S&P Global
Ratings

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Ausdrill Ltd.

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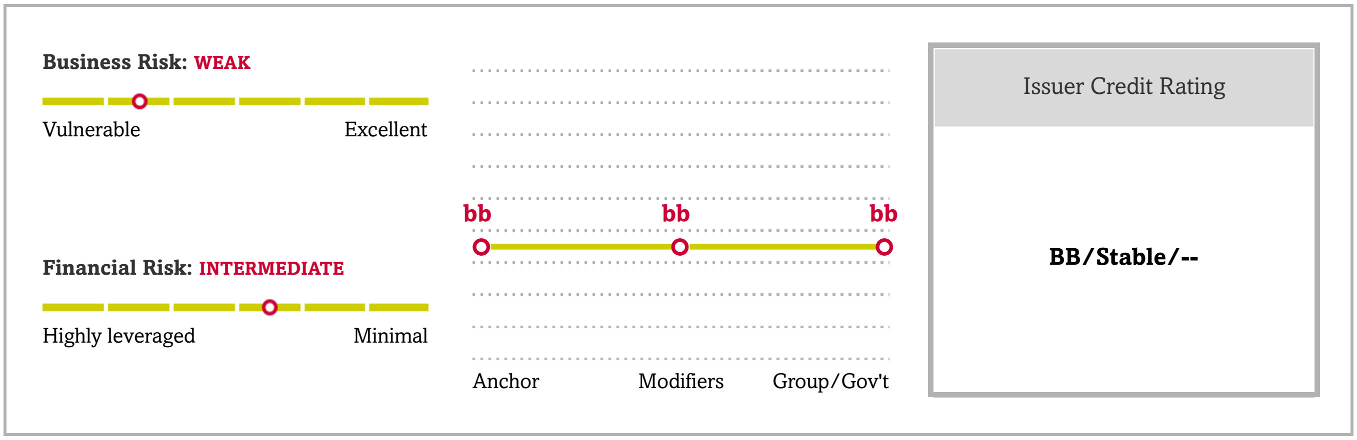


Credit Highlights

Overview

Key Strengths	Key Risks
Second-largest surface and underground mining services company in Australia with a modestly diversified service offering	Smaller scale compared with global peers in the competitive mining services industry with predominant exposure to gold and copper assets
Long track record and expertise of mining services operations in Africa and Australia	Material exposure to African countries that have higher sovereign and operational risks
Track record of conservative financial management	High volatility of cash flows due to company's indirect exposure to volatile commodity prices
Sizable contract book with counterparty diversity	Susceptible to in-housing risk by mine owners

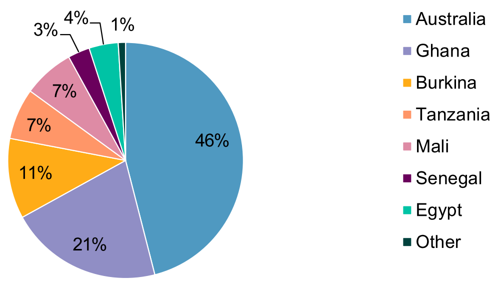
The rating reflects Ausdrill Ltd.'s smaller scale globally, (notwithstanding its leadership position in a niche market), material exposure to Africa, and indirect exposure to volatile commodity prices. Offsetting the weaknesses are Ausdrill's long track record and expertise of operating in Africa, its conservative financial management, and a modestly diversified service offering that provides some resilience to an industry downturn.

We expect Ausdrill to generate positive free operating cash flow over the next three years. This is the result of an improved operating environment, stabilized commodity prices, and a sizable, growing contract book based on recent contract wins and renewals.

In our view, Ausdrill has a track record of conservative financial management. Ausdrill raised A$100 million of equity (before costs) to fund its growth capital expenditure for new contracts in late 2017, and raised an additional A$250 million of equity in 2018 to repay the company's senior notes due 2019. The company has maintained prudent leverage metrics post its Barminco acquisition.

Chart 1

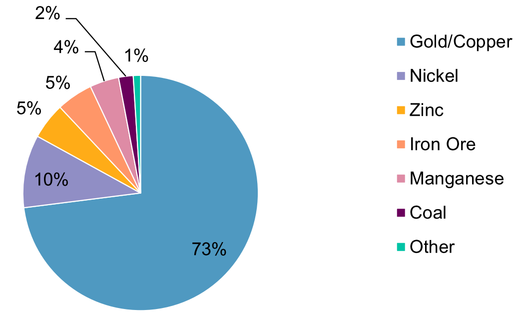
Ausdrill Ltd.'s Revenue By Geography In Fiscal 2019



Estimated figures for the year ending June 30, 2019

Chart 2

Ausdrill Ltd.'s Revenue by Commodity In Fiscal 2019



Estimated figures for the year ending June 30, 2019.

