# Full-Year 12/13 presentation

22 AUGUST 2013


austinengineering LTD

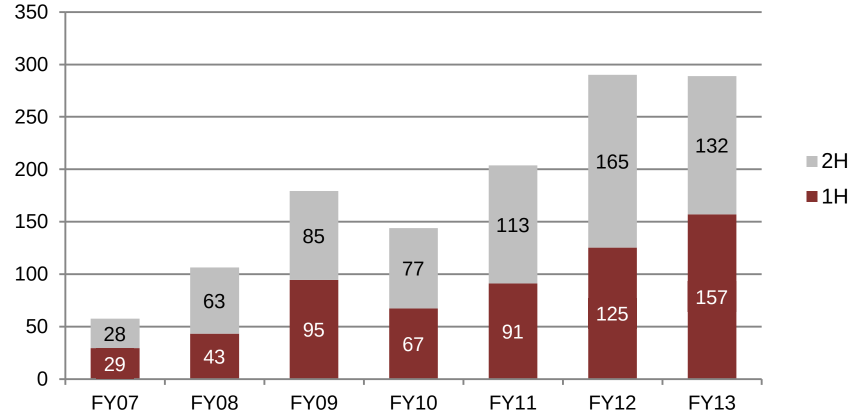
# FY 12/13 Highlights

- » Resilient financial performance over the full year against a background of changing market conditions
- » Busy first half offset by lower activity levels in the second half, particularly for business units exposed to coal mining operations
- » Total revenue of $289m for the full year, similar to last year
- » EBITDA of $51.1m for the year, up from $50.1m last year with some uplift in margin
- » NPAT of $28.4m, down from $29.6m in the previous year due to additional depreciation on investment in new facilities
- » EPS of 39.2cps for the year, compared to 41.0cps in the previous year
- » Final dividend maintained at 10.5cps, total dividend for the year of 15.0cps up from 14.5cps last year

