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The Blenheim Report: The Mining Numbers

March 2015

MINING SERVICES DIVERSE ($'M)

Company	REVENUE H1 FY2015	REVENUE H1 FY2014	EBITDA H1 FY2015	EBITDA H1 FY2014	EBIT H1 FY2015	EBIT H1 FY2014	EBIT MARG H1 FY2015 %	EBIT MARG H1 FY2014 %	NPAT H1 FY2015	NPAT H1 FY2014	NPAT Margin H1 FY2015 %	NPAT Margin H1 FY2014 %	Return on Founds Employed[1] H1 FY2015 %	Return on Founds Employed[1] H1 FY2014 %
Downer Group	3,586.0	3,931.1	263.7	297.5	141.7	160.1	4.0	4.1	94.7	99.1	2.6	2.5	15.0	16.6
- Downer Infrastructure	2,338.9	2,312.5			72.8	87.4	3.1	3.8					16.1	23.3
- Downer Mining	815.2	1,024.5			63.4	90.1	7.8	8.8					17.9	19.0
- Downer Rail	424.4	589.1			17.5	4.6	4.1	0.8					8.4	6.0
Transfield Services Group	1,895.4	1,790.1	112.2	74.4	63.5	26.5	5.9	4.2	18.1	2.8	0.95	0.16	10.0	4.0
- Infrastructure ANZ	515.0	548.7	11.8	19.9										
- Resources & Industrial ANZ	420.5	502.9	11.4	28.3										
- Americas	176.9	229.3	(16.1)	7.5										
UGL Group	1,957.2	2,233.6			56.5	78.5	2.9	3.5	29.3	49.7	1.5	2.2	n/a	n/a
- UGL Engineering	1,229.1	1,152.7			39.3	35.9	3.2	3.1						

MINING SERVICES DIVERSE ($'M)														
Company	REVENUE H1 FY2015	REVENUE H1 FY2014	EBITDA H1 FY2015	EBITDA H1 FY2014	EBIT H1 FY2015	EBIT H1 FY2014	EBIT MARG H1 FY2015 %	EBIT MARG H1 FY2014%	NPAT H1 FY2015	NPAT H1 FY2014	NPAT Margin FY H1 FY2015 %	NPAT Margin FY H1 FY2014 %	Return on Founds Employed[1] H1 FY2015 %	Return on Founds Employed[1] H1 FY2014 %
Worley Group	3,613.7	3,792.6	234	232	180.8	178.2	5.0	4.7	104.3	100.7	2.9	2.7	n/a	n/a
- Worley Hydrocarbon segment	2,696.9	2,731.1			247.5	207.6	9.2	7.6						
- Worley Services	2,808.0	2,843.7			226.0	227.2	8.0	8.0						
- Worley Major Projects	377.6	496.9			22.7	37.6	6.0	7.6						
- Worley Improve	363.4	402.8			27.5	23.7	7.6	5.9						
- Worley Development	64.7	49.2			0.3	1.3	0.5	2.6						
- Worley Minerals, Metals & Chemicals	447.4	571.1			28.4	55.8	6.3	9.8						
- Worley Infrastructure	469.4	490.4			0.0	23.8	0.0	4.9						

Notes
[1] Return on Funds Employed is a measure on Downer uses in their results presentation. Return on Capital Employed has been used for Transfield Services as a comparison.

MINING SERVICES ($'M)												
Company	REVENUE H1 FY2015	REVENUE H1 FY2014	EBITDA H1 FY2015	EBITDA H1 FY2014	EBITDA MARG H1 FY2015 %	EBITDA MARG H1 FY2014 %	EBIT H1 FY2015	EBIT H1 FY2014	NPAT H1 FY2015	NPAT H1 FY2014	NPAT Margin H1 FY2015 %	NPAT Margin H1 FY2014 %
MACA	319.7	306.2	80.5	72.9	25.2	23.8	50.4	48.5	34.7	32.6	10.9	10.6
Macmahon	384.3	550.1	55.9	89.4	14.5	16.3	21.0	37.1	11.3	19.4	2.9	3.5
Monadelphous	1,052.0	1,276.7	95.1	126.5	9.0	9.9			60.7	79.2	5.8	6.2
NRW Holdings	570.4	520.9	2.7	64.4	0.5	12.4	(150.0)	31.9	(120.6)	22.4	(21.1)	4.3
- NRW Civil & Mining	525.3	467.0					(131.6)	36.5				
- NRW Action Drill & Blast	49.2	52.0					2.8	0.4				
- NRW AES Equipment Solutions	9.7	15.6					(21.3)	(5.1)				
WDS GROUP	113.2	175.4	(4.5)	18.0	(4.0)	10.3	9.3	25.2	(14.9)	7.4	(13.1)	4.2
- WDS ENERGY DIVISION	71.5	144.2	(2.8)	18.4	(4.0)	12.8	(3.4)	15.2				
- WDS MINING DIVISION	42.2	31.0	0.9	1.7	2.1	5.5	(9.2)	(2.2)				