Outlook: Stable

The stable outlook reflects our expectation that Ausdrill will continue to generate positive free operating cash flows. We also expect the group to grow its order book across its key geographies under the Ausdrill, Barminco, and African Underground Mining Services (AUMS) brands.

During benign industry conditions, the group could generate an adjusted debt-to-EBITDA ratio below 2.0x and funds from operations (FFO) to debt above 45%. During an industry downturn, the rating could tolerate Ausdrill's debt-to-EBITDA ratio weakening toward 3.0x and an FFO-to-debt ratio of around 30%.

Downside scenario

We consider a downgrade over the next 12 months to be unlikely given Ausdrill's recapitalized balance sheet.

However, downward rating pressure could arise if Ausdrill's key credit metrics were to weaken, such that its adjusted debt-to-EBITDA ratio approached 3.0x or adjusted FFO-to-debt ratio reached below 30%. This scenario could be precipitated by a reversal of trading conditions or operational issues, or if Ausdrill were to pursue a large debt-financed acquisition to the detriment of its key credit metrics.

Upside scenario

An upgrade of Ausdrill is of low likelihood over the next 12 months, due to its relatively small scale compared with global peers'. We could ultimately consider an upgrade if Ausdrill's scale materially increases, such that we believed it was better able to sustain its operating and financial performance through the industry cycle.

Our Base-Case Scenario

We expect Ausdrill to generate positive free operating cash flows from its contract mining services, with an adjusted debt-to-EBITDA ratio of below 2.0x from the year ending June 30, 2019.

Assumptions

- Australia's real GDP growth to be 2.5% in 2019, 2.7% in 2020 and 2021;
- Ghana's real GDP growth to be 5.6% in 2019, 5.2% in 2020, and 4.2% in 2021;
- Sub-Saharan Africa's real GDP growth to be 3.2% in 2019, 3.4% in 2020 and 2021;
- Gold prices to remain stable at US$1,250 per ounce through 2019, 2020, and 2021;
- Copper prices of US$6,500 per metric ton (/mt) in 2019, US$6,700/mt in 2020, and US$6,900/mt in 2021;
- Moderate revenue growth in fiscal 2020 and 2021, as a result of new contract wins and extensions under the Ausdrill, Barminco, and AUMS brands;
- Modest improvement in EBITDA margins in the low to mid 20% as a result of the consolidation of the higher margin AUMS and Barminco businesses;
- Issuance of Ausdrill's proposed senior unsecured US$500 million seven-year 144a notes;
- Repayment of Barminco Finance Pty Ltd.'s senior secured US$350 million notes and A$45 million revolving credit facility;
- Ausdrill's extended A$300 million revolving credit facility to fiscal 2024 remains undrawn;
- Increasing capital expenditure (about 10% of sales) in 2020 and 2021 to support the ramp-up of Ausdrill and AUMS' African projects, including stay-in business capital expenditure. Stay-in business capital expenditure roughly equals depreciation and amortization (D&A) expense;
- Dividend distributions of 40% of underlying net income before amortization of intangibles; and
- Corporate tax rate of 30%.

Key Metrics

Year end June 30	2018A	2019E	2020E
Debt to EBITDA (x)	2.7x	Under 2.0x	Under 2.0x
FFO to debt (%)	27.0	Above 40	Above 40
FOCF to debt (%)	(25.4)	About 14	Above 15

A--Actual. E--Estimate. FFO--Funds from operations. FOCF--Free operating cash flow.

Base-case projections

We believe Ausdrill will generate stable operating cash flow from its contract mining services divisions in Australia and Africa. As a result, we expect sustainable group adjusted EBITDA margins above 20% over the next three years. The group is likely to focus on its sizable mining services operations in Australia, Ghana, Mali, Burkina Faso, and Senegal.

