ASX RELEASE

AUSDRILL

11 OCTOBER 2017

STANDARD & POOR'S UPGRADES AUSDRILL'S RATINGS

Ausdrill Limited (**ASX: ASL**) advises that Standard and Poor's Global Ratings has upgraded the Company's credit ratings. The details of the upgrade are as follows:

- Corporate credit and senior unsecured notes ratings – *Upgraded to "BB-" from "B+"*
- Senior secured debt rating – Upgraded *to "BB+" from "BB"*

The outlook on these ratings is stable.

Standard and Poor's press release is attached.

About Ausdrill

Ausdrill (ASX: ASL) is a diversified mining services company. Since its formation in Kalgoorlie in 1987, Ausdrill has grown significantly and now has operations across Australia, Africa and the United Kingdom. Ausdrill is a leader in providing services in contract mining, grade control, drill & blast, exploration, mineral analysis, procurement & logistics. The Ausdrill Group employs over 4,500 staff worldwide.

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S&P Global
Ratings

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Research Update:

Ausdrill Ltd. Ratings Raised To 'BB-' On New Contracts And Equity Raising; Outlook Stable

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Research Update:

Ausdrill Ltd. Ratings Raised To 'BB-' On New Contracts And Equity Raising; Outlook Stable

Overview

- We expect Ausdrill's new contracts, equity raising, and business improvement initiatives to improve the company's credit metrics over the next 12 to 24 months.
- As a result, we are raising the issuer credit rating by one notch to 'BB-' from 'B+', and the issue rating on the group's syndicated bank facility by one notch to 'BB+' from 'BB'.
- At the same time, we are raising the issue rating on the senior unsecured notes by one notch to 'BB-' from 'B+' with the recovery rating remaining at '4'.
- The outlook is stable, reflecting our view that Ausdrill will maintain the growth of its contract book and successfully execute its newly secured African projects.

Rating Action

On Oct. 11, 2017, S&P Global Ratings raised the issuer credit rating on Australian mining services company Ausdrill Ltd. to 'BB-' from 'B+'. The outlook is stable.

We also raised the ratings on Ausdrill Finance Pty Ltd.'s US$300 million, senior unsecured, and subordinated notes by one notch to 'BB-' from 'B+', with the recovery rating remaining at '4'. In addition, we raised our issue ratings on Ausdrill Finance Pty Ltd. and Ausdrill International Pty Ltd.'s A$200 million, secured, syndicated bank loan by one notch to 'BB+' from 'BB', with the recovery rating remaining at '1'.

Rationale

We raised the ratings to reflect our expectation that Ausdrill's new contracts, management of costs, and increasing earnings will provide an enduring benefit to the company's credit metrics. In addition, Ausdrill recently raised A$100 million equity (before costs) to fund its growth capital expenditure for new contracts.

We forecast that Ausdrill's funds from operations (FFO) to debt is likely to be greater than 30% in the year ending June 30, 2018, and comfortably above 30% in fiscal 2019, after new projects in African contract mining services fully ramp up.

Our expectation of a modest recovery in trading conditions for the Australian mining services industry would support Ausdrill's business prospects. The recent rebound in commodity prices has increased the number of prospective projects for mining services companies.

However, the recovery in contract rates may be modest and slow as miners remain disciplined in containing operating costs. Miners are still cautious in expanding supply and committing significant capital expenditure to large greenfield projects. Therefore, operating efficiency will be key to improving the profit margins of mining services companies. In our view, Ausdrill's restructuring initiatives will improve the efficiency of its operations, and hence, its margins.

Ausdrill's exposure to the gold mining sector has somewhat shielded the company from reducing demand for work in other sectors like iron ore, coal or base metals. This is because gold prices have held up well compared with other commodities in 2015 and 2016. In 2017, about 78% of Ausdrill's revenue was derived from gold or copper.

That said, in our view, gold is also inherently volatile and maintains an inverse correlation with U.S. interest-rate expectations. The interest rate hike by the Federal Reserve and the continued relative strength of the U.S. dollar could affect gold prices over the next several years. However, we believe that any deterioration in gold prices from an improving global GDP would offer business opportunities in base metals where Ausdrill also has expertise. In addition, favorable currency movements have aided the competitiveness of the Australian and African mines that Ausdrill services.

Ausdrill's growing exposure to Africa is a limiting rating factor, due to our view of higher sovereign and operational risks in Africa, compared with developed countries like Australia. Based on its sales for 2017, Ausdrill's exposure to Africa was about 53%, with Ghana (B-/Positive/B) comprising about 30% of the group's total revenues. The company's newly secured contracts (totaling about US$125 million of annual revenue) are mostly in Africa.

Nonetheless, we consider the company has a long and successful track record in operating on the African continent and manages these risks adequately. However, we do view these jurisdictions as being inherently riskier to operate in when compared with the company's Australian operations.

Our base-case scenario for the company reflects the following assumptions:

- Our expectation of Australia's real GDP growth to be 2.8% in 2018;
- Our expectation of Ghana's real GDP growth to be 7.0% in 2018;
- Gold prices to remain stable at US$1,250 per ounce through 2018 and 2019;
- Copper prices to average US$5,950 per metric ton (mt) over 2018, and increasing to US$6,170 per mt in 2019;
- Low double-digit growth in the company's revenue in fiscal 2018 and 2019 on the back of contracts with Toro Gold, Hummingbird, and SEMAFO, and new contract wins;
- Modest improvement in EBITDA margins in fiscal 2018, reflecting the

benefits from cost-cutting initiatives, and in 2019, as a result of the full run rate of the company's African Mining Services business;
- High level of capital expenditure (A$130 million to A$140 million) in fiscal 2018 and 2019 to support growth and stay-in-business capital expenditure. Stay-in-business capital expenditure roughly equals to depreciation and amortization (D&A) over the outer years; and
- Continued distribution of dividends.

