MOODY'S INVESTORS SERVICE

CREDIT OPINION
3 May 2019

Update

Rate this Research

RATINGS

Ausdrill Limited

Domicile	Australia
Long Term Rating	Ba2
Type	LT Corporate Family Ratings - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Ausdrill Limited

Update to credit analysis

Summary

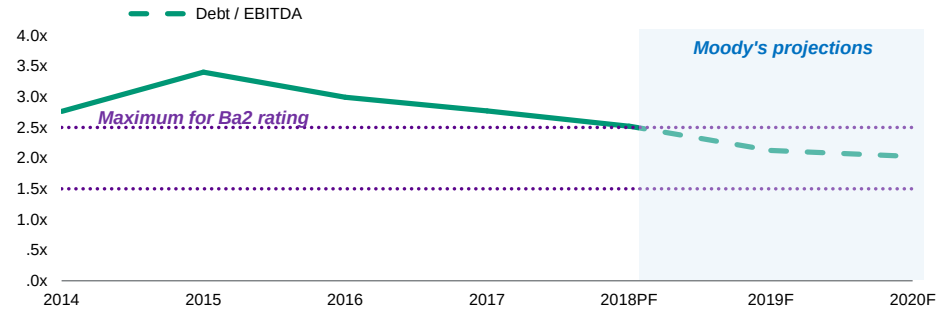
Ausdrill Limited's (Ba2 stable) credit profile reflects its increased scale following the acquisition of Barminco, solid credit metrics, and improving operating environment in the cyclical mining services sector.

Ausdrill has a strong position in providing integrated mining services in its target markets and its ability to execute contracts to a diverse range of counterparties. The acquisition of Barminco increased Ausdrill's product offering by adding significant underground mining services capabilities both in Australia and Africa.

The acquisition also rebalanced Ausdrill's earnings back to Australia, reducing jurisdiction risk. Nevertheless, we expect Ausdrill to continue to benefit from significant growth opportunities emerging from Africa, supported by the company's geographic and mine diversification and long track record of successfully operating in these higher-risk jurisdictions. At the same time, the credit profile is balanced by the cyclical nature of the mining services sector and our expectation that competition will remain strong over the next 12-18 months.

Exhibit 1

We expect Ausdrill's leverage to settle at around 1.8-2.2x over the next 12-18 months
Moody's adjusted debt/EBITDA



[1] Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
[2] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. PF = Pro forma. F = Forecast.
[3] FY2016 and FY2017 are based on Ausdrill's stand-alone financials prior to the Barminco acquisition. FY2018PF, FY2019F and FY2020F are based on the new Ausdrill group.
Source: Moody's Financial Metrics™

THIS REPORT WAS REPUBLISHED ON 3 MAY 2019 WITH AN UPDATE TO THE RATINGS TABLE IN EXHIBIT 11.

Credit strengths

» Proven operating track record and production focus

» Exposure to gold which tends to be more resilient in the downturn

» Solid credit metrics

» Increased scale, diversity and product offering following the acquisition of Barminco

Credit challenges

» Competitive operating conditions in the cyclical mining services sector

» Significant exposure to less developed/higher risk jurisdictions

» Termination rights expose the company to industry downturns

Rating outlook

» Ausdrill's stable outlook reflects its solid credit metrics and our expectation that the company will seamlessly integrate Barminco into the Ausdrill group and continue to renew its existing contracts and win new contracts

Factors that could lead to an upgrade

» Ausdrill's ratings could be upgraded over time if the company continues to grow its scale and product offerings while maintaining a track record of strong cash flow generation and improved earnings, such that adjusted debt/EBITDA is sustained below 1.5x through the cycle.

Factors that could lead to a downgrade

» Ausdrill's ratings could come under downward pressure if the company fails to renew material contracts or win new contracts, or if operating conditions deteriorate significantly, despite Moody's expectations of stable conditions, and if adjusted debt/EBITDA exceeds 2.5x.

