Earthmoving equipment solutions

Market Release
23 August 2011

EMECO DELIVERS OPERATING NET PROFIT OF $56.0M IN FY11 AND IS POSITIONED TO PURSUE GROWTH IN FY12

KEY POINTS

- **Strategic focus on large equipment in growing mining markets is translating into improved performance**
- **Safety performance remains top priority - LTIFR at 2.4 LTI's per million man hours**
- **Operating NPAT of $56.0 million - in line with guidance. Statutory NPAT of $49.6 million**
- **Return on Capital increased to 11.3% (FY10: 8.3%)**
- **Total dividends of 10.0 cps fully franked in FY11, including final dividend of 3.0 cps**
- **Canada and Australia delivered significant improvements in FY11 with one-off impairment impacting Indonesia**
- **Completed disposal of USA, European and Victoria rental businesses and downsized Sales and Parts inventories**
- **Debt refinance, comfortable gearing and facility headroom provide certainty, flexibility and capacity to grow**
- **Continued strong demand for mining equipment with global fleet utilisation at 83% (22 August 2011)**
- **Growth in FY12 underpinned by previously announced fleet investment program of $165 million**
- **Geographic expansion and acquisition opportunities exist - with focus on shareholder value creation**

OVERVIEW

Emeco Holdings Limited (ASX: EHL) today reported operating net profit after tax (NPAT) of $56.0 million for the year ended 30 June 2011 (FY10: $41.1 million) which was in line with previous guidance of $55 million to $57 million. The higher earnings, along with a more productive asset base, gave rise to an improvement in Return on Capital (ROC) to 11.3% (FY10: 8.3%).

Managing Director Keith Gordon said "We have witnessed continued growth in activity across the resources sector globally, which has translated into strong demand for Emeco's equipment rental and maintenance services. We achieved very high utilisation across all our businesses in the first half, with global utilisation remaining strong in the second half albeit marginally lower than the first half due to specific factors in Canada and Indonesia. However underlying fundamentals remain strong with global utilisation increasing to 83% since the start of FY12."

RENTAL | SALES | PARTS | ASSET MANAGEMENT

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"The primary objective of FY11 was to refocus our business on renting large mobile gear to the mining industry, because that is where we can earn the best returns for our shareholders. Our businesses are now all located in growing mining markets and we believe we can further enhance returns by improving the efficiency with which we meet the needs of our customers."

"The work on improving core business processes will continue, but we are also focussed on sustainable growth, primarily through organic investment in Emeco's core mining markets. As a result, we are investing $165 million in additional large mining equipment in FY12 to meet growing demand. We also remain alert to adjacent growth opportunities either through acquisition or geographic expansion."

FINANCIAL PERFORMANCE

A$ million	FY10	**FY11**	PCP %
Revenue	444.4	**502.5**	13.1%
EBITDA	190.4	**223.3**	17.3%
EBIT	83.6	**101.2**	21.0%
Operating NPAT	41.1	**56.0**	36.3%
Statutory NPAT	(49.3)	**49.6**	200.6%
EBIT ROC %	8.3%	**11.3%**	35.7%

Group operating revenue was up 13.1% to $502.5 million in FY11, with growth largely attributable to a full year of high utilisation in Australia and Canada, growth in maintenance services, improved pricing and the deployment of growth capital. Revenues from the Sales and Parts businesses were broadly flat year on year as inventories were downsized and repositioned to align with the mining rental fleet.

Direct operating costs increased in FY11 in line with higher utilisation, however additional cost pressures have emerged in some regions as the supply of labour continues to tighten. Overheads increased reflecting an investment in additional operating and corporate capabilities required for delivering sustainable growth.

Operating EBIT improved 21.0% in FY11 whereas EBITDA improved by 17.3% reflecting the earnings leverage due to the fixed cost component of depreciation.

The Australian dollar appreciated approximately 27% against the US dollar and 16% against the Canadian dollar over FY11 which adversely impacted the translation of earnings from the Group's offshore businesses by approximately $2 million.

As a result of the above factors operating EBIT was up from $83.6 million to $101.2 million in FY11, and operating NPAT before significant items increased by 36.3% from $41.1 million to $56.0 million in FY11.

During FY11 Emeco incurred one-off significant items totalling $6.4 million (post tax), resulting in a statutory NPAT of $49.6 million for the year. The one-off items relate to a $0.4 million loss from discontinued operations and a $6.0 million debtor impairment in Indonesia, as previously announced.

BUSINESS PERFORMANCE

Emeco Australia's revenue increased 30.4% to $327.2 in FY11, with maintenance services revenues expanding to $50.5 million (FY10: $39.5 million). Operating EBIT increased 34.9% to $98.3 million in FY11 and Return on Funds Employed (ROFE) improved from 19.1% to 23.8% reflecting sustained production and expansion activity across the resource sector in Australia. The improvement in earnings resulted from higher average utilisation of 89% (FY10: 78%) and deployment of growth capital during the year.

