

# Emeco Pty Ltd

4 July 2022

## Disclaimer

*This bond or financial product has not been reviewed or recommended by FIIG research nor should this document be considered as credit research. This Factsheet is only a summary document, designed to assist Investors identify the key elements of the company bond or financial product referred to in this document and should be read in conjunction with the other offering documentation available in relation to the financial products. This Factsheet is not complete information concerning any financial product and should not be relied on as such.*

## 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 AUD366m as at 4 July 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 (31 Dec)	2021
Revenue	694.7
EBITDA	226.6
Total Assets	974.4
Cash	61.5
Total Debt	298.6
Net Debt/EBITDA	1.0x
EBITDA/Interest Exp.	10.3x

Source: FIIG Securities, S&P Capital, Company report

## 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

*The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.*

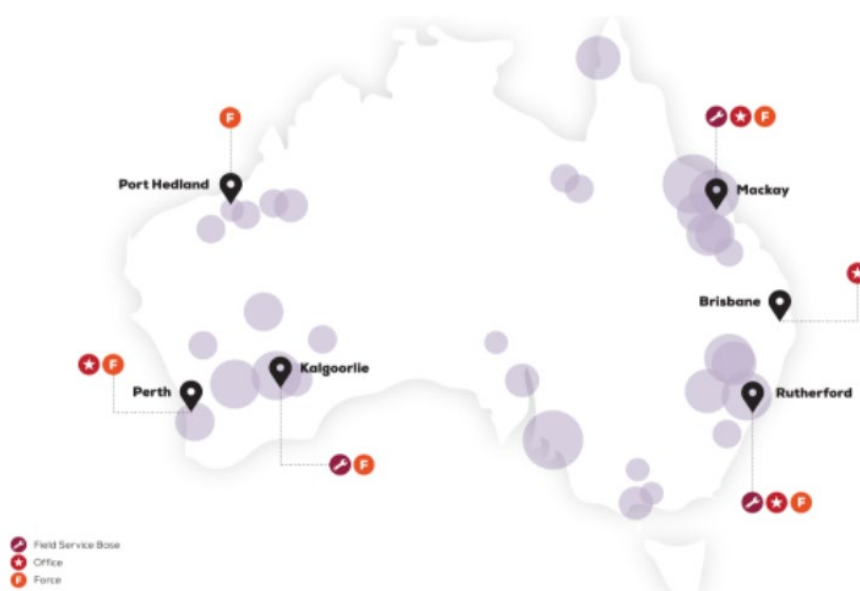
# Emeco Pty Ltd

## 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



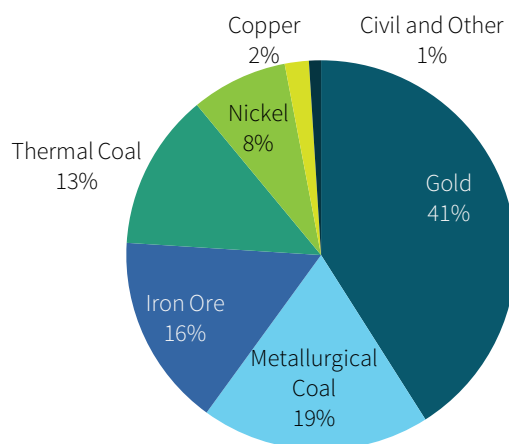
Source: Company

- 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 the average contract tenure increasing from approximately 22 months in FY20 to 28 months in FY21.
- Diversified exposure to commodities:** Emeco is well diversified across a range of precious and base metals, based on 1H22 revenue (see Figure 2). The Group's reliance on the coal sector has markedly decreased over time (from 58% in FY20 to 32% in 1H22) 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.

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

## Emeco Pty Ltd

Figure 2: Commodity diversification 31 December 2021



Source: Company

- Injury and accident prevention:** Emeco's current lost time injury frequency rate remains at zero as of 16 February 2022 (1H22), which extends the lost time injury free period to almost six years. The total recordable injury frequency rate fell to 1.8, which was a reduction from the previous half to 30 June 2021 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.

The Group has significantly reduced financial leverage to 1.0x in 1H22, 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

*The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.*

## Emeco Pty Ltd

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).