Key indicators

Exhibit 2

	30/06/2016	30/06/2017	30/06/2018PF	30/06/2019F	30/06/2020F
Revenue (USD Billion)	$0.5	$0.6	$1.3	$1.3	$1.3
EBITA Margin	8.9%	10.5%	10.9%	10.1%	10.0%
Debt / EBITDA	3.0x	2.8x	2.5x	2.1x	2.0x
EBITA / Interest	1.9x	2.5x	2.7x	2.7x	3.2x
RCF / Net Debt	37.4%	48.7%	29.9%	39.6%	46.7%

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[3] FY2016 and FY2017 are based on Ausdrill's stand-alone financials prior to the Barminco acquisition. FY2018PF, FY2019F and FY2020F are based on the new Ausdrill group.
Source: Moody's Financial Metrics™

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

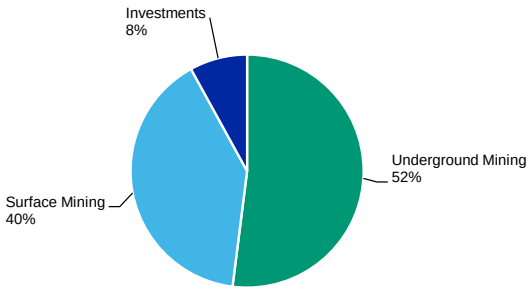
Profile

Ausdrill Limited (Ausdrill) was established in 1987 as a drill and blast company in the Australian mining services sector and has expanded into a vertically integrated provider of surface and underground mining services in Australia and Africa, with in-house capabilities in manufacturing, logistics and supply. Ausdrill also provides equipment rental, parts sales, service exchange and maintenance services.

The principal activities of the group comprise:

1. underground and surface mining services rendered under three to five year contracts in Africa and Australia, including earthmoving, drilling and blasting, underground mining (through its recent successful acquisition of Barminco, and additionally through African Underground Mining Services - "AUMS"), grade control and load and haul, crusher feed as well as exploration drilling and resource definition mineral analysis; the company carries out full-contract mining services for counterparties in Africa, but not in Australia
2. manufacturing drill rigs
3. provisioning equipment rental, maintenance, mining supplies and logistics services

Exhibit 3
1HFY2019 Revenue by segment



[1] 1HFY2019 revenue is proforma and includes 100% of Barminco and AUMS
Source: Company reports

The Ausdrill group wholly owns AUMS, which provides underground mining services to customers in Ghana (B3 stable), Burkina Faso (unrated) and Tanzania (B1 negative). AUMS has experienced significant growth in recent periods, with its reported revenue at around AUD290 million and trading EBITDA at around AUD100 million for FY2018, representing growth rates of 62% and 61% respectively over the corresponding period. Additionally, AUMS also has solid margins, with its trading EBITDA margin at around 34% for FY2018.

Detailed credit considerations

Proven operating track record and production focus benefit business profile

Ausdrill's business profile benefits from its proven track record of stable operating margins, contract wins and retention rates, which illustrates its technical capabilities and ability to execute the services it provides. Ausdrill also benefits from its incumbent position at its existing mine sites, as well as the logistical challenges posed to mine owners if they want to change contractors.

The addition of underground mining services following the acquisition of Barminco, further supports earnings and margins through the cycle as these services tend to be more sticky as mining companies look to avoid costly disruptions in their underground activities.

The addition of underground mining services is also supportive of Ausdrill's already solid adjusted EBITDA margins as these services have historically enjoyed higher margins than surface mining activities. As such, we expect Ausdrill's adjusted EBITDA margin to improve to around 22% over the next 12-18 months, from around 18% for Ausdrill prior to the Barminco acquisition in FY2018.

In contrast to entities that focus on mine development or exploration activities, Ausdrill derives a significant amount of revenue from providing mining services to the production phase of mining. This supports stability through the cycle as mining companies are likely to continue producing during weak points in the cycle while exploration and development activities are more likely to be curtailed in weaker price environments.

Most of the mines that Ausdrill services have cost profiles that should allow for profitability even in weaker price environments, and these mines are likely to be acquired by new owners in the event of financial distress. The company should be well placed to continue providing services in such a situation, given its incumbency.

Exposure to a competitive operating environment and cyclical mining sector

Being a provider of services to the mining industry, Ausdrill is exposed to the cyclical nature of the sector. We expect commodity prices to remain volatile through the cycle and for mining activity to reduce and competition for mining services to increase in weaker pricing environments.