PROFIT GUIDANCE

2 MARCH 2015
The Australia Financial Review
Diversification may be only way for mining services to survive

Mining services companies hoping to dodge the downturn in the Australian industry by hunting for work on projects in Africa and Asia are unlikely to avoid the cost and margin pressures ravaging the global sector, and should be looking outside mining for growth, experts said. The 2014-15 financial year is proving to be one of ruthless reinvention for mining services companies, as the dizzy heights reached in the mining boom come crashing down.

This reporting season has been particularly illustrative of the transformation. As earnings announcements rolled in, the balance sheets of mining services companies showed they'd been hit with heavy write-downs and impairments, prompting some savage market reactions. Bradken Group's share price plunged 20 per cent after it revealed a first-half net loss of $92.6 million early in the reporting season. Macmahon Holdings slashed its full-year outlook by up to 40 per cent after it posted a $112.5 million loss on Wednesday.

Ausdrill's net loss of $177.4 million was delivered with a warning on Thursday that a turnaround back to the black was not in sight until well into 2016. Seven Group's WesTrac Australia, which sells Caterpillar heavy mining equipment, reported a 47 per cent decline in product sales revenue to $323 million from $612 million a year ago.

Rather than buying new equipment, miners are squeezing additional life out of existing assets, which helped lift WesTrac's revenue from servicing, parts and maintenance by 16 per cent to a decade-high $750 million. And there are more cuts to come, with analysts saying big miners such as BHP Billiton and Rio Tinto will look to drive costs in their Australian iron ore businesses down by another 25 per cent.

Ernst & Young partner Vince Smith said while the mining services sector market capitalisation increased 7 per cent last financial year, there was "simply no way" any gains could be had this year. "Significant impairments are being booked by those companies, we are seeing profit downgrades and announcements on a fairly regular basis on less contracts and loss of revenue," he told The Australian Financial Review. Now is the time to take the hit to the balance sheet, Mr Smith said, as investors were becoming used to receiving bad news.

Source: http://www.afr.com/p/diversification_may_be_only_way_x2DLJtI1gtEAj8b1Y0S3pK

26 FEBRUARY 2015
The Australia Financial Review
Transfield to change name as net profit rises 75%

Transfield Services confirmed its full year earnings guidance and said it would be changing its company name to break with Transfield Holdings after delivering a 75 per cent rise in first half net profit to $8.4 million. Underlying earnings before interest taxation depreciation and amortisation (EBITDA) rose 51 per cent to $112.2 million as the company, which last year rejected a takeover offer worth $2 per share from Spanish infrastructure group Ferrovial, won more maintenance contracts in the defence and social services sectors.

Transfield Services plans to change the name of the company within the next 12 months after Transfield Holdings sold its remaining stake in the company in September, severing its final ties with its founding company. Transfield Holdings wants to terminate the trademark license agreement under which Transfield Services is branded.

Transfield Holdings, a privately held company owned by Luca Belgiorno-Nettis and his brother Guido, had held a stake in Transfield Services since the company's listing in 2001 but last year came under criticism for its links to the contractor. Mr Belgiorno-Nettis was forced to step down as chairman of Sydney's Biennale arts festival last year after artists opposed to Transfield Services' work at detention centres on Manus Island and Nauru lobbied the Biennale board. The brothers are the sons of Transfield Holdings' founder, Franco Belgiorno-Nettis, who moved to Australia from Italy in 1951 to build electricity -transmission lines. Transfield Services said on Thursday it was winning a greater proportion of maintenance contracts, even though the number of tender opportunities is falling, with total contracted revenue dropping $1 billion to $8.8 billion in the six months to December.