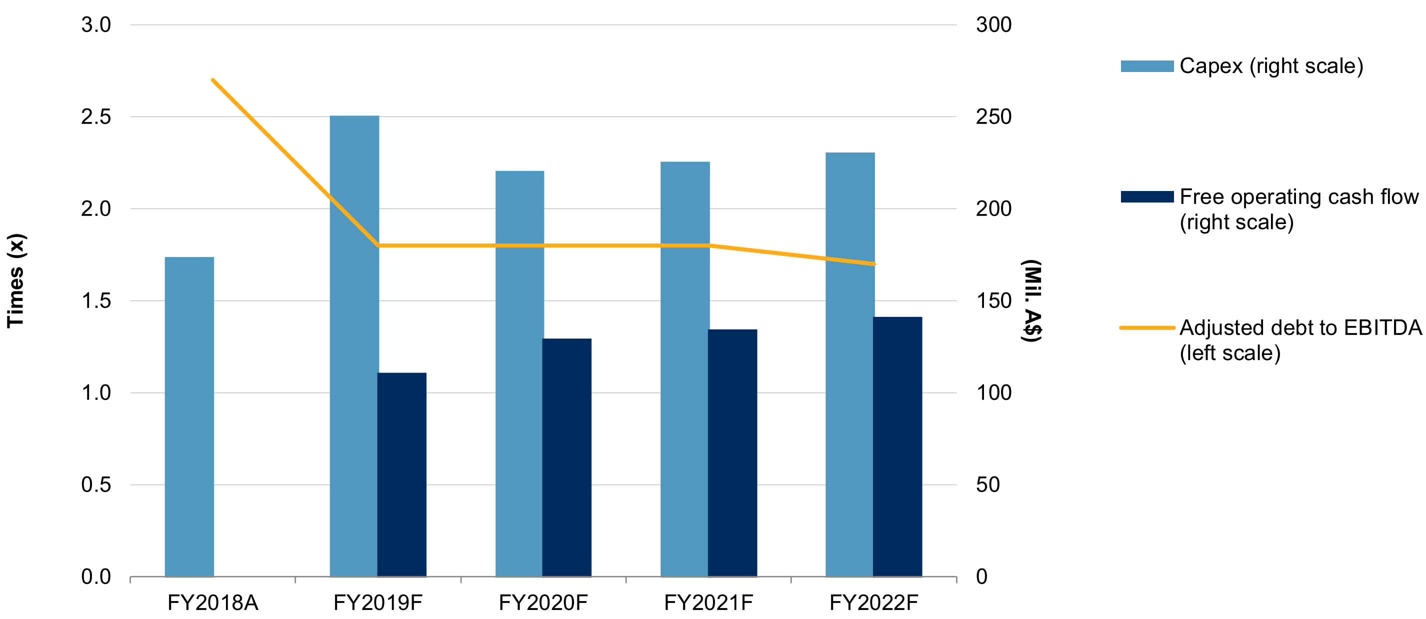
In our view, the company would generate positive free operating cash flow (after S&P Global Ratings' adjustments) over the next three years to the year ending June 30, 2022, despite a period of heightened capital expenditure. The group's consolidated earnings across its Ausdrill, Barminco, and AUMS brands should boost cash flows, with capital expenditure likely to be 10% of group sales in a stable revenue environment.

Company Description

Ausdrill is a midsize company that provides production and exploration-related services to mining clients, predominantly in Australia and Africa, in particular surface and underground hard rock contract mining. Production accounts for about 95% of revenue with about 5% for exploration services. Ausdrill completed its acquisition of Barminco Holdings Pty Ltd. in late 2018, expanding its scale and geographic diversity. Ausdrill's AUMS operations provide underground mining services predominantly to gold mines in Africa with operations in Burkina Faso, Ghana, Mali, and Tanzania. Ausdrill Ltd. was founded in 1987 with its headquarters in Perth, Western Australia.

Chart 3

Ausdrill Ltd.'s Capital Expenditure To Peak In 2019



A--Actual. Capex--Capital expenditure. F--Forecast. FY--Fiscal year end June 30. Source: S&P Global Ratings.

Business Risk: Weak

Ausdrill's business risk profile reflects the company's smaller scale globally, (notwithstanding its leadership position in a niche market), material exposure to Africa, and indirect exposure to volatile commodity prices. Offsetting these weaknesses are Ausdrill's long track record and expertise of operating in Africa, its conservative financial management, and a modestly diversified service offering that provides some resilience to an industry downturn.

Ausdrill's acquisition of Barminco Holdings Ltd. in late 2018 created Australia's second-largest surface and underground hard-rock mining services company. The acquisition enlarged the company's scale, service and geographic and commodity diversity to a degree. We believe underground hard-rock mining is more specialized in nature with higher barriers to entry, which in our view increases Ausdrill's service diversity and resilience. Given that Barminco's production-focused projects are predominantly based in Australia, the acquisition proportionately reduced Ausdrill's exposure to higher sovereign risk countries in Africa in our opinion.