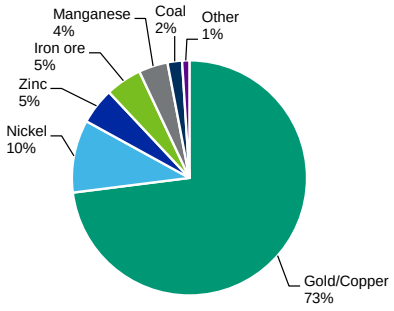
However, Ausdrill's credit profile is currently benefitting from the improved operating conditions and pricing for the mining sector. Reflecting these improved conditions for Ausdrill's customers, we expect mining companies to focus on sustaining and/or growing production levels and to continue to gradually increase capital expenditures over the next 12-24 months. This should increase mining activity and tender opportunities for Ausdrill.

While this will be supportive growth, we also expect the Australian mining services sector to remain very competitive and for mining companies to continue to focus on lowering costs, which will limit upside potential for margins.

At the same time, Ausdrill's exposure to the gold sector will continue to support revenue growth. Although gold prices have declined since 2012, its price tends to be more resilient in a downturn as compared to base metals and bulk commodities. For 1HFY2019 on a pro forma basis, Ausdrill derived 73% of its revenue from gold/copper, with the remainder mainly from Nickel (10%) and Zinc (5%).

Exhibit 4

1HFY2019 Revenue by commodity



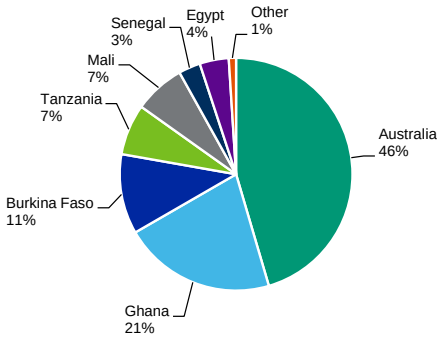
[1] 1HFY2019 revenue is proforma and includes 100% of Barminco and AUMS
Source: Company reports

Exposure to less developed, higher-risk jurisdictions

While the bulk of Ausdrill's mining services revenue relates to gold production, which as a commodity has shown countercyclical attributes due to its safe haven status, a majority of the company's gold mining services by value are rendered in jurisdictions that are subject to higher sovereign risk or have less developed institutional environments.

However, the acquisition of Barminco has significantly rebalanced Ausdrill's earnings profile back towards Australia (45%), with the other two largest contributors being Ghana (21%) and Burkina Faso (11%). We expect Africa will continue to present significant growth opportunities over the next 12-18 months and for the share of revenue from Africa to expand over time.

Exhibit 5
1HFY2019 Revenue by geography



[1] 1HFY2019 revenue is proforma and includes 100% of Barminco and AUMS
Source: Company reports

A large portion of its services are exposed to higher sovereign risk jurisdictions, such as Mali (B3 stable), Burkina Faso, and Tanzania. Although Ausdrill mitigates some of the related risks by contracting directly with large resource companies in these jurisdictions, we note that the deteriorating operating environments could still result in mine closures and cancellation of such contracts on short notice, regardless of its customers' credit strength.

While Ausdrill may take out political risk insurance policies in some jurisdictions to mitigate sovereign risk, the terms of these policies do not cover lost revenue and may result in substantial delays or shortfalls in recoveries of asset values. Management has indicated that Ausdrill has not experienced any such sovereign risk-related events to date.

Notwithstanding the above, we view Africa as a complex region to conduct mining operations and Ausdrill's track record, along with its know-how as an African mine operator, cannot be easily replicated in the short-term. Additionally, we consider Ausdrill's geographical and mine diversification within the region, as well as its long track record of successfully operating in these higher-risk jurisdictions, as key mitigants.

Solid credit metrics

Ausdrill's financial metrics have been improving in the recent period reflecting company's ongoing earnings growth and deleveraging. The Group's adjusted financial leverage as measured by debt/EBITDA was 2.5x at 30 June 2018 (pro forma for Barminco acquisition).