# FY 12/13 Revenue, EBITDA and Dividend Developments

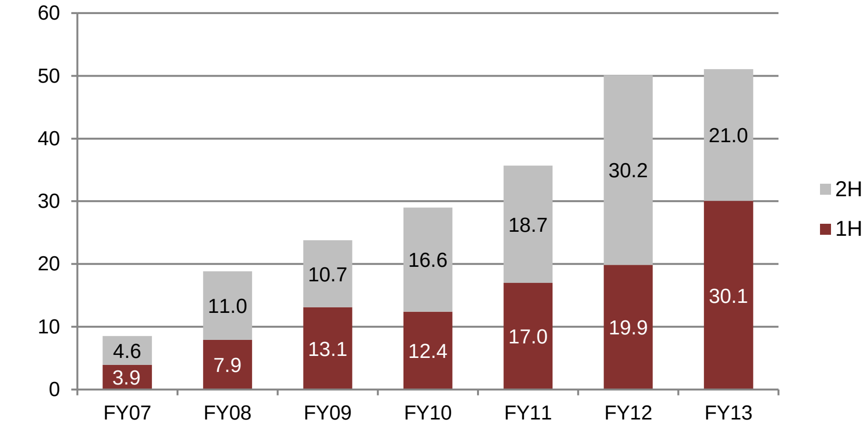
**Revenue**

**CAGR FY07-FY13: 28%**

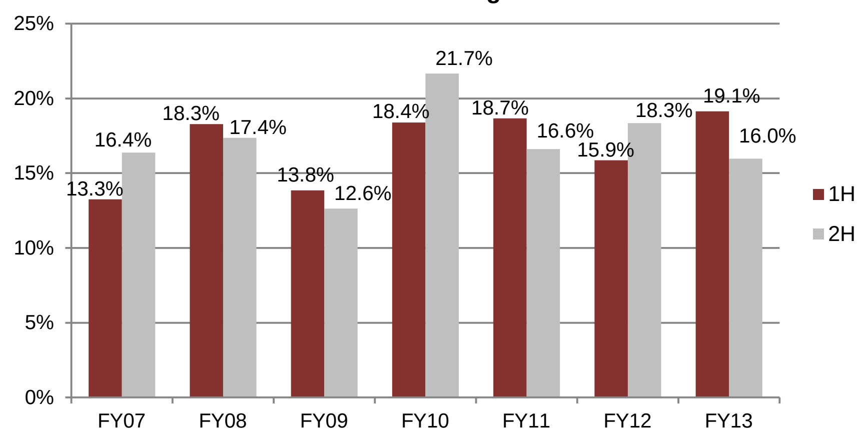



**EBITDA ($m)**

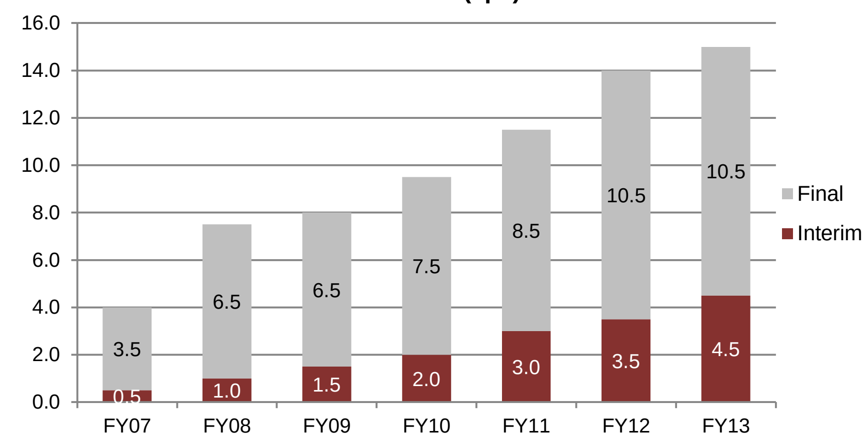
**CAGR FY07-FY13: 35%**




**EBITDA % Margin**




**Dividends (cps)**



| | FY 12/13<br>$m | FY 11/12<br>$m | % Change |
|---|---|---|---|
| Revenue | 288.8 | 290.1 | - |
| EBITDA | 51.1 | 50.1 | +2% |
| NPBT | 39.6 | 41.2 | -4% |
| NPAT | 28.4 | 29.6 | -4% |
| | | | |
| EBITDA/Revenue | 17.7% | 17.3% | +0.4% |
| NPBT/Revenue | 13.7% | 14.2% | -0.5% |
| NPAT/Revenue | 9.8% | 10.2% | -0.4% |
| | | | |
| Basic Earnings per Share (cents) | 39.2cps | 41.0cps | -4% |
| Final Dividend per Share (cents) | 10.5cps | 10.5cps | - |

| | FY 12/13 $m | FY 11/12 $m | % Change |
|---|---|---|---|
| **Revenue:** | | | |
| Australia | 200.3 | 202.2 | -1% |
| Americas | 78.7 | 70.4 | +12% |
| Asia (Indonesia) | 7.4 | 15.1 | -51% |
| Middle East | 2.4 | 2.4 | - |
| | **288.8** | **290.1** | **-** |
| **EBITDA:** | | | |
| Australia | 33.9 | 32.9 | +3% |
| Americas | 14.5 | 12.3 | +18% |
| Asia (Indonesia) | 1.9 | 4.0 | -53% |
| Middle East | 0.8 | 0.9 | -18% |
| | **51.1** | **50.1** | **+2%** |
| **EBITDA % Margin:** | | | |
| Australia | 16.9% | 16.3% | +0.6% |
| Americas | 18.4% | 17.5% | +0.9% |
| Asia (Indonesia) | 25.7% | 26.5% | -0.8% |
| Middle East | 33.3% | 37.5% | -4.2% |
| **Total** | **17.7%** | **17.3%** | **+0.4%** |

**Group Result:**

- » Business conditions more variable than the previous year
- » Better utilisation of productive capacity in the first half offset by reduced activity in the second half, particularly for coal-related operations
- » Additional full-year revenue and profit contributions from the Calama (Chile) and Peru business units
- » EBITDA result of $51.1m for the year up 2% from $50.1m in the pcp, with an EBITDA margin of 17.7%, up from 17.3%
- » Overall EBITDA margins impacted by lower workload levels and less recovery of overheads in the second half
- » NPAT of $28.4m down from $29.6m, despite increased EBITDA, due to additional full-year depreciation expense from investment in new production facilities and business acquisitions
- » Net debt-to-EBITDA ratio of 1.35, EBIT net interest cover of 16 times and net gearing of 31% are well within bank covenant requirements and industry sector averages

**Australia:**

- » Revenue down 1% on the year
- » EBITDA contribution of $33.9m up $1.0m (3%) with the margin improving by 0.6% to just under 17%
- » Perth-based manufacturing operations generated an excellent contribution due to solid demand from iron ore miners in Western Australia for Austin's products and services
- » On-site repair and maintenance operations in the Pilbara region of Western Australia remained busy and performed well despite the tough commercial environment
- » Marked reduction in activity levels and contributions from operations on the eastern seaboard as coal miners cut back on expenditure for mining equipment and repair and maintenance services
- » Reduced contributions from COR Cooling operations due to variable trading conditions, particularly in Western Australia as customers deferred the service and repair of equipment

