



MACMAHON

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## ASX ANNOUNCEMENT

12 June 2019

### Telfer Contract, Business Update and FY20 outlook

#### Highlights:

- Macmahon and Newcrest to enter facilitated negotiation over Telfer contract
- Pending the outcome of this process, FY19 EBIT guidance reiterated
- EBIT growth expected in FY20 based on existing workload
- Acquisition discussions with GBF Underground Mining group now well advanced
- No capital raising planned in the foreseeable future

Macmahon Holdings Limited (ASX: MAH) (**Macmahon** or the **Company**) is pleased to provide the following market update.

#### Telfer Contract

Macmahon and Newcrest Mining Limited (**Newcrest**) have agreed to enter into facilitated, good faith negotiations regarding Macmahon's life of mine mining contract at the Telfer project (**Telfer Contract**).

In this negotiation the parties will be discussing a range of issues, with Macmahon seeking an amendment to the contract rates as a result of changes in the mine plan and works programme.

Macmahon first commenced the Telfer Contract in February 2016 and, despite the previously disclosed risks and difficulties associated with the project<sup>1</sup>, achieved an operational turnaround in 2018. However, without a rate increase being agreed by Newcrest or some other form of contract amendment, the mine plan and programme changes have a negative impact on Macmahon's costs and returns from the project.

Macmahon and Newcrest have agreed the facilitated negotiation process will conclude by no later than 5 August 2019. While Macmahon is confident of its position and expects this process will ultimately result in a positive outcome, Macmahon has reserved all of its rights in this matter and is prepared to commence the contractual dispute resolution process if the good faith negotiations are unsuccessful. The contractual dispute process requires the parties to mediate, and if that is unsuccessful, may lead to litigation.

If the Telfer discussions remain ongoing at Macmahon's next reporting date, the Company will need to consider identifying the Telfer contract as onerous and recognising a provision for the amount by which the anticipated future unavoidable costs of continuing the contract exceeds

<sup>1</sup> Refer for example to page 26 of the Company's 2018 Annual Report.



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the economic benefit from the contract<sup>2</sup>. While the value of any such provision remains uncertain and subject to audit, the Company's preliminary estimate is that the provision could be in the order of \$25M - \$35M. Any such provision would be non-cash in nature at the time it is recognised.

If a provision was recognised at the Company's next reporting date any future recovery from Newcrest, which Macmahon would continue to pursue, would represent an opportunity for upside in future financial years.

The Telfer Contract is a life of mine contract with completion expected in January 2023.

### FY19 Guidance and expected FY20 EBIT growth

Excluding any one-off provision for the Telfer Contract as described above, Macmahon reiterates its previously published earnings guidance for FY19 of underlying EBIT of \$70M - 80M.<sup>3</sup>

In addition, Macmahon is pleased to confirm that its balance sheet remains strong with net tangible assets of 19.2 cents per share as at 31 December 2018, and a forecast net debt of \$35M- \$45M at June 2019.

While the Company has not yet completed its formal budgetary process for FY20, Macmahon expects growth in its underlying EBIT in FY20. This expectation is based on the Company's current workload and does not depend on winning any significant new work. Conversion of any of the opportunities in the Company's substantial tender pipeline would represent further growth.

The board of Macmahon considers the Company is on a sound footing heading into FY20, with a significant order book and strong prospects for future growth. The Company will provide formal FY20 guidance with its final FY19 results.

### Update on Operations

Macmahon notes Dacian Gold Limited's Mt Morgans Operation and Corporate Update announcement on 5 June 2019. Macmahon performs open cut mining services at Mt Morgans and is not involved in the underground operations at that site. Macmahon has a strong working relationship with Dacian and confirms it is up to date on all payments.

Macmahon is pleased to advise that its largest projects, including the Batu Hijau copper/gold project, the Tropicana gold project, and the Byerwen coking coal project continue to perform well. During the June quarter these three projects achieved excellent production results.

<sup>2</sup> As per AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

<sup>3</sup> Refer to the Company's ASX announcement on 22 May 2019. Macmahon's underlying EBIT guidance excludes the impact of one-offs.



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As foreshadowed in its announcement on 28 March 2019, Macmahon has now secured the mining services contract for the development of the new Boston Shaker underground mine at the Tropicana gold mine. Development commenced in May 2019 and is now well ahead of schedule.

The Company also confirms that its pipeline of new work opportunities remains robust, with projects representing in excess of \$7 billion of potential new revenue. This includes \$5 billion worth of projects where Macmahon is the preferred tenderer.

### Underground Mining Strategy

The Boston Shaker contract is a significant step in the re-building of Macmahon's underground mining division. Macmahon believes having a meaningful and credible underground business is increasingly relevant to existing and new clients, with growing synergy opportunities with the Company's existing surface business.

Macmahon has been encouraged by the level of interest from potential underground clients since the Boston Shaker win and is targeting to grow this business to have revenue in excess of \$400M per annum within the next three to five years.

On 31 May 2019 Macmahon confirmed it was in discussions with the owners of the GBF Underground Mining Group about a potential acquisition of that business. While no agreement has yet been finalised the discussions are now well advanced. If a transaction proceeds, Macmahon believes the acquisition would fit well with its ambitions to grow the scale and capability of its underground division, and would be EPS accretive. Any consideration payable by Macmahon for GBF would be funded through existing cash and debt facilities, with no capital raising contemplated in the foreseeable future.

### Closing

Commenting on today's announcement, CEO Michael Finnegan said Macmahon was a strong business and was well placed to continue growing.

"Our business is in very good shape, with a strong balance sheet and generating healthy results. We are in a great position to compete for new work and we are gathering real momentum in the underground mining market," Mr Finnegan said.

"We look forward to updating shareholders further with our full year results in August."

**\*\*\* ENDS \*\*\***



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### ***About Macmahon***

*Macmahon is an ASX listed company offering the complete package of mining services to miners throughout Australia and South East Asia.*

*Macmahon's extensive experience in both surface and underground mining has established the Company as the contractor of choice for resources projects across a range of locations and commodity sectors.*

*Macmahon is focused on developing strong relationships with its clients whereby both parties work in an open, flexible and transparent way to ensure mutually beneficial outcomes whilst also minimising risks for both parties.*

*Visit [www.macmahon.com.au](http://www.macmahon.com.au) for more information.*