We expect the company's financial metrics to continue to improve to around 1.8-2.2x over the next 12-18 months, driven by further debt reduction and our expectation that Ausdrill will continue to renew existing contracts and win new contracts, particularly in Africa. At the same time, interest cover (EBITA/interest expense) will increase to 2.5-3.5x (2.1x at FY2018)

Moody's-adjusted RCF/net debt is also expected to improve from around 20% at FY2018 to around 40-50% over the next 12-18 months reflecting the improved free cash flow generation and lower debt levels.

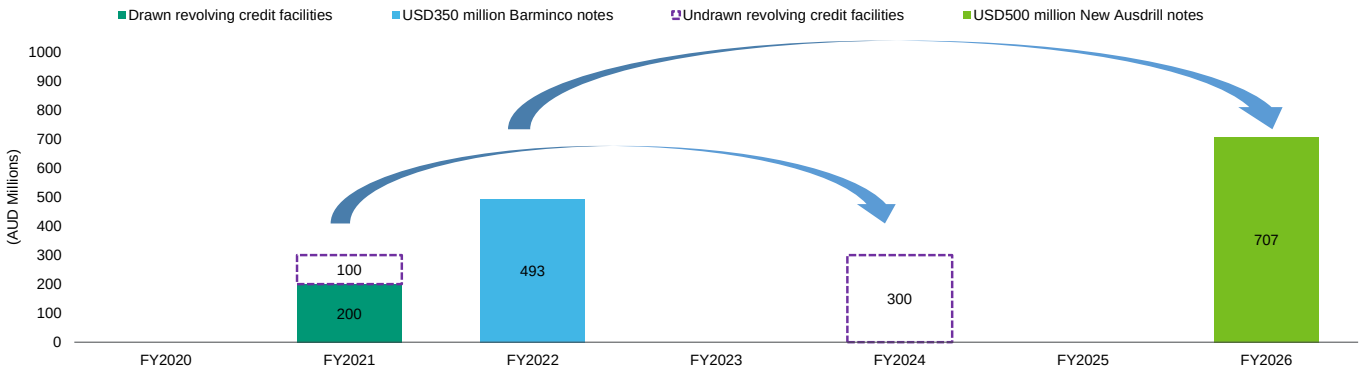
Liquidity analysis

Ausdrill's liquidity is solid. The company had a cash balance of AUD199 million as at 31 December 2018. Ausdrill recently extended the maturity of its AUD300 million revolving credit facility, which now matures in fiscal 2024. We expect the facility to be largely undrawn over the next 12-18 months.

Under our base sensitivities, we expect these sources of liquidity, combined with cash flow from operations of around AUD200-300 million, will be sufficient to cover the company's capital spending of around AUD200 million and dividends of around AUD40 million.

Also, the proposed bond issuance and refinancing of the Barminco notes will further extend the company's maturity profile with the vast majority of drawn debt not coming due until 2026.

Exhibit 6
Ausdrill's debt maturity profile



[1] Converted at AUD/USD 0.71
Source: Offering memorandum, Moody's estimates

Structural considerations

The Ba2 rating on the Ausdrill's USD500 million notes is at the same level as the company's CFR, reflecting the preponderance of unsecured debt in its capital structure. The rating on the notes is also supported by Moody's expectation that the company's AUD300 million senior secured revolver is likely to remain largely undrawn over the forecast period.

Rating methodology and scorecard factors

Exhibit 7
Rating factors

Business and Consumer Service Industry Grid [1]	30/06/2018PF		Moody's 12-18 Month Forward View As of May 2019	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$1.3	B	$1.3 - $1.4	B
Factor 2 : Business Profile (20%)				
a) Demand Characteristics	Ba	Ba	Ba	Ba
b) Competitive Profile	B	B	B	B
Factor 3 : Profitability (10%)				
a) EBITA Margin	10.9%	B	8% - 12%	B
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	2.5x	Baa	1.8x - 2.2x	Baa
b) EBITA / Interest	2.7x	B	2.5x - 3.5x	Ba
c) RCF / Net Debt	29.9%	Baa	35% - 55%	A
Factor 5 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Rating from Grid		Ba2		Ba2
b) Actual Rating Assigned				Ba2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. = Last 12 months. PF = Pro forma
[2] Both 30/06/2018PF and Moody's Forward view are based on the new Ausdrill group and includes Barminco and AUMS.
[3] Moody's Forward view is Moody's opinion and does not represent the views of the issuer.
Source: Moody's Financial Metrics™