"The company has focused on expanding revenue via additional, leveraged work within existing contracts," Transfield Services said. Underlying EBITDA in the company's defence, social and property divisions quadrupled to $131.9 million due to the expanded scope of contracts providing operational, maintenance and welfare services at the detention centres on Manus Island and Nauru, as well as new contract wins.

Transfield Services plans to target more work with the Department of Defence, and is hoping to renew its contracts on Manus Island and Nauru, which expires in October. Bids for the contract are due at the end of March. "The company believes that its strong operational performance and experience positions it well for renewal of this contract." Underlying EBITDA in the group's infrastructure division fell 40 per cent to $11.8 million as it took provisions on troubled contracts in New Zealand and South Australia.

But Transfield Services said it expected the division to grow as state governments privatise assets and outsource maintenance services. "Transfield Services is looking at innovative ways to partner with governments to achieve their investment objectives, including participating in public private partnerships and joint ventures." Underlying EBITDA in the company's resources and industrial division fell 60 per cent to $11.4 million as it took provisions on "onerous contracts" and warned that cost cutting by clients due to low oil prices would hurt earnings for the rest of fiscal 2015 and into 2016.

The company strengthened its balance sheet in the first half, with net debt falling by $70 million to $569 million, and generated more cash, with inflows of $27 million from operating activities compared to outflows of $77.7 million a year earlier. It also reaffirmed its full year earnings guidance for underlying EBITDA between $260 million and $280 million. Transfield Services will not pay a first half dividend. It wants to further reduce net debt before paying dividends.

Source: http://www.afr.com/p/business/companies/transfield_to_change_name_as_net_OSonFESL2BGcCZc2wuSu1J

25 FEBRUARY 2015

The Australia Financial Review

Macmahon revises guidance after posting loss

Mining contractor Macmahon Holdings has again slashed its full-year outlook after a disappointing six months which resulted in the company posting a loss of $112.5 million. The company said it now expects full-year revenue to be between $600 and $700 million as the full impact of the declining mining sector was felt. Macmahon already revised its full-year 2015 revenue forecast of $750 million to $1 billion at its annual general meeting in November down to between $750 million and $850 million. The new target means its revenue could be up to 40 per cent lower than last's year $1 billion turnover.

"We are looking at every opportunity to improve our productivity and reduce costs," Macmahon executive chairman Jim Walker said in a statement to the ASX. "We have already begun the process of consolidating our Perth offices and will be looking to further reduce our overheads in the coming months," he said. Macmahon's consolidation was highlighted by the departure of chief executive Ross Carroll and deputy chairman Barry Cusack last month. Mr Carroll has not yet been replaced. Mr Carroll's resignation came after 45 staff lost their jobs in the Perth office in November. Macmahon posted a net loss of $112.5 million for the six months to December 31, compared with a net profit of 19.4 million in the previous corresponding period. Its bottom line was hit by non-cash impairments, inventory write-downs and an onerous lease to the value of $123.8 million.

Excluding the significant items, its underlying NPAT was $11.3 million. The company's earnings before interest, tax, depreciation and amortisation from continuing operations of $55.9 million, was down 37.5 per cent on the previous corresponding period. The company declined to declare a dividend payment. It did not pay a dividend in the first half of the 2014 financial year. Its first-half revenue was $384.3 million, down 30 per cent from the previous corresponding period. Mr Walker pointed to Macmahon's long history in the mining sector and its ability to adapt to market conditions. "We have a healthy balance sheet that is underpinned by world class assets and a low gearing ratio of 11.3 per cent. This gives us a strong foundation to work from," he said.

Source: http://www.afr.com/p/diversification_may_be_only_way_x2DLJtI1gtEAj8b1Y0S3pK

24 FEBRUARY 2015

The Australia Financial Review

More questions than answers at UGL

Decisions made last year by the board of engineering services company UGL to distribute $500 million to shareholders from the proceeds of the sale of property services company DTZ now look highly questionable. The company told shareholders on Monday that it would not be able to pay dividends this year and there was no indication when they would resume. It usually pays out about $100 million a year in dividends. However, the company's balance sheet is under severe stress following a series of write-downs announced on Monday.

