

17 AUGUST 2018

STANDARD & POOR'S PLACES RATINGS ON CREDIT WATCH POSITIVE

Ausdrill Limited (**ASX: ASL**) advises that Standard and Poor's Global Ratings (**S&P**) has placed the Company's credit ratings on Credit Watch Positive based on the Company's proposed acquisition of Barmenco Holdings Pty Ltd (**Barmenco**). S&P also placed Barmenco's credit ratings on Credit Watch Positive.

S&P has indicated that if the transaction is completed in its current form, that they would raise:

- Ausdrill's rating to '**BB**', with further potential for rating upside; and
- Barmenco's rating to '**BB-/Watch positive**'.

S&P press releases attached.

About Ausdrill

Ausdrill (ASX: ASL) is a diversified mining services company. Since its formation in Kalgoorlie in 1987, Ausdrill has grown significantly and now has operations across Australia, Africa and the United Kingdom. Ausdrill is a leader in providing services in contract mining, grade control, drill & blast, exploration, mineral analysis, procurement & logistics. The Ausdrill Group employs over 5,000 staff worldwide.

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Research Update:

Ausdrill Ltd. Ratings Placed On CreditWatch Positive On Proposed Acquisition Of Barminco Holdings Pty Ltd.

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Research Update:

Ausdrill Ltd. Ratings Placed On CreditWatch Positive On Proposed Acquisition Of Barmenco Holdings Pty Ltd.

Overview

- Ausdrill's proposed acquisition of Barmenco Holdings Pty Ltd. via a scrip offering and cash should improve Ausdrill's scale and diversity.
- In addition, Ausdrill will raise A\$250 million of underwritten equity to redeem its US\$300 million senior unsecured notes, demonstrating Ausdrill's commitment to maintaining a prudent financial policy.
- We are placing the 'BB-' long-term issuer credit rating on the company and 'BB+' and 'BB-' ratings on the company's senior secured and senior unsecured issues, respectively, on CreditWatch with positive implications.
- We plan to resolve the CreditWatch following completion of the acquisition. We would raise the rating by one notch to 'BB' if the transaction is completed in its current form, with further potential for rating upside.

Rating Action

On Aug. 15, 2018, S&P Global Ratings placed its 'BB-' long-term issuer credit rating on Ausdrill Ltd. on CreditWatch with positive implications. At the same time, we placed the 'BB+' and 'BB-' ratings on the company's senior secured and senior unsecured issues, respectively, on CreditWatch with positive implications.

Based in Australia, Ausdrill is a provider of mining services.

Rationale

We placed the ratings on CreditWatch with positive implications because Ausdrill's proposed acquisition of Barmenco Holdings Pty Ltd. should improve Ausdrill's operating scale, and service and commodity diversity. Ausdrill will fund the majority of the acquisition, which has an implied enterprise value of A\$697 million (including Barmenco's US\$350 million senior secured debt), via a scrip offering and a small cash component.

In our view, the potential transaction should improve Ausdrill's scale of operations, solidifying the company's business risk profile. It would create the second-largest surface and underground mining services company in Australia with revenues of about A\$1.8 billion on a pro-forma basis

(consolidating Barmenco and the African Underground Mining Services joint venture) as of June 30, 2018. Ausdrill reported about A\$887 million of revenue during the year ended June 30, 2018. In addition, Ausdrill's service offering would expand to underground hard-rock mining, which has a higher margin, greater barriers to entry, and lower capital intensity compared with open-cut mining. Ausdrill's commodity exposure will also improve slightly, with some exposure to base metals such as zinc and nickel. However, the combined group remains largely exposed to gold and copper.

More importantly from a credit perspective, the acquisition would reduce Ausdrill's exposure to higher-sovereign risk countries. This reduction is because Australia will account for about 50% of the consolidated group's revenues, from about 35% currently.

In our view, Ausdrill's prudent financial management underpins its credit strength. To reduce its leverage, the company plans to repay its US\$300 million senior unsecured notes maturing in 2019 via a A\$250 million (before costs) fully underwritten equity raising, excess cash, and drawing on its revolving credit facility. Barmenco's bonds will remain in the consolidated group's capital structure after the acquisition. Ausdrill has a track record of funding growth with equity. In late 2017, Ausdrill raised A\$100 million equity (before costs) to fund its growth capital expenditure for new contracts.

The current 'BB-' rating on Ausdrill reflects the company's smaller scale globally, increasing presence in Africa, and indirect exposure to volatile commodity prices. Offsetting these weaknesses is Ausdrill's long track record and expertise of operating in Africa, its conservative financial management, and a diversified service offering that provides some resilience to an industry downturn.