Exhibit 8

Peer comparison table

	Ausdrill Limited Ba2 Stable			ABM Investama Tbk (P.T.) Ba3 Negative			Bukit Makmur Mandiri Utama (BUMA) Ba3 Stable			H&E Equipment Services, Inc. B1 Stable			Emeco Holdings Limited B2 Positive		
(in US millions)	FYE Jun-17	FYE Jun-18	LTM Dec-18	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	LTM Sep-18	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Jun-17	FYE Jun-18	LTM Dec-18
Revenue	$575	$688	$813	$591	$691	$773	$611	$765	$844	$978	$1,030	$1,239	$148	$295	$325
EBITDA	$111	$123	$145	$165	$166	$196	$233	$298	$305	$321	$347	$429	$53	$127	$156
Total Debt	$313	$313	$539	$556	$546	$386	$672	$654	$789	$964	$1,113	$1,277	$405	$389	$362
Cash & Cash Equiv.	$128	$101	$140	$82	$141	$144	$49	$40	$53	$8	$166	$17	$13	$127	$13
EBITA Margin	10.5%	8.9%	7.8%	9.9%	9.7%	13.8%	21.0%	23.2%	19.8%	12.3%	13.7%	14.7%	0.3%	22.0%	26.7%
EBITA / Int. Exp.	2.5x	2.4x	2.1x	1.6x	1.4x	2.2x	2.3x	3.3x	2.9x	2.0x	2.3x	2.5x	0.0x	1.7x	2.2x
Debt / EBITDA	2.8x	2.7x	3.9x	3.4x	3.3x	2.0x	2.9x	2.2x	2.6x	3.0x	3.2x	3.0x	7.6x	3.2x	2.5x
RCF / Net Debt	48.7%	35.3%	18.8%	26.1%	21.7%	55.1%	23.7%	29.8%	29.6%	20.4%	23.6%	22.0%	11.4%	28.8%	27.6%
FCF / Debt	-8.8%	-30.0%	-16.5%	6.3%	13.6%	15.7%	23.0%	4.6%	-12.8%	5.3%	3.2%	-10.4%	-3.2%	8.5%	-1.8%

[1] All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 9

Ausdrill's historical Moody's-adjusted debt breakdown

(in AU$ Millions)	FYE Jun-14	FYE Jun-15	FYE Jun-16	FYE Jun-17	FYE Jun-18	LTM Ending Dec-18
As Reported Debt	**453**	**434**	**399**	**389**	**405**	**747**
Operating Leases	26	17	19	20	19	19
Moody's-Adjusted Debt	**479**	**451**	**417**	**408**	**423**	**765**

[1] All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 10

Ausdrill's historical Moody's-adjusted EBITDA breakdown

(in AU$ Millions)	FYE Jun-14	FYE Jun-15	FYE Jun-16	FYE Jun-17	FYE Jun-18	LTM Ending Dec-18
As Reported EBITDA	**97**	**-72**	**127**	**138**	**180**	**404**
Operating Leases	9	6	6	7	6	6
Unusual	68	199	7	-7	-19	-206
Non-Standard Adjustments	0	0	0	10	-9	-10
Moody's-Adjusted EBITDA	**173**	**133**	**139**	**147**	**159**	**194**

[1] All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.
[2] *Unusual* adjustments for LTM Ending Dec-18 predominantly relate to (1) AUMS step acquisition gains; (2) AUMS foreign currency translation derecognition; (3) Impairment of PPE
Source: Moody's Financial Metrics™

Ratings

Exhibit 11

Category	Moody's Rating
AUSDRILL LIMITED	
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba2
BARMINCO FINANCE PTY LTD	
Outlook	Stable
Bkd Sr Sec Bank Credit Facility -Dom Curr	Ba2
Bkd Senior Secured	Ba3
AUSDRILL FINANCE PTY LTD.	
Outlook	Stable
Bkd Senior Unsecured	Ba2

Source: Moody's Investors Service

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