UGL's latest results include a $175 million provision for the Ichthys power plant project in Darwin, $78 million of impairments for a slowdown in the resources sector and $26 million in one-off write-downs and charges. The latter two impairments and write-downs are typical of those from a company with a new chief executive. In this case it is Ross Taylor, who replaced Richard Leupen. But the Ichthys write-down is not a surprise, given that the first warning about it came in August last year.

UGL's joint venture partner in the Darwin project, US engineering firm CH2M, told the US Securities Exchange Commission on August 8 that it was facing potentially "materially adverse" results from a blowout in its costs at Ichthys. That warning was never conveyed directly to the shareholders of UGL. They were kept in the dark about the fact that CH2M Hill was telling its shareholders that "estimated costs at completion could continue to grow without reimbursement from the customer and that liquidated damages could be assessed against the joint venture and the consortium."

CH2M had a shot at estimating the cost of the Ichthys cost blowout on November 6 last year when it said it had made provision of $US85 million ($108 million). The American company updated its share of the losses at Ichthys last Friday to $175 million. That forced UGL to do the same. UGL did not say anything to shareholders about its Ichthys provision over the past three months despite the final write-down being $350 million out of a $550 million project.

The question has to be asked: Did the board of UGL know about the disclosures made by CH2M in August last year? If the board did know about the prospect of "materially adverse" results from the Ichthys project, did it consider the impact this might have on the UGL balance sheet? Did the board consider the potential conflict of interest of the former chief executive Richard Leupen, who was a significant shareholder in UGL and stood to gain from the DTZ distribution? It is staggering that a company that has just handed out $500 million should suspend dividends and not know when they will be resumed. The corporate governance at UGL does not appear to be best-practice.

Source: http://www.afr.com/p/business/chanticleer/more_questions_than_answers_at_ugl_wUKnxeXICz5KLMG3g7onsL

23 FEBRUARY 2015

The Australia Financial Review

UGL swings to $121m loss on Ichthys project writedowns

Engineering contractor UGL has reported a first half net loss of $120.8 million and the resignation of its chief financial officer after taking $175 million of provisions against writedowns its power plant contract for the Ichthys gas project in Darwin. The swing to a net loss comes after UGL reported a $31.3 million first half profit a year earlier and as the company reviews its books under new chief executive Ross Taylor, who left engineering group Tenix to replace Richard Leupen at the end of last year.

Chief financial officer Robert Bonaccorso will leave the company on March 13 and will be replaced by Ray Church, the former CFO at Tenix. UGL also announced a series of writedowns on other businesses, taking a $48.5 million impairment charge on its narrow gauge locomotive business due to falling demand from coal miners. It has written off its bogie manufacturing business in India, taking a $9.7 million charge, and recorded a $14.9 million writedown on property as it consolidates underused space. Cancelled projects have led to $5.3 million of writeoffs in UGL's rail inventory.

UGL's stock price dropped 15 per cent on November 6 after it revealed the $550 million Ichthys power plant project, a 50-50 joint venture with United States engineering group CH2M Hill for Japan's Inpex group, was facing almost $200 million of cost blowouts due to design changes and delays. UGL did not disclose at the time whether it would take a writedown on the project or how large the writedown would be, even though CH2M Hill took a $US85 million provision in its September quarter accounts. Revelation of the cost blow-outs came as UGL finalised the $1.2 billion sale of its DTZ property business to private equity group TPG.

UGL said "a complete reprogram" of the Ichthys project had now been undertaken and it will be completed later than expected. The cash impact of $175 million in provisions will be spread over three years. "There is no guarantee that additional cost growth will not occur," Mr Taylor said. "However, if commercial negotiations are successful this may result in an improvement to our current position." Additional financial charges have been taken on UGL's work in progress, with a $17.3 million writedown as the company settled outstanding claims with customers in the resources sector. A cash charge of $8.7 million was incurred as the company changed its capitalisation policy on tender costs.