**Americas:**

» Revenue growth of 12% in the year

» EBITDA contribution of $14.5m up 18% on the pcp with an improved margin of 18.4%, up from 17.5% in FY 11/12

» Revenue down on the pcp for Westech operations in North America as market conditions became tighter but productivity and margins were maintained at above average levels

» Overall lower activity levels for the La Negra manufacturing facility in Chile as copper miners in the region deferred the purchase of mining equipment and the contract for Vale in Brazil was delayed in the second half

» Very good performance from the Calama operation in northern Chile, with an elevated EBITDA contribution and margin due to high levels of equipment utilisation and the introduction of equipment repairs

» Overall satisfactory performance by the new Peruvian operation with a bias of activity towards on-site repair and maintenance operations as it consolidated its market position in the region

» Positive, albeit small, operating result for the Colombian manufacturing operation as it gained exposure to Colombian and overseas mining customers

**Asia (Indonesia):**

» Revenue down 51% from the pcp

» EBITDA contribution of $1.9m down accordingly but margin relatively steady at 25.7%

» Weak demand for mining products and services as Indonesian coal miners adjusted coal output in light of market conditions

» New revenue streams from oil and gas-related work helped to maintain a smaller base workload with very good margins

**Oman:**

» Middle East operations continued to focus mainly on the ongoing repair and maintenance contract for aluminium smelter equipment in the region

» Relatively consistent levels of activity during the year with similar revenue to the pcp

» EBITDA contribution of $0.8m, down slightly from the pcp and an EBITDA margin of 33.3%, down from the pcp's level of 37.5% but still solid

- Net assets and equity up 22%, being mainly derived from the NPAT result for the year balanced by the payment of the final FY 11/12 and interim FY 12/13 dividends
- Net tangible assets per share up 61% from 55.3 cps to 88.8cps
- Increased working capital due to the utilisation of advance payments for work undertaken during the year and additional holdings of steel inventories
- Higher fixed asset base following $15m of capex on new production facilities in Colombia and Indonesia, other productivity-enhancing programs and new offices for Peru and North America operations
- $1.6m expended on the purchase of the business of Bells Radiators in the Hunter Valley to expand COR Cooling's geographical presence
- Closing cash of $6.3m after using $20m of cash to reduce debt (2012: cash of $15.7m after using $14m of cash to reduce debt)
- No new significant debt drawn down in the year
- Net gearing ratio of ~31% (including $8m of bank guarantees issued by the company's bank) remains well within bank covenant requirements
- Good underlying operational cash flows but below depreciation-adjusted NPAT due to the utilisation of advance progress payments
- Normal sale and purchase settlement terms and conditions throughout the year with no major payment delays or bad debts being experienced

| | June 13 $m | June 12 $m |
|---|---|---|
| Working capital | 26.7 | 9.7 |
| Property, plant and equipment | 106.6 | 92.9 |
| Total assets | 278.2 | 285.6 |
| Total liabilities | 124.8 | 160.3 |
| Net assets | 153.4 | 125.3 |
| Cash | 6.3 | 15.7 |
| Debt | 67.3 | 70.5 |
| Net Debt | 61.0 | 54.8 |
| Net Gearing % (net debt/net debt plus equity) | 30.9% | 33.4% |

| | FY 12/13 $m | FY 11/12 $m |
|---|---|---|
| Operating cash flow | 22.0 | 24.6 |
| Investing cash flow | -16.1 | -52.1 |
| Financing cash flow | -13.5 | 6.6 |
| Total cash flows | -7.6 | -20.9 |

**Queensland:**

**Brisbane:**

- Reasonable business conditions in the first half of the year and a marked reduction in activity in the second half
- Coal markets did not recover which led to mining customers curtailing expenditure on mining equipment and reduced revenue and EBITDA contributions for Brisbane
- Customer demand continues to be low and workshop capacity utilisation levels will be well below historical averages and necessary levels for efficient operations in the first half of FY 13/14
- Lower revenue and profit contributions expected for FY 13/14 unless there is a significant change in business conditions within coal markets
- Reconfiguration of productive capacities for Brisbane and the other east coast operations will be considered in order to gain maximum profit contribution in the current difficult business climate

**Mackay:**

- Similar themes to Brisbane, with lower revenue and profit contributions during FY 12/13 compared to the previous year
- Extremely competitive market with engineering workshops pursuing a much-reduced pool of available work
- Industry rationalisation is possible in the region with smaller engineering and service suppliers exiting the market
- Lower revenue and profit levels expected for FY 13/14 with any likely improvement in customer demand being in the second half of the year