Based on the above assumptions, we expect:
- Increases in EBITDA in fiscal 2018 and 2019, in comparison with fiscal 2017's, as new contracts ramp up;
- Debt level remaining steady given that its equity raising will fund the capital expenditure associated with new projects; and
- FFO to debt slightly higher than 30% in 2018 and well above 30% in 2019.

Liquidity

Ausdrill Ltd.'s adequate liquidity reflects our expectation that sources of liquidity will exceed uses by at least 1.2x over the next 12 months. We expect its liquidity sources will continue to exceed uses even if EBITDA were to decline by 15%.

We view Ausdrill as having generally satisfactory standing in the credit markets, sound relationships with its banks given the upsized revolving credit facility, and generally prudent risk management.

In our view, Ausdrill will operate with adequate headroom in its covenants over fiscal 2018. Furthermore, we expect Ausdrill's covenant headroom to remain robust as earnings from new contracts reach the full run-rate in fiscal 2019. The current syndicated bank facility remains undrawn and reaches maturity on July 1, 2020.

Principal liquidity sources:
- Cash reserves of about A$170 million as of June 30, 2017;
- Adjusted FFO of about A$130 million (including dividend income from its African Underground Mining Services joint venture) over the next 12 months;
- Available cash under its undrawn revolving credit facilities of around A$200 million; and
- Equity issuance of A$100 million (before costs).

Principal liquidity uses:
- No debt maturities within the next 12 months;
- Capital expenditure of about A$130 million-A$140 million;
- Minimal working capital outflows; and
- Moderate increase in dividend in fiscal 2018.

Outlook

The stable outlook reflects our expectation that Ausdrill will continue to grow its order book and successfully execute its new contracts in Africa. We expect the company to maintain sufficient liquidity, which will provide the company with a buffer to withstand any moderate weakening in industry conditions or missteps in new projects.

We expect the company's FFO to debt to be materially higher than 30% and for the company to generate positive free operating cash flows when new projects reach steady-state in 2019, following the current stage of heavy capital expenditure.

Downside scenario

A downgrade could occur if Ausdrill is unlikely to comfortably sustain FFO to debt of 30% and if free cash flows remain negative by 2019. This scenario could occur if:

- The improved trading conditions in the mining services industry are not sustained. For example, if gold prices were to fall significantly pressuring the competiveness of the mines that Ausdrill services with no work from other base metals or bulk commodities to offset the impact;
- Execution issues occurred at Ausdrill's newly secured projects that reduced the company's margin for a prolonged period.

Upside scenario

An upgrade is less likely due to Ausdrill's growing exposure to Africa and relatively small scale. However, in the longer term, we could consider an upgrade if Ausdrill materially improves its scale, commodity diversity, and geographic mix, while maintaining its conservative financial management.

Ratings Score Snapshot

Corporate Credit Rating: BB-/Stable/--

Business risk: Weak

- Country risk: Moderately high
- Industry risk: Moderately high
- Competitive position: Weak

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bb

Modifiers

- Diversification/Portfolio effect: Neutral (No impact)
- Capital structure: Neutral (No impact)
- Liquidity: Adequate (No impact)
- Financial policy: Neutral (No impact)
- Management and governance: Fair (No impact)
- Comparable rating analysis: Negative (-1 notch)

Recovery Analysis

The issue rating on Ausdrill Finance Pty Ltd. and Ausdrill International Pty Ltd.'s A$200 million, secured, syndicated bank loan maturing on July 1, 2020 is 'BB+' with a recovery rating of '1'. This reflects our expectation of very high recovery (95%) should a default event occur. The bank loan is guaranteed by Ausdrill Ltd. and ranks at least pari passu with all other senior secured debt of the company.

The rating on Ausdrill Finance Pty Ltd.'s US$300 million senior unsecured notes is 'BB-', in line with the corporate credit rating on the company. The unsecured notes have a recovery rating of '4', reflecting our expectation of average recovery prospects (30%) should a default event occur.

Our simulated default scenario assumes that adverse macroeconomic conditions cause global end-market demand and pricing for commodities to deteriorate materially, leading to steep declines in demand for Ausdrill's services and multiple contract cancellations. As a result, Ausdrill's revenue significantly declines, impairing its ability to meet its cash interest payment. This hypothetical default scenario assumes the default would occur sometime during 2021.

Related Criteria

- Criteria - Corporates - General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Engineering And Construction Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From

Ausdrill Ltd.		
Corporate Credit Rating	BB-/Stable/--	B+/Positive/--
Ausdrill Finance Pty Ltd.		
Senior Secured		
Local Currency	BB+	BB
Recovery Rating	1(95%)	1(95%)
Senior Unsecured		
Local Currency	BB-	B+
Recovery Rating	4(30%)	4(30%)
Ausdrill International Pty Ltd.		
Senior Secured		
Local Currency	BB+	BB
Recovery Rating	1(95%)	1(95%)