First half underlying net profit after tax was down 41 per cent to $29.3 million. But earnings before interest and taxation in UGL's core engineering business were up 9 per cent to $39.3 million due to rising sales in the company's rail maintenance business and new maintenance contracts for power and liquified natural gas plants. UGL will not pay a first half dividend or a final dividend. "The future reinstatement of dividends will be considered by the board when underlying earnings have normalised and it is considered appropriate in the context of UGL's capital requirements and outlook," the company said. UGL said it was on track to generate $2.4 billion in revenues for fiscal 2015 and plans to update the market on its business in May.

Source: http://www.afr.com/p/business/companies/ugl_swings_to_loss_on_ichthys_project_4uzUyPFkP6BmWrGB5h0cKP

20 FEBRUARY 2015

The Australia Financial Review

Leighton execs cop hefty pay cut as ACS clamps down on costs

Leighton Holdings' top executives have taken hefty cash pay cuts following the Spanish takeover of the Australian construction company, the group's annual report has revealed. The cash salary of Bruce Munro, the managing director of Leighton's Thiess division, was slashed to $695,583 in 2014 from $1.2 million in 2013. Leighton Contractors' head Craig Laslett's cash salary was cut to $704,454 million from $1.2 million, while John Holland managing director Glenn Palin's cash salary fell to $716,732 from $1.2 million a year earlier.

Both men were formerly considered "key management personnel" at Leighton Holdings, but lost this status in August 2014 following the takeover of Leighton by Spanish construction group ACS in March 2014. ACS has been restructuring the company, including selling John Holland, to cut costs and boost profits.

Including share rights, Mr Munro earned a total of $2.9 million in 2014, down from $3.2 million a year earlier, while Mr Laslett earned $1.8 million, down from $2.1 million the previous year. Leighton's new chief financial officer, Spaniard Javier Loizaga Jimnez, earned $1.5 million in 2014 excluding share rights, including a cash salary of $723,485, a cash bonus of $585,000 and a relocation allowance of $200,000 after joining the company in April.

The company's new chief operating officer, Adolfo Valderas Martinez, earned a total of $2.2 million including a $924,423 cash salary. Leighton's chief executive and chairman, Marcelino Fernandez Verdes, earned just $370,000 in cash but received 1.2 million share rights which have a potential maximum value of $38.7 million.

The rights reflect any stock price increases between March 2014, when Leighton's shares traded at an average of $17.71, and March 2016 to a maximum price of $32.29. Fairfax Media revealed earlier this week that Indian police have issued a criminal summons to Mr Munro over allegations he and Thiess defrauded Indian businessman Syam Reddy in connection to a massive coal deal. Leighton declined to comment on the allegations.

Source: http://www.afr.com/p/business/companies/leighton_execs_cop_hefty_pay_cut_9Lmy2zsInw3fg2MPMzgcoK

11 FEBRUARY 2015

The Australia Financial Review

Leighton profit jumps 33pc after John Holland sale

Leighton Holdings has delivered a 33 per cent rise in full-year net profit to $676.5 million following the sale of its John Holland construction business. The construction group announced a special dividend of 15 cents per share in addition to a final dividend of 53 cents per share. The special dividend, which will be paid on April 10, will directly benefit Spanish construction company Grupo ACS, which owns Leighton’s controlling shareholder, German construction group Hochtief.

Hochtief owns 70 per cent of Leighton with some 235.6 million shares after the Spanish made a $1.15 billion takeover bid for Leighton via Hochtief last year. The Spanish sacked Leighton’s Australian management team and the company is now run by Marcelino Fernandez Verdes, who is both chief executive and chairman. Leighton’s shares rose 27 cents, or 1.3 percent, to $21.73 in morning trading on Wednesday as investors digested the unexpected announcement. Leighton, which has forecast net profits of between $450 million and $520 million in fiscal 2015, had been due to report its annual results at the end of next week.

Leighton said the sale of John Holland to China Communications Construction Company and a services partnership with private equity group Apollo Global Management had boosted pre-tax profit by $973 million. This has allowed the company to reduce gearing to “slightly below zero” from 29 percent a year earlier and hold net cash of $20 million compared to $1.3 billion of debt a year earlier. Leighton has also been trying to sell its property business, and said it expected a “successful outcome” in fiscal 2015. It is considering options for its offshore, shallow water oil and gas activities, as well as FleetCo, which holds around $422 million of the company’s $2 billion mining fleet.