In our view, the recovery in trading conditions for the Australian mining services industry should support further contract wins. Stabilized commodity prices have increased the number of prospective projects up for tender, with a global pipeline opportunity of about A$7.3 billion over the next 24 to 36 months across surface and underground mining opportunities. We believe Ausdrill's consolidated service offering under the Ausdrill, Barminco, and AUMS brands, as well as track record of experience and expertise, would support new contract wins.

Still, we continue to expect the recovery in contract rates to be modest and slow despite increased demand because miners remain disciplined in containing operating costs. Miners (in particular those in Australia) are still cautious in expanding supply and committing significant capital expenditure to large greenfield projects.

Like its peers, Ausdrill is indirectly exposed to volatile commodity prices and the cyclical, fragmented, and competitive mining services industry in Australia and Africa. We note that mining service providers have short contract durations of about three to four years, which provide limited revenue visibility over the longer term. In line with industry practice, contracts provide little downside protection for termination if they are brought in-house.

Further, should commodity prices fall with lower investment across the mining industry, contracts are likely to be more competitively contested, underscoring the importance of Ausdrill maintaining its contract pipeline to support its business risk profile.

That said, our outlook for gold appears more favorable. In our view, gold prices are inherently volatile and driven by market sentiment regarding the U.S. dollar and interest rate expectations. We believe gold maintains an inverse correlation with U.S. interest-rate expectations, and continuing global market uncertainty, mainly related to trade and financial/currency markets is likely to support gold prices. S&P Global Ratings' assumptions for gold prices are US$1,250 per ounce in 2019 through to 2021.

Ausdrill's material exposure to Africa is a key credit risk, due to our view of higher sovereign and operational risks in Africa, compared with developed countries like Australia. Nonetheless, we consider the company to have a long and successful track record of operations on the African continent and manages these risk adequately.

Peer comparison

We compare Ausdrill Ltd. with Australian and global peers in the mining services and equipment rental industry with respect to operational scale and diversity, commodity and contract exposure, as well as leverage and earnings profiles.

Australia-based EMECO Holdings Ltd.. (B/Stable/--) and U.S.-based H&E Equipment Services Inc. (BB-/Stable/--) share the same business risk profile as Ausdrill, underpinned by their sensitivity to cyclical end-markets with low barriers to entry, and moderate competitive advantages. Ausdrill and Emeco have lower absolute debt compared with H&E Equipment, and improving cash flow generation profiles, supporting their credit quality and recent rating upgrades.

CIMIC Group Ltd.'s Thiess is the market leader for mining services in Australia with globally diversified operations, contributing to CIMIC Group's investment grade credit quality. CIMIC has a much more conservative leverage profile compared with that of Ausdrill, EMECO, and H&E Equipment, with an adjusted debt to EBITDA under 1.5x and strong free operating cash flow.

Table 1

Ausdrill Ltd.--Peer Comparison

Industry sector: Engineering and construction

	Ausdrill Ltd.	EMECO Holdings Ltd.	H&E Equipment Services Inc.	CIMIC Group Ltd.
	--Fiscal year ended--			
	June 30, 2019E	30-Jun-18	Dec. 31, 2018	Dec. 31, 2017
(Mil. A$)				
Revenues	2,004.1	381.0	1,757.9	14,506.8
EBITDA	426.6	153.6	596.0	1,933.8
FFO	321.8	101.7	491.4	1,691.8
Capital expenditures	250.0	80.5	481.7	457.6
Free operating cash flow	110.4	56.5	(114.9)	1,198.7
Debt	772.1	505.1	1,842.9	1,321.7
Equity	1,226.4	153.5	364.4	3,357.2
Adjusted ratios				
EBITDA margin (%)	21.3	40.3	33.9	13.3
Return on capital (%)	16.2	11.0	11.2	23.8
EBITDA interest coverage (x)	5.9	2.9	5.8	10.9
FFO cash interest coverage (x)	5.5	3.3	6.7	11.5
Debt/EBITDA (x)	1.8	3.3	3.1	0.7
FFO/debt (%)	41.7	20.1	26.7	128.0
Cash flow from operations/debt (%)	46.7	27.1	19.9	125.3
Free operating cash flow/debt (%)	14.3	11.2	(6.2)	90.7

E--S&P Global Ratings' estimate. FFO--Funds from operations. N.M.--Not meaningful.