**New South Wales - Hunter Valley:**

- Revenue below the previous year's level as, like Brisbane and Mackay, market conditions became softer
- Benefits of improved underlying productivity are not reflected in results due to lower activity levels and reduced customer demand for repair and maintenance services
- Coal miners still deferring expenditure on the repair and maintenance of equipment although some key contracts will be put out to tender
- Targeting a positive operational result for FY 13/14 but this is dependent upon stabilisation and improvement in customer demand

**Western Australia:**

**Perth:**

- Excellent financial result for FY 12/13 with Austin's products and services being well accepted and supported by customers
- 3 year agreement for the supply of mining products to a major miner confirmed and signed in February 2013; arrangements also in place to supply products to the other leading miners
- Some orders, for which deposits have been received, have been delayed until the next financial year as customers seek to maintain output by working their existing assets harder and for longer
- Ongoing business process improvements are underway to reduce product build costs and to increase competitiveness
- Revenue and profit contribution for FY 13/14 likely to be significantly down on the previous year although a return to increased levels of output and profitability is forecast thereafter as hard-worked equipment needs to be replaced

**Pilbara Hire:**

- Very good result for FY 12/13, above the previous year's level, despite the tough and competitive environment for the provision of support services to miners
- Renewal of an existing contract with a large miner confirmed against stiff competition
- Business development will continue to be a key management focus, building on the success already achieved with securing new customers and revenue streams
- Coordination of activities with other Austin operations is opening up new markets
- Revenue in FY 13/14 expected to be similar to FY 12/13 but at lower margins due to customer pricing pressure

**COR Cooling (Qld - Mackay/Brisbane, WA - Perth/Kalgoorlie, SA - Adelaide, NSW - Hunter Valley):**

- Financial result below the previous year's level and internal budgets as unstable business conditions for the principal operations in Western Australia and Queensland impacted revenue volumes and margins
- Marked deferral of the repair and overhaul of cooling equipment systems by customers with scheduled and preventative maintenance being postponed as long as possible
- Ongoing business development in the Hunter Valley and alternative equipment markets will help lift profit contribution in FY 13/14

**North America - Westech, Wyoming:**

- Very good operating result for FY 12/13 with revenue levels above longer term averages and better than expected production efficiencies
- Demand from Westech's traditional customers in the Powder River coal basin was, and continues to be lower than normal as miners cutback on production
- The diversity of clients and commodities domestically and overseas continues to give Westech other recurring income sources
- Committed workloads at the beginning of FY 13/14 are lower compared to the pcp and revenue and profit for the full year is targeted to be lower but still above average

**South America:**
**Chile:**

- La Negra manufacturing operation returned a result below expectations for FY 12/13 as Chilean copper miners, particularly in the second half of the year, deferred the purchase of mining equipment
- Productive capacity has been freed-up by transferring the manufacture of dump truck bodies for Xstrata Peru to Austin Engineering Peru
- Securing the multi-year contract with Vale is important as La Negra will be the manufacturing base for mining equipment for this contract
- Development of a commercial relationship with BHP Escondida is in progress and success in securing this will provide significant benefits
- Very strong financial result delivered by Austin's heavy equipment lifting and service support operation in Calama in northern Chile, with high levels of equipment utilisation
- Further growth of the Calama business is forecast, as confirmed by the award of two contracts by Codelco in August 2013 (announced to the market on 7 and 13 August 2013)
- The Chilean business units are expected to show revenue and profit growth in FY 13/14 as new contracts and revenue streams are secured and come online

**Peru:**

» Increased revenue and profit levels reported for FY 12/13 as the business unit contributed for a full financial year

» Financial result for FY 12/13 was below internal budgets but still satisfactory given the relatively new start-up of operations

» Operations mainly focussed on repair and maintenance services for two site-based mining operations in Peru as well as the workshop-based manufacture of mining products for other Peruvian customers

» Orders for the manufacture of Austin's existing product range are increasing and the completion of the remaining 27 dump truck bodies (out of a total of 45) for Xstrata Peru will be performed by Austin Peru

» The delivery of the first in-house designed shovel dipper worth over $1m will take place in August 2013 and this is expected to lead to further orders throughout South America where this type of product is mostly used

» The company has commenced the development of a new block of land on which a new production facility will be constructed; total capital expenditure on this project is estimated at around $15m