Leighton said it was considering transferring the rest of the company’s mining assets into FleetCo. “Leighton is currently investigating a range of strategic options including the introduction of industrial partners to invest in FleetCo, the company said. “Structured appropriately, it would free up a significant amount of the group’s capital.” The company’s financial exposure to its Middle Eastern joint venture, Al Habtoor Leighton, increased in 2014, with the carrying value of the group’s investment now $383.4 million compared to $345.1 million a year earlier. Leighton warned that there continued to be “a delay” in recovering owed payments from client, and that 61 percent of outstanding payments would take up to two years to recover, while the remainder would take longer.

Leighton’s construction profits rose 88 percent to $551 million but contract mining profits fell 23 percent to $173 million. Leighton said that while contracting activity remained “challenging” as the resources markets weakened, market fundamentals were “solid” over the longer term and it planned to further develop its position as “the world’s leading contract miner.” “Contract mining of coal and other minerals remains a core activity,” the company said. Leighton also flagged that it would expand into new markets, including exporting its contract mining skills to North and South America, and invests in local companies to expand its presence in countries in which it already operates. Group revenue was flat at $24 billion.

Source: http://www.afr.com/p/leighton_profit_jumps_pc_after_john_rhmaganhnBt7NvRFN6nhtI

9 FEBRUARY 2015

The Australia Financial Review

Downer EDI steams ahead on rail boom

Downer EDI's chief executive, Grant Fenn, is an optimist. As commodity prices plunge and mining companies are forced into capital raisings to stay afloat, Fenn was nevertheless last week talking up Downer's prospects. While acknowledging that Downer, which derives half its group profits from providing excavating, blasting and drilling services to mining companies, could not "defy gravity" and avoid the resources slump, Fenn claimed Downer's brand was continuing to "grow strength" as it builds relationships with its customers.

"We're on a pretty good path and, when we exit this difficult period, we'll be in very good shape vis-a-vis our peers," Fenn told The Australian Financial Review after the contractor reported a 4.4 per cent drop in first-half net profit to $94.7 million on Thursday. Despite Downer's see-sawing stock price, which is down 14 per cent over the past 12 months, and some concerns over the quality of its earnings – the group benefited from research and development tax credits in the first half – the financial community is behind Fenn, with most analysts believing he is doing a good job in a tough market.

Profit margins in Downer's mining division are still running at a relatively high 7.8 per cent, while first-half operating cash flow of $258 million beat many analysts' expectations. Downer also lifted its first-half dividend by 1 to 12. To stay competitive, Fenn is streamlining the company; taking out a layer of management in a restructure that will create seven separate business lines to make Downer more specialised in the services it delivers to customers, and to make it easier for investors to assess the group's performance.

Several hundred jobs have been lost along the way, with more to come in the second half of the year as demand for mining services wanes. But with most investor attention focused on the woes of the mining sector, it is easy to miss the progress Downer has been making with its struggling rail division, which contributes around 15 per cent of its $3.4 billion in group revenues. The rail arm produced $17.5 million of earnings before interest and taxation in the first half, an improvement on the $4.6 million generated a year earlier.

Source: http://www.afr.com/p/business/companies/downer_edi_steams_ahead_on_rail_aXDEVpmN5Df4RBkcVP9oWI

6 FEBRUARY 2015

The Australia Financial Review

Downer eyes takeovers as first-half profit drops 4pc

Downer EDI chief executive Grant Fenn has signalled the contractor is eyeing takeovers of troubled companies as it reported a 4.4 per cent drop in first-half net profit to $94.7 million. "The next 18 months are going to be very interesting for the sector," Mr Fenn told Fairfax Media. "We've got a very strong balance sheet, our brand is good, our capabilities are good, and if the right opportunity comes along to grow our business, then we'd think about that for sure."

Downer spent $300 million in October purchasing engineering group Tenix, which derives nearly two-thirds of its revenue from the power and gas sector, and has spent less money than expected on a stock buyback as it reserves financial firepower for more acquisitions. Smaller engineering and contracting companies are struggling financially as demand for their services drops. "There's nowhere near as much work as what there was," Mr Fenn said. "The ability to get projects up in this environment is very, very difficult." Analysts said Downer was doing a good job in tough markets, with profit margins in its mining business running at 7.8 per cent, but warned the company would continue to face difficult operating conditions.