Financial Risk: Intermediate

In our view, the group's track record of prudent financial management and willingness to reduce leverage support the 'BB' rating. We believe Ausdrill's past equity raisings to fund growth and to repay debt, were credit positive. Further supporting credit quality is the company's ability to cut discretionary capex in a downturn (as demonstrated in fiscal 2014–fiscal 2016) by redeploying equipment, cost optimization initiatives, and if required, adjusting its dividend payouts.

We expect Ausdrill to generate good operating cash flow over the next three years, from its sizable contract book under the Ausdrill, Barminco, and AUMS brands. The forecasts reflect increasing cash flow contribution from African contracting mining services contracts, new contract wins, as well as stable earnings from Ausdrill's Australian contracts.

Further supported our view is the group's ability to win new contracts from the large, global tender pipeline of nearly A$7.3 billion of projects. The projects are likely to commence over the next 24 to 36 months across surface and underground contract mining services.

In our base case, we forecast Ausdrill's credit metrics to improve from fiscal 2019, with an adjusted debt to EBITDA to be below 2.0x and adjusted FFO to debt of above 40%.

Further, we expect Ausdrill to deliver sizable positive free operating cash flows (above A$100 million) in fiscal 2019 to fiscal 2021, despite a period of heightened capital expenditure for new projects. In our view, Ausdrill's return to positive free operating cash flow since fiscal 2016 underpins its credit worthiness at the 'BB' rating level. The group has greater financial buffer and flexibility to withstand a deterioration in the global commodity price environment, and sustain credit metrics at the 'BB' rating level.

Hedging of the new, proposed US$500 million senior unsecured 144a notes is to be determined. However, the group's U.S.-dollar-denominated African contract mining services sales provide a meaningful natural hedge. The current financial risk profile could absorb debt to EBITDA approaching 3x as a result of volatility in global commodity end-market prices and foreign currencies. We do not currently factor in any material debt-financed acquisitions in our forecasts.

Financial summary

Table 2

Ausdrill Ltd.--Financial Summary					
Industry sector: Engineering and construction					
	--Fiscal year ended--				
	2018	**2017**	**2016**	**2015**	**2014**
(Mil. A$)					
Revenues	887.3	776.3	743.9	719.8	963.1
EBITDA	152.1	139.1	136.6	123.4	197.0
FFO	110.5	97.9	98.6	96.4	142.4

Table 2

Ausdrill Ltd.--Financial Summary (cont.)					
Industry sector: Engineering and construction					
	--Fiscal year ended--				
	2018	**2017**	**2016**	**2015**	**2014**
Interest Expense	31.9	31.9	34.4	37.3	44.5
Cash Interest Paid	29.3	29.5	31.6	34.1	32.7
Cash flow from operations	69.0	121.4	93.7	134.7	150.9
Capital expenditures	173.3	147.4	12.4	28.5	64.7
Free operating cash flow	(104.3)	(26.1)	81.3	106.2	86.1
Discretionary cash flow	(124.1)	(32.3)	81.3	96.8	61.2
Cash and short-term investments	137.3	166.7	181.9	77.9	62.7
Gross available cash	137.3	166.7	181.9	77.9	62.7
Debt	409.9	391.7	405.5	446.4	479.4
Equity	774.8	630.1	606.6	553.3	752.2
Adjusted ratios					
EBITDA margin (%)	17.1	17.9	18.4	17.1	20.5
Return on capital (%)	8.7	7.0	6.9	4.1	5.7
EBITDA interest coverage (x)	4.8	4.4	4.0	3.3	4.4
FFO cash interest coverage (x)	4.8	4.3	4.1	3.8	5.3
Debt/EBITDA (x)	2.7	2.8	3.0	3.6	2.4
FFO/debt (%)	27.0	25.0	24.3	21.6	29.7
Cash flow from operations/debt (%)	16.8	31.0	23.1	30.2	31.5
Free operating cash flow/debt (%)	(25.4)	(6.7)	20.1	23.8	18.0
Discretionary cash flow/debt (%)	(30.3)	(8.2)	20.1	21.7	12.8

FFO--Funds from operations.

Liquidity: Adequate

Ausdrill's adequate liquidity reflects our expectation that sources of liquidity will exceed uses by at least 1.2x over the next 12 months, reflecting the benefit from improved trading conditions in Africa and Australia.

We expect its liquidity sources to continue to exceed uses even if EBITDA were to decline by 15%, given the group's undrawn A$300 million revolving credit facility.