CreditWatch

We plan to resolve the CreditWatch following completion of the acquisition. We would raise the rating by one notch to 'BB' if the transaction is completed in its current form, with further potential for rating upside.

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

- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

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CreditWatch/Outlook Action

	To	From
Ausdrill Ltd.		
Issuer Credit Rating	BB-/Watch Pos/--	BB-/Stable/--
Ausdrill Finance Pty Ltd.		
Senior Secured		
Local Currency	BB+/Watch Pos	BB+
Recovery Rating	1(95%)	1(95%)
Senior Unsecured		
Foreign Currency	BB-/Watch Pos	BB-
Recovery Rating	4(30%)	4(30%)
Ausdrill International Pty Ltd.		
Senior Secured		
Local Currency	BB+/Watch Pos	BB+
Recovery Rating	1(95%)	1(95%)

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Research Update:

Barmenco Holdings Pty Ltd. 'B' Ratings Placed On CreditWatch Positive On Takeover Bid By Ausdrill Ltd.

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Research Update:

Barminco Holdings Pty Ltd. 'B' Ratings Placed On CreditWatch Positive On Takeover Bid By Ausdrill Ltd.

Overview

- Ausdrill Ltd. has reached an agreement to acquire 100% of Barminco via a scrip offering and cash.
- We expect Barminco to become a core subsidiary of Ausdrill should the transaction be successful in its current form.
- We are placing our 'B' ratings on Barminco and the company's debt on CreditWatch with positive implications, reflecting the likelihood that Barminco will benefit from Ausdrill group's stronger credit quality.
- We would seek to resolve the CreditWatch following completion of the transaction. If the proposed transaction is successful in its current form, we would raise the long-term rating on Barminco to equalize the rating with that on Ausdrill (BB-/Watch Pos).

Rating Action

On Aug. 15, 2018, S&P Global Ratings placed its 'B' long-term issuer credit rating on Barminco Holdings Pty Ltd. on CreditWatch with positive implications. At the same time, we placed the 'B' rating on the company's senior secured debt on CreditWatch with positive implications.

Based in Australia, Barminco is a provider of underground hard-rock contract mining services.

Rationale

We placed the ratings on CreditWatch with positive implications because we expect Barminco to be a core subsidiary of Ausdrill group following completion of Ausdrill's takeover of Barminco.

Barminco has reached an agreement with Ausdrill that the latter will acquire 100% of Barminco's share capital for A\$271.5 million. Ausdrill will fund the majority of the acquisition via a scrip offering and a small cash component. Barminco's security holders will receive 22.1% of the combined group. In addition, Ausdrill will assume Barminco's US\$350 million senior secured notes, which will remain within the consolidated group. We note that a change-of-control clause of Barminco's senior secured notes will only be

triggered if the transaction results in a lowering of the rating on Barmenco's debt.

We would regard Barmenco to be a core subsidiary of the combined group should the transaction be completed in its current form. In our opinion, Barmenco is unlikely to be sold, operates in the same industry as Ausdrill, and will act as an additional division of Ausdrill. The core status would result in a raising of the ratings on Barmenco to the same level as the group credit profile of its potential parent, Ausdrill (BB-/Watch Pos).

In our opinion, the potential transaction would improve Ausdrill's scale of operations. It would create the second-largest surface and underground mining services company in Australia with revenues of about A\$1.8 billion on a pro-forma basis (consolidating Barmenco and the African Underground Mining Services joint venture [AUMS JV]) as of June 30, 2018. In addition, the consolidated group's service offering would expand to underground hard-rock mining, which has a higher margin, greater barriers to entry, and lower capital intensity compared with open-cut mining. The consolidated group's commodity exposure will also improve slightly, with some exposure to base metals such as zinc and nickel. However, the combined group remains largely exposed to gold and copper.

The current 'B' rating on Barmenco reflects the company's small scale of operations globally and narrow business focus on underground hard-rock contract mining. In addition, the company has a concentration of contracts, which could expose the business to earnings volatility if it cannot roll over or extend expiring contracts. Offsetting these weaknesses is Barmenco's long track record of operations and some geographic diversity benefits from its AUMS JV business that offset weaker conditions in its Australian operations.

CreditWatch

We plan to resolve the CreditWatch following completion of the takeover. We are likely to equalize the ratings on Barmenco to that on its parent, Ausdrill.

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 Capital Goods Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
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- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

CreditWatch/Outlook Action

	To	From
Barmenco Holdings Pty Ltd. Issuer Credit Rating	B/Watch Pos/--	B/Stable/--
Barmenco Finance Pty Ltd. Senior Secured		
Local Currency	B/Watch Pos	B
Recovery Rating	4(35%)	4(35%)

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