---

*The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.*

---

## Emeco Pty Ltd

### Financial Summary

Income Statement	FY17	FY18	FY19	FY20	FY21
Total Revenues	196.0	381.0	464.5	540.4	620.5
Gross Profit	81.3	178.5	268.9	338.4	384.1
EBITDA	52.6	136.2	192.8	224.3	218.9
EBIT	(3.0)	66.3	103.4	117.2	110.6
Net Income	(180.5)	11.4	34.0	66.1	20.7
Balance Sheet	FY17	FY18	FY19	FY20	FY21
Cash And Equivalents	17.0	171.4	36.2	198.2	74.7
Total Assets	520.7	716.1	768.7	1,088.6	965.5
Total Debt	462.4	475.2	479.4	630.9	311.6
Net Debt	445.4	303.8	443.2	432.7	236.9
Cash Flow Statement	FY17	FY18	FY19	FY20	FY21
Net profit/(loss) after tax	(180.5)	11.4	34.0	66.1	20.7
Depreciation and amortisation	54.7	68.8	87.4	114.0	117.4
Capex	(30.7)	(80.5)	(180.5)	(118.8)	(153.6)
Free cash flow	6.0	79.3	(3.3)	59.0	42.6
Credit Metrics	FY17	FY18	FY19	FY20	FY21
Net Debt/EBITDA	8.5x	2.2x	2.3x	1.9x	1.0x
EBITDA/Interest Expense	1.7x	2.8x	3.8x	4.4x	6.1x

Source: S&P Capital IQ

The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.

## Emeco Pty Ltd

*The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced or distributed to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.*

*Certain statements contained in the information may be statements of future expectations and other forward-looking statements. These statements involve subjective judgement and analysis and may be based on third party sources and are subject to significant known and unknown uncertainties, risks and contingencies outside the control of the company which may cause actual results to vary materially from those expressed or implied by these forward looking statements. Forward-looking statements contained in the information regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Opinions expressed are present opinions only and are subject to change without further notice.*

*No representation or warranty is given as to the accuracy or completeness of the information contained herein. There is no obligation to update, modify or amend the information or to otherwise notify the recipient if information, opinion, projection, forward-looking statement, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.*

*FIIG shall not have any liability, contingent or otherwise, to any user of the information or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance or completeness of the information. In no event will FIIG be liable for any special, indirect, incidental or consequential damages which may be incurred or experienced on account of the user using information even if it has been advised of the possibility of such damages.*

*FIIG provides general financial product advice only. As a result, this document, and any information or advice, has been provided by FIIG without taking account of your objectives, financial situation and needs. Because of this, you should, before acting on any advice from FIIG, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If this document, or any advice, relates to the acquisition, or possible acquisition, of a particular financial product, you should obtain a product disclosure statement relating to the product and consider the statement before making any decision about whether to acquire the product. Neither FIIG, nor any of its directors, authorised representatives, employees, or agents, makes any representation or warranty as to the reliability, accuracy, or completeness, of this document or any advice. Nor do they accept any liability or responsibility arising in any way (including negligence) for errors in, or omissions from, this document or advice. Any reference to credit ratings of companies, entities or financial products must only be relied upon by a 'wholesale client' as that term is defined in section 761G of the Corporations Act 2001 (Cth). FIIG strongly recommends that you seek independent accounting, financial, taxation, and legal advice, tailored to your specific objectives, financial situation or needs, prior to making any investment decision. FIIG does not make a market in the securities or products that may be referred to in this document. A copy of FIIG's current Financial Services Guide is available at [www.fiig.com.au/fsg](http://www.fiig.com.au/fsg).*

*An investment in notes or corporate bonds should not be compared to a bank deposit. Notes and corporate bonds have a greater risk of loss of some or all of an investor's capital when compared to bank deposits. Past performance of any product described on any communication from FIIG is not a reliable indication of future performance. Forecasts contained in this document are predictive in character and based on assumptions such as a 2.5% p.a. assumed rate of inflation (unless otherwise stated), foreign exchange rates or forward interest rate curves generally available at the time and no reliance should be placed on the accuracy of any forecast information. The actual results may differ substantially from the forecasts and are subject to change without further notice. The information in this document is strictly confidential. If you are not the intended recipient of the information contained in this document, you may not disclose or use the information in any way. No liability is accepted for any unauthorised use of the information.*

---

*The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.*

---