We view Ausdrill as having sound relationships with its banks, given its recently refinanced bilateral revolving credit facility with a lower interest rate. Ausdrill's A$300 million revolving facility matures on July 1, 2023. We also consider Ausdrill to have prudent risk management.

Post recapitalization, we expect the company to have the following sources and uses of liquidity over the following 12 months:

Principal Liquidity Sources	Principal Liquidity Uses
• Cash balance of about A$199 million; • Undrawn A$300 million senior secured revolving credit facility; and • Adjusted FFO of about A$320 million.	• No upcoming debt maturities over the next 12 months; • Capital expenditure of between A$220 million and A$250 million; and • Dividend distributions of 40% of underlying net income before amortization of intangibles.

Covenant Analysis

Ausdrill continues to be compliant with its covenant requirements, and we believe it has sufficient covenant headroom under its revolving credit facility. Its proposed senior unsecured 144a/Reg. S note has minimal covenants.

Issue Ratings - Recovery Analysis

Key analytical factors

Our recovery analysis for Ausdrill Ltd. contemplates a hypothetical simulated default during the first half of 2024. The issue rating on Ausdrill Finance Pty Ltd. and Ausdrill International Pty Ltd.'s upsized A$300 million, secured, bilateral bank loan maturing on July 1, 2023, is 'BBB-' with a recovery rating of '1'. This reflects our expectation of a 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 'BB' issue rating on Ausdrill Finance Pty Ltd.'s proposed seven-year US$500 million senior unsecured notes maturing in May 2026 is in line with the issuer credit rating on the company. These notes are also guaranteed by Ausdrill Ltd. and rank at least pari passu with all other unsecured debt. The '4' recovery rating reflects our expectation of average recovery prospects (35%) should a default event occur.

At the time of hypothetical default, we expect 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 payments.

We value the company as a going concern because we believe that following a payment default, the company is likely to be reorganized due to the longer-term value in its established brands and business segments. We have applied a 5.0x valuation multiple to an estimated distressed emergence EBITDA of around A$113.2 million to estimate a gross enterprise value of about A$565.8 million. The net enterprise value after administrative costs is A$537.5 million.

Simulated default assumptions

- Simulated year of default: 2024
- EBITDA at emergence: A$113.2 million
- EBITDA multiple (engineering and construction services): 5.0x
- Gross enterprise value: A$565.8 million

Simplified waterfall

- Net enterprise value at emergence (after 5% administrative costs): A$537.5 million
- Estimated secured first-lien claims (revolving facility [85% drawn] including prepetition interest): approximately A$261.4 million
- Estimated net enterprise value available for unsecured debt: A$276.1 million
- Estimated senior unsecured claims (including prepetition interest): approximately A$726.9 million

*All debt amounts include six months of prepetition interest.

Reconciliation

Table 3

Reconciliation Of Ausdrill Ltd. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. A$)

	--Fiscal year ended Jun. 30, 2018--					
Ausdrill Ltd. reported amounts						
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
Reported	404.6	134.6	60.1	31.6	152.1	52.6
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	(12.3)	--
Cash taxes paid - Other	--	--	--	--	--	--
Cash interest paid	--	--	--	--	(29.0)	--
Operating leases	5.3	3.1	0.3	0.3	(0.3)	2.8
Share-based compensation expense	--	0.8	--	--	--	--
Dividends received from equity investments	--	13.6	--	--	--	--
Nonoperating income (expense)	--	--	36.0	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	13.6
Total adjustments	5.3	17.4	36.3	0.3	(41.6)	16.4
S&P Global Ratings' adjusted amounts						
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	409.9	152.1	96.4	31.9	110.5	69.0

Table 3

Reconciliation Of Ausdrill Ltd. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. A$) (cont.)
Figures are before Ausdrill's acquisition of Barminco.

Ratings Score Snapshot

Issuer Credit Rating

BB/Stable/--

Business risk: Weak

- **Country risk:** Intermediate
- **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)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bb

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 | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Industrials: Key Credit Factors For The Engineering And Construction Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Group Rating Methodology, 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

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	**bb**	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of May 2, 2019)*

Ausdrill Ltd.	
Issuer Credit Rating	BB/Stable/--
Issuer Credit Ratings History	
31-Oct-2018	BB/Stable/--
14-Aug-2018	BB-/Watch Pos/--
11-Oct-2017	BB-/Stable/--
23-Mar-2017	B+/Positive/--
20-Mar-2015	B+/Stable/--
23-Oct-2014	BB-/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.