Emeco

ASX Release

25 January 2024

ASX: EHL ('EMECO' OR 'THE COMPANY')

Rating agency Moody's upgrades Emeco's credit rating to Ba3, with a stable outlook

Emeco Holdings Limited (ASX: EHL) is pleased to announce that rating agency Moody's (Moody's) has upgraded Emeco's credit rating from B1 to Ba3 and changed the outlook to stable.

Moody's stated that the upgrade reflected Emeco's:

- Track record of maintaining a conservative financial profile and strong credit metrics;
- Solid market position in the Australian mining equipment rental sector; and
- Increased operational scale in its core rental business as well as enhanced business offerings following several bolt-on acquisitions in recent years.

Additionally, Moody's noted further factors for the upgrade, including Emeco's improvement in credit management processes, which Moody's expects will continue, and its improved counterparty risk and receivables collection from its customers.

Theresa Mlikota, Chief Financial Officer of Emeco stated: "The upgrade from Moody's reflects the Company's commitment and disciplined approach to capital management. The business will continue to focus on its programme of improved risk management, profitability and free cash generation."

Ian Testrow, Managing Director and CEO of Emeco said: "We are pleased with the improved credit outlook from Moody's as we continue to deliver against our strategy. We continue to work through several key initiatives to reposition the company, which will also improve our credit metrics and returns for our shareholders."

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This announcement was authorised to be provided to the ASX by Penny Young, Company Secretary of Emeco Holdings Limited

Moody's

Rating Action: **Moody's upgrades Emeco's CFR to Ba3, changes outlook to stable**

24 Jan 2024

Sydney, January 24, 2024 -- Moody's Investors Service (Moody's) has upgraded Emeco Holdings Limited's (Emeco) corporate family rating (CFR) to Ba3 from B1, and changed the outlook to stable from positive.

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RATINGS RATIONALE

The upgrade of Emeco's CFR reflects the company's: 1) track record of maintaining a conservative financial profile and strong credit metrics; 2) solid market position in the Australian mining equipment rental sector, and; 3) increased operational scale in its core rental business as well as enhanced business offerings following several bolt-on acquisitions in recent years.

Also supportive of the rating is Emeco's improvement in credit management processes, which Moody's expects will continue and has improved its counterparty risk and receivables collection from its customers.

Moody's views Emeco's conservative financial profile, highlighted by a public target of maintaining net debt/EBITDA around 1.0x, as providing the company with a buffer against potential future deterioration in the currently solid operating conditions for mining equipment rental. The company's geographic, customer and commodity diversification, as well as its significant fleet size and refocus to its core rental business, also help mitigate the impact from weaker operating conditions. The company also has a largely variable cost base and the ability to manage capital expenditure during weak utilization periods.

Emeco has been benefitting from supportive supply and demand fundamentals in the Australian mining equipment market. This has been a result of miners' greater capital discipline as they grow their mining fleet, as well as the consolidation of the Australian mining equipment rental sector.

Under Moody's base assumptions, the rating agency expects gross debt/EBITDA to be between 1.1x-1.3x over the next 12-18 months, which remains well within the parameters set for the rating.

Nevertheless, Emeco's CFR remains constrained by its exposure to the inherent cyclicality of the minerals industry, which can cause sharp declines in earnings and cash flow during cyclical downturns.

The stable outlook reflects Moody's expectation that Emeco's enhanced scale, strong market position and commodity diversification will enable earnings growth over the next 12-18 months. It also reflects Moody's expectation that the company will continue to manage its balance sheet in a conservative manner and maintain its financial profile in line with its net leverage target of 1x.

LIQUIDITY

Emeco has a good liquidity profile supported by its around AUD47 million cash balance and AUD95 million in an undrawn, available revolving credit facility as of 30 June 2023. The facility matures in December 2025, with an option to extend for a further two years at Emeco's discretion.

Moody expects Emeco to be free cash flow negative in the fiscal year ended June 2024, due to elevated levels of growth capital expenditure. However, Moody's expects the company to return to positive free cash flow generation in fiscal 2025 and the company's total liquidity to be more than sufficient to cover basic cash usage.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

An upgrade is unlikely over the next 1-2 years and would require improvements in Emeco's business profile, while continuing to adhere to its stated conservative financial policies, including its 1x net debt to EBITDA target. To consider an upgrade Moody's would expect material improvements in the company's scale and margins, while maintaining strong operating metrics. Moody's would also consider other factors for an upgrade such as any material changes to Emeco's contract, customer and commodity mix profile, as well as the company's future growth strategy and funding approach.

Moody's could downgrade the ratings if 1) the company's operating performance and credit metrics weaken; 2) operating conditions deteriorate significantly; 3) its liquidity profile reduces, such that the company does not maintain total liquidity of around AUD150 million; and/or; 4) it is unable to win new contracts, or if its expiring contracts are not renewed on similar or enhanced terms.

Specifically, the ratings could be downgraded if (1) the company deviates materially from its current around 1x net leverage target; (2) gross debt/EBITDA does not remain comfortably below 2.0x; (3) free cash flow turns negative on a sustained basis, and/or (4) utilization rates deteriorate meaningfully.

The principal methodology used in this rating was Equipment and Transportation Rental published in February 2022 and available at https://ratings.moodys.com/rmc-documents/379526. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

BACKGROUND

Emeco Holdings Limited is an Australian Stock Exchange-listed company primarily focused on providing equipment rental to the Australian mining sector. Emeco also owns and operates component and rebuild company Force.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology

Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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