» Increased financial result forecast for FY 13/14 as the operation expands its commercial presence and capabilities in Peru's mining regions

**Colombia:**

» Produced a positive result for FY 12/13, albeit behind internal budgets and expectations, with inconsistent monthly results reflecting the ramp-up of manufacturing activities

» FY 13/14 will be an important business development year for the operation as its capabilities are marketed to Colombian and overseas mining customers

» A number of contracts for the supply of equipment and on-site repair and maintenance service are being pursued

» Revenue and profit growth planned for FY 13/14

## Indonesia - Batam Island:

» Relatively weak demand for mining products and services throughout the year

» Significant slowdown in the Indonesian coal industry experienced as miners adjusted coal output in light of market conditions

» Secondary orders for oil and gas-related work were secured to keep momentum going

» Revenue and profit contribution was lower in FY 12/13 compared to the pcp but margins remained stable

» The manufacturing of parts for Austin's WA operations was completed during the year, this will offer flexibility for the wider Austin group on the use of Indonesia's available capacity

» First buckets for the Indonesian and Philippines markets were also produced during the year

» Opportunities still exist to export the smaller range of mining products to Australia that Austin cannot normally compete with due to higher Australian costs

» Increased revenue and profit contribution forecast for FY 13/14 although demand for mining products is very likely to remain at relatively low levels

## Middle East - Masco joint venture, Sohar, Oman:

» Production mainly concentrated on the anode stem repair maintenance project for the Sohar aluminium smelter

» Currently engaged on aluminium smelter-related projects in Abu Dhabi until late 2013

» Lower result expected for FY 13/14 as the maintenance contract comes to an end and further site contracts are not due to commence until the second half

**Brazil:**

» Awaiting the outcome of a significant tender for Vale over a 3 year period for a number of Austin's products; decision expected imminently

» A portion of this tender will result in a significant increase in the workload for Austin's Chilean and Colombian production facilities

» Austin is currently reviewing a number of businesses in Brazil for purchase (for assembly and repair and maintenance activities)

**Africa:**

» A detailed report has been completed on the viability of business operations in Africa

» An extended search for suitable businesses will continue pending the outcome of discussions with a business of potential interest

» Completion of the assessment of expansion into Africa is expected during the 2013 calendar year

**Russia and Mongolia:**

» A detailed report has been completed on opportunities and business considerations for establishing a presence in Russia

» The company has recognised that the market has significant potential, however at this stage the Russian market may not have matured sufficiently to consider the establishment of operations

» Expansion into Russia will be reviewed regularly

» The establishment of a maintenance and repair facility in Mongolia will be considered as the Mongolian mining market develops and matures

**COR Cooling:**

» The expansion of the COR Cooling business will continue as there are significant opportunities to consolidate other businesses and establish COR as a major player in the domestic and international industrial cooling products and services markets

» Expansion discussions with target companies are underway in Indonesia

### Industry Themes:

- Mining industry is likely to continue on a trend of cash conservation and cost control for at least another 6-12 months
- Miners are maintaining and in some cases increasing output levels which will put considerable strain on existing fleets of equipment as they are operated for longer and harder
- Continuing deferral of the replacement, repair and maintenance of equipment
- Current downturn will likely see a rationalisation of the industry over the next 12 months
- Mining customers are seeking to improve production efficiencies

### Austin’s Market Position and Response to Current Business Conditions:

- Austin’s revenue, product lines and services are closely related to ongoing production and the extension of existing mines
- Regional and global presence and exposure to commodities such as iron ore and copper will help to mitigate weakness in coal markets
- Superior range of products and services, together with ongoing investment in the development of equipment with enhanced payload-carrying capabilities
- Growth of the business is still a focus and a number of discussions are underway on potential acquisitions; the company is of the belief that the current downturn will present opportunities for future growth
- Investment in South American operations will continue to deliver increased revenue and profit in coming years
- Continuing confidence in securing a major tender win with Vale, which will have a significant effect on workloads for Chile and Colombia, especially in the second half of FY 13/14

### Results:

- Reduced profit contribution in FY 13/14 from Australian businesses but higher contributions targeted from South American operations
- Flat financial result currently targeted for FY 13/14 and a distinct bias of earnings towards the second half of the year based on current orders and forecasts
- Once business conditions stabilise and improve, well placed for improved results and business growth

# Snapshot of Austin's Principal Products




Westech "Flow Control" Dump Truck Body

JEC "Modular Design"  Dump Truck Body


JEC Underground Dump Truck Body

Excavator Buckets


Tyre Handlers

Water Tanks and Service Modules

For more information visit

**www.austineng.com.au**