"There is a lot of margin pressure to come," Deutsche Bank analyst Craig Wong-Pan said. "We're yet to see the worst of it." Downer took $11.6 million of redundancy costs in the first half of the year as it got rid of several hundred jobs. Mr Fenn plans to cut more jobs in the second half of the year as he restructures the company, creating seven new "service lines" – including telecommunications, transport and utilities –to give investors greater clarity on how it runs its infrastructure business. Analysts welcomed the structural change, noting it would provide more transparency, but said it was unlikely to have a material impact on profits. Mr Fenn is also establishing a new "strategy, growth and innovation" group at the company's head office that will be run by David Cattell, the CEO of Downer Infrastructure.

Source: http://www.afr.com/p/business/companies/downer_eyes_takeovers_as_first_half_2uMsfgMRgfOPRdT8m4NCpN

8 JANUARY 2015

The Australia Financial Review

Tough year ahead for WorleyParsons

Companies heavily exposed to the oil and gas industry, such as engineering group WorleyParsons, had a difficult year last year as falling oil prices in the second half of the year raised questions over the viability of big energy projects. But just one week into the new year, 2015 is looking even tougher. The stocks of all engineering and contracting companies have tumbled since January 1, with WorleyParsons' shares losing another 8 per cent following a 38 per cent slide in 2014. Meanwhile, the stock of Leighton Holdings, which rose 38 per cent in 2014 following asset sales and aggressive cost cutting by new Spanish owners Grupo ACS, is down 5 per cent this year.

The outlook for Leighton, which builds jetties, transportation and storage facilities for oil and gas projects in Australia, Asia and the Middle East, is not too bleak. Leighton's Spanish owners are aggressively pursuing a series of large transportation projects in Australia, reducing the company's exposure to oil and gas projects. The company is also being incorporated into ACS's global construction empire, cushioning the impact of a slowdown in resources-related work. But as some analysts have already signalled, WorleyParsons – which derives most of its income from providing services to oil and gas companies – is in the middle of a "perfect storm". Credit ratings agency Moody's Investors Service this week warned that falling oil prices will hurt the cash flow of exploration and production companies in 2015, forcing them to scale back capital investment. Analysts believe that more energy groups will follow the lead of Malaysian oil and gas group Petronas, which said in December that it was deferring a final investment decision on a proposed $36 billion liquified natural gas project in British Columbia.

Even before this year's drop in crude oil prices to around $US50 a barrel – their lowest level since 2009 – big energy companies had started cutting back on spending. The US's ConocoPhillips last year slashed its 2015 capital spending budget by 20 per cent compared with a year earlier, while Australia's Santos has cut $700 million from its 2015 capital investment budget. WorleyParsons's chief executive, Andrew Wood, was relatively optimistic at the end of last year, telling The Australian Financial Review that its clients had not yet started to cancel or defer work. But that is likely to change if oil prices remain at current levels or fall further. Although WorleyParsons generates around one-third of its revenues from maintenance work on oil and gas projects, most of its earnings growth has been driven by providing engineering and consulting services for new developments and project upgrades.

WorleyParsons's chairman, John Grill, drove the company's global expansion in the 1980s, 1990s and 2000s, handing over the CEO role to Wood, the company's former chief financial officer, in 2012. Wood now has the challenging task of trying to slash the company's cost base and make it more nimble. WorleyParsons has already cut thousands of jobs, getting rid of more than 4000 employees globally between the end of fiscal 2013 and fiscal 2014. It has also tried to diversify its business, pushing more heavily into advisory services by -acquiring US oil and gas consulting group MTG in September and folding an existing consulting business, Evans & Peck, into its new advisory group Advisian. But more job cuts and a deeper restructuring are likely to be needed this year if WorleyParsons is to remain a global leader in its industry. There is no time to waste.

Source: http://www.afr.com/p/business/companies/tough_year_ahead_for_worleyparsons_W7UVOzYdETYeOOY4EX5OpM blenheim partners

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