FIIG | Factsheet

Emeco Pty Ltd

18 August 2022

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Issuer Outline

Emeco Pty Ltd (the issuer of the bonds) is a subsidiary of Emeco Holdings Limited (Emeco, Group). Emeco is listed on the Australian Stock Exchange (ASX: EHL) and has a market capitalisation of about AUD432m as at 18 August 2022.

Headquartered in Perth, Western Australia, Emeco is a rental provider of heavy earthmoving equipment to the global mining industry, with customers ranging from multi-national blue chip miners and contractors, to small independents. Emeco's customers are involved in a broad range of commodities, including thermal and metallurgical coal, oil, gold, iron ore, and copper.

Emeco operates through three segments:

- Rental provides a wide range of earthmoving equipment solutions to customers in Australia;
- Workshops provides maintenance, equipment and component rebuild services to customers in Australia;
- Pit N Portal provides a range of mining services solutions and associated services to customers in Australia. This business was acquired in February 2020.

Sector: Resources
Sub-sector: Mining Equipment
Country: Australia
Ownership: Public

Key Financials (AUDm)

LTM (30 Jun)	2022
Revenue	754.4
Adj. EBITDA	250.2
Total Assets	1,025.4
Cash	60.2
Total Debt	301.1
Net Debt / Adj. EBITDA	1.0x
Adj. EBITDA / Interest Exp.	10.3x

Source: FIIG Securities, S&P Capital, Company

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call	Maturity Date
AU3CB0281293	AUD 250m	Senior Secured	6.25%	Semi-Annual	10 July 2023	10 July 2026

Emeco Pty Ltd

Strengths

- **Solid market position:** Emeco is the market leading provider (and has the largest market share) of mining equipment rental in Australia, with operations and workshops in all key mining regions across the country (see Figure 1). The Group operates through four well-known brands: Emeco, Force Equipment, EOS, and Pit N Portal, all of which provide a range of different services. Its fleet is strategically configured to be suited to all regions and commodities, allowing the Group to meet the demands of all its customers.

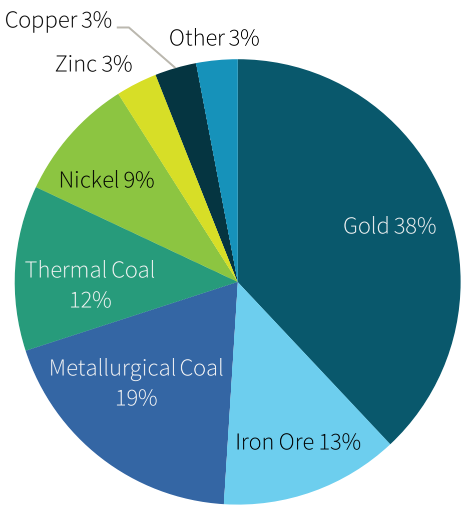
  Emeco has a unique strategic and cost advantage against its competitors, enabling the Group to benefit during periods of economic stress (such as rising inflation). It has the ability to procure and rebuild low-cost midlife asset cores (equipment that requires major repairs to return them to operational capability), and can remake the majority of their components, which removes its reliance on procuring new equipment with long wait times and inflationary impacts on prices. It can also extend the life of existing mining assets without the need to replace them. Most competitors do not have these capabilities so are more exposed to cost increases and reduced cashflows as a result.

  Figure 1: Operations across Australia

Source: Company

- **Complementary aftermarket parts and service operations:** Since its acquisition of Pit N Portal, Emeco has expanded its service offering and ramped up its scale and exposure to new mining services. It provides rental, fully maintained rental, underground rental & contracting, surface contracting, EOS technology, and equipment rebuild services across underground and open-cut mines. These additional segments have grown the business substantially and improved financial performance (the revenue of Pit N Portal has doubled since 2020). The full-service model is particularly attractive to mid- to small-cap miners, which typically provide the Group with the longest tenure contracts and embrace the expanded services. The strategy has successfully allowed Emeco to become further embedded into its customers' operations and build long-term partnerships, with contract tenure increasing over the last few years.
- **Diversified exposure to commodities:** Emeco is well diversified across a range of precious and base metals, based on FY22 revenue (see Figure 2). The Group's reliance on the coal sector has markedly decreased over time (from 58% in FY20 to 31% in FY22) and the business is well positioned to capitalise on the strong gold and base metals sectors which have boomed in recent years, particularly in Western Australia. The Group remains focussed on maintaining a balanced commodity portfolio and a commodity agnostic fleet.