The Queensland operations delivered a significant increase in earnings as the business enjoyed a full year of high utilisation following a year of recovery in FY10. Wet weather impacted production hours over a number of months in the second half of the year and delayed the deployment of a new truck fleet to a customer due to road closures. Underlying fundamentals in this market remained intact with a strong recovery in the fourth quarter of FY11 following the extended wet season.

The Western Australian business also made a major contribution to the earnings improvement in Australia having redeployed a large quantity of idle fleet into new projects during the second half of FY11. Sustained demand for equipment in gold, coal and iron ore in Western Australia translated into a solid operating performance in FY11.

New South Wales maintained consistently high utilisation in FY11 underpinned by high activity levels in thermal coal while successfully managing the redeployment of two major fleets into new contracts during the year.

Emeco Canada's performance improved markedly in FY11 following the reconfiguration of Emeco's fleet in this market towards large mining equipment suitable for mine production and reclamation works in the oil sands region.

The new fleet mix and the continued ramp up in activity in the Canadian oil sands contributed to improved utilisation levels averaging 77.6% (FY10: 56.9%). Revenue and EBIT were up 71.7% and 348.0% respectively to $64.9 million and $14.0 million.

The business delivered a significant year on year improvement in ROFE from 2.8% in FY10 to 11.3% in FY11.

Whilst an extended thaw period and slow start to the summer program in the oil sands impacted 4Q11 earnings, the outlook for activity in the oil sands in FY12 remains positive. Emeco has recently committed $72 million in fleet investment in Canada, which is due to be delivered throughout FY12.

Emeco Indonesia observed increased activity across the Indonesian resource sector in FY11, resulting in strong demand for mining equipment. Utilisation averaged 77% across the year (FY10: 76%).

Despite positive underlying performance, the statutory result was impacted by a debtor impairment of $6.0 million (post-tax) in 1H11. Operating earnings were further affected in 2H11 as Emeco incurred additional costs totalling $2.7 million consisting of fleet repair and demobilisation costs that would ordinarily be recharged to the customer involved. Significant progress has been made in redeploying the idle fleet from this contract to better quality customers in FY12.

Indonesia contributed revenue of $44.6 million and EBIT of $5.3 million which was down 9.6% and 66.7% from the prior year. ROFE for the period was 6.5%.

A new management team has been transitioned into the business in FY11 with the objective of targeting higher quality customers to lift utilisation, reduce credit risk and improve returns.

BALANCE SHEET & CASH FLOW

The Group's net debt reduced by $8.7 million to $291.5 million at 30 June 2011. The net change was the combination of a $26.0 million translation benefit from the appreciation of the AUD, offset by a $17.3 million increase in underlying debt.

Chief Financial Officer, Stephen Gobby said "Over the past 12 months we have been focussed on converting underperforming capital into cash, generating $56 million from asset disposals. This cash release together with strong operating cash flow has enabled us to reinvest in the business and return some surplus capital to shareholders while maintaining balance sheet capacity for future investment."

At 30 June 2011 gearing is 1.38 times (Total Debt: normalised EBITDA), which is below Emeco's target range of 1.5 – 2.0 times, with undrawn facilities of $198.9 million.

Mr Gobby added "During the year we renewed our senior debt facilities with maturities of 3 and 5 years. This renewal provides funding certainty and sufficient capacity within our facilities to meet the medium term capital requirements of the business."

"In June 2011 we announced a capital investment program of $165 million, which is a clear endorsement of the company's view on long-term growth in earth moving volumes in our markets. We expect this capital investment to deliver significant earnings growth in FY12, with the benefits to our group ROC to be fully realised in FY13."

FINAL DIVIDEND

In addition to the interim ordinary dividend of 2.0 cents per share and interim special dividend of 5.0 cents per share, the Board has declared a final dividend of 3.0 cents per share. All dividends are fully franked.

The final dividend will be paid on 30 September 2011 on shares registered at 5.00pm AEST on 5 September 2011.

OUTLOOK

"The Group has a positive outlook for FY12" Mr Gordon said. "As we look to the future, we are aware of the emerging risks to global economic growth and the potential impact on commodity demand. Notwithstanding these broader economic risks, the current outlook for the resources sector remains positive with further growth in earthmoving volumes expected."

"In the year ahead we will focus on the timely deployment of the new fleet into long term projects to support continued high fleet utilisation in FY12. In addition to the organic growth opportunities in our existing markets we are continuing to explore other ways to grow the business either through geographic expansion or acquisition."

"The Company has a clear focus on generating satisfactory returns, having established a strong presence with committed teams in our core markets of Australia, Indonesia and Canada. I am confident that we will make further progress in delivering on our objectives in FY12."

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About Emeco

Emeco is a leading global provider of heavy earthmoving equipment with offices in Australia, Indonesia and North America. Emeco has integrated rental, sales, parts, maintenance and procurement into a single business for high reliability, low-houred heavy earth moving equipment for the mining sector. Emeco is not aligned with any earthmoving equipment manufacturer and has a global fleet of approximately 1,000 machines including equipment manufactured by Caterpillar, Hitachi, Komatsu, Liebherr and Volvo.
Emeco's ordinary shares are traded on the Australian Stock Exchange under ASX code EHL.