.6	34.0	7.5	12.6	10.7	6.5
WDS Limited	WDS	\$196m	45.5	19.9	57.5	19.6	64.2	25.3	78.1	32.0	8.8	6.8	5.4
<b>Sector Average</b>											<b>8.6</b>	<b>8.7</b>	<b>7.7</b>

Note 1: AAX, BLY & GRD have a December year end.

Source: IRESS, Consensus Estimates, JP Morgan Estimates, Ord Minnett Estimates.

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# Mining Services Sector - Characteristics

- Generally leveraged to production volumes rather than commodity prices.
- Strong growth over the past three years.
- Most companies are financially sound with often little to no net debt.
- Strong cost focus.
- Most have a positive outlook beyond FY10.

# Mining Services Sector - Outlook

- Recent outperformance likely to continue as sector re-rates towards a double digit PE.
- Project delays are common and will continue.
- Committed projects will proceed but no longer at breakneck speeds (cost considerations).
- Best exposures are to the bulks.
- FY09 will be a strong year, FY10 will be challenging and growth should return in FY11.

# Recent CEO Feedback

- The world has returned to work – however, most projects have been delayed & others under review.
- Confidence is returning and the major mining houses are again increasing output.
- The new reality is revenues are lower, pricing power has been lost and margins are under pressure.
- The 1<sup>st</sup> & 2<sup>nd</sup> round headcount culls have been done and all are now starting to work through reducing all aspects of the cost basis.
- Consolidation phase to commence now.

# Stock Picks – Mining Services

## ASX 100

- United Group – UGL

## EX-100

- Industrial - IDL
- Mineral Resources - MIN
- Sedgman – SDM
- The Mac Services - MSL