Figure 2: Commodity diversification 30 June 2022



Source: Company

- Injury and accident prevention: Emeco's current lost time injury frequency rate remains at zero as of 30 June 2022 (FY22), which extends the lost time injury free period to over six years. The total recordable injury frequency rate fell to 1.9, which was a reduction from the previous year of 2.1, and remains below the industry average.
- Improved capital structure: Emeco's prudent financial initiatives over the past two years have bolstered its capital structure and improved its resilience to an industry downturn by reducing indebtedness. In FY21, Emeco raised AUD149m of equity which reduced the Group's secured notes, and in June 2021 issued AUD250m of medium-term notes (MTN) which extended the remaining notes maturity to July 2026. In addition, Emeco obtained lower financing costs through the MTN issuance, which is likely to reduce interest expense by approximately AUD28m per year.

  Over time, the Group has significantly reduced financial leverage to 1.0x in FY22, down from 5.5x in FY17. In general, we believe that relatively low leverage is appropriate for companies that are heavily exposed to volatile and cyclical sectors. Further, we note Emeco's intention to maintain a healthy balance sheet with leverage below 1.0x, and its commitment to maintaining its credit ratings.

Risks

- Exposure to the mining sector, and general economic weakness: The Group operates in the contract mining services sector and has historically been impacted by weak market conditions in the highly cyclical resources sector. Any sustained decline in commodity prices resulting in lower mining activity could result in further decreases in demand for mining equipment rental services, which will have an adverse effect on the Group's operations. Diversification across a range of commodities will help Emeco offset potential sharp falls in prices for some commodities. Falling coal prices in early FY21 caused the Company to move fleet from the Eastern Region to the Western Region to strategically capitalise on strong demand in gold and iron ore. The company continues to reduce its coal exposure, with new contracts to iron ore and gold producers. In 2022, commodity prices have substantially increased (particularly for nickel and iron ore) which, in our view, should support revenue going forward.
- Highly competitive industry: The mining services sector is very competitive due to the high number of contractors and companies which operate in it. Emeco is affected in this regard because of its small size globally, historical revenue exposure to metallurgical and thermal coal, and narrow focus on rental services for mining equipment. In addition, the

original equipment manufacturers (OEM), which the Group depends on for the supply of equipment and parts, compete directly with the Group, which could constrain its ability to enter into new contracts or fulfil existing ones. As such, the Group's ability to compete effectively will not only depend on its long standing relationships, capabilities, and reputation with customers, but also its relationships with the OEMs and brokers to be able to source equipment and parts.

- Short duration contracts: Mining equipment providers typically have short duration contracts of 12 to 36 months, which provide limited revenue visibility over the long term. In addition, contracts provide little downside protection against termination. While it is noted in the 'Strengths' section above that Emeco has successfully extended the tenure of its contracts over recent months, the average contract term remains below three years, exposing the Group to renewal and repricing risks.
- Higher than expected capex spending: The Group needs to have access to new and used earthmoving equipment and parts. There is a risk that the Group's capex is higher than expected, which could result in lower cashflows and adversely affect profitability. Further, surplus availability of rental equipment in the market also affects the Group's ability to sell assets to provide liquidity, if required (however we note that the Group's asset utilisation is expected to remain high over the short-medium term).

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Financial Summary

Income Statement	FY18	FY19	FY20	FY21	FY22
Total Revenues	381.0	464.5	540.4	620.5	754.4
Gross Profit	178.5	268.9	338.4	375.7	437.8
EBITDA	136.2	192.8	224.3	218.9	236.1
EBIT	66.3	103.4	117.2	110.4	118.6
Net Income	11.4	34.0	66.1	20.7	65.0
Balance Sheet	FY18	FY19	FY20	FY21	FY22
Cash And Equivalents	171.4	36.2	198.2	74.7	60.2
Total Assets	716.1	768.7	1,088.6	965.5	1,025.4
Total Debt	475.2	479.4	630.9	311.6	301.1
Net Debt	303.8	443.2	432.7	236.9	240.9
Cash Flow Statement	FY18	FY19	FY20	FY21	FY22
Net profit/(loss) after tax	11.4	34.0	66.1	20.7	65.0
Depreciation and amortisation	68.8	87.4	114.0	117.6	128.5
Capex	(80.5)	(180.5)	(118.8)	(153.6)	(170.4)
Free cash flow	79.3	(3.3)	59.0	42.6	26.2
Credit Metrics	FY18	FY19	FY20	FY21	FY22
Net Debt/EBITDA	2.2x	2.3x	1.9x	1.0x	1.0x
EBITDA/Interest Expense	2.8x	3.8x	4.4x	6.1x	10.9x

Source: S&P Capital IQ

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