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STANDARD & POOR'S UPGRADES RATINGS FOR AUSDRILL AND BARMINCO

Ausdrill Limited (**ASX: ASL**) advises that Standard and Poor's Global Ratings (**S&P**) has raised the Company's credit ratings to '**BB**' following the acquisition of Barmenco Holdings Pty Ltd (**Barmenco**). S&P also raised Barmenco's credit ratings to '**BB**'.

The details of the upgrades are as follows:

Ausdrill

- Corporate credit and senior unsecured notes ratings – *Upgraded to "BB" from "BB-"*
- Senior secured debt rating – *Upgraded to "BBB-" from "BB+"*

Barmenco

- Corporate credit rating – *Upgraded to "BB" from "B"*
- Senior secured debt rating – *Upgraded to "BB" from "B"*

The outlook on these ratings is stable.

S&P press release 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, India and the United Kingdom. Ausdrill is a leader in open-cut and underground contract mining, diamond drilling, grade control, drill & blast, exploration, mineral analysis, procurement and logistics. The Ausdrill Group employs over 7,000 staff worldwide.

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Research Update:

Ratings On Ausdrill And Barmenco Holdings Raised To 'BB' And Removed From CreditWatch After Acquisition; Outlook Stable

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Overview

- Ausdrill has completed its acquisition of Barminco, which was funded via a scrip offering and cash. In our view, the acquisition should improve Ausdrill's operating scale, service and commodity diversity.
- As such, we are raising the long-term issuer credit rating on Ausdrill to 'BB' from 'BB-', issue rating to 'BBB-' from 'BB+' on the senior secured debt, and issue rating to 'BB' from 'BB-' on the senior unsecured debt.
- At the same time, we are raising the ratings on Barminco and its debt to 'BB' from 'B', in line with the Ausdrill rating because we consider Barminco to be a core subsidiary of Ausdrill.
- The stable outlook reflects our expectation that Ausdrill will continue to generate positive free operating cash flows, and avoid significant missteps with the integration of Barminco. We also expect the group to grow its order book across its key geographies under the Ausdrill, Barminco, and AUMS brands.

Rating Action

On Nov. 1, 2018, S&P Global Ratings raised its long-term issuer credit rating on Ausdrill Ltd. to 'BB' from 'BB-'. The outlook is stable.

We also raised our issue-level ratings on Ausdrill's senior secured facility to 'BBB-' from 'BB+', and on the senior unsecured notes to 'BB' from 'BB-'. The '1' recovery rating on the senior secured facility and '4' recovery rating on the senior unsecured notes are unchanged, and indicate our expectation of very high (90% to 100%; rounded estimate: 95%) recovery prospects and average (30%) recovery prospects, respectively, in the event of a payment default.

At the same time, we raised the long-term issuer credit rating on Barminco Holdings Pty Ltd. to 'BB' from 'B'. The outlook is stable. We also raised our issue-level ratings on Barminco's senior secured notes to 'BB' from 'B', in line with the ratings on Ausdrill. The recovery rating on the notes remains unchanged at '4' (45%), indicating average recovery prospects.

We removed all ratings on Ausdrill and Barminco from CreditWatch with positive implications, where they were initially placed on Aug. 15, 2018.

Based in Australia, Ausdrill and Barmenco are providers of mining services.

Rationale

We raised the ratings on Ausdrill to reflect our view that the acquisition should improve the company's operating scale, service and commodity diversity. In addition, given that Barmenco's projects are mainly based in Australia and heavily production focused, Ausdrill's exposure to higher-sovereign risk countries in Africa would reduce. Post the acquisition, Australia accounts for about 50% of the consolidated group's revenues, compared with 35% previously.

The upgrade also reflects our view of Ausdrill's prudent financial management and willingness to reduce its leverage to levels commensurate with a 'BB' rating. The combined group will operate with a strengthened balance sheet after having raised A\$250 million (before costs). Ausdrill intends to utilize these proceeds to repay its US\$300 million senior unsecured notes maturing in 2019. Barmenco's bonds will remain in the consolidated group's capital structure.

We have equalized the ratings on Barmenco to that on Ausdrill because we consider it to be a core subsidiary of Ausdrill. 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. Barmenco represents about 30% of the consolidated group earnings.

The acquisition has enlarged Ausdrill to become the second-largest surface and underground mining services company in Australia. With the consolidation of Barmenco and the two companies' African Underground Mining Services (AUMS) joint venture, the combined group's revenues comprise about A\$1.8 billion on a pro-forma basis as of June 30, 2018.

Furthermore, Ausdrill's service offering would expand to underground hard-rock mining, in addition to drill and blast, exploration and surface mining. In our view, the underground hard-rock services have a higher margin, greater barriers to entry, and lower capital intensity compared with open-cut mining. In our view, an improved product breadth should help the group to better manage the rollover of contracts, which is key to success for mining service providers.

Still, the group's scale is relatively small compared with other service providers' globally, in our view. The combined group's pro-forma EBITDA on an S&P Global Ratings-adjusted basis would be about A\$390 million to A\$400 million for the year ending June 30, 2019. However, Ausdrill's commodity exposure will improve slightly, to base metals such as zinc and nickel, although the combined group remains largely exposed to gold and copper.

The trading outlook for mining services is positive, attributable to the strong recovery in commodity prices, which lifts miners' capital investment. Although the growth rate may be modest, prospective projects in the pipeline for mining services providers have increased.

Furthermore, the industry is transitioning through a period of consolidation, with a number of mergers and acquisitions. In addition to Ausdrill's acquisition of Barmenco, other issuers that we rate, such as Emeco Holdings Ltd. (B/Stable), have made a few acquisitions over the past 24 months. In our view, issuers are looking to grow through acquisitions, while limiting pressure on balance sheets with the use of equity raisings, which is positive from a credit perspective.

The 'BB' rating on Ausdrill 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 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. Ausdrill has a track record of funding growth with equity. For example, Ausdrill raised A\$100 million equity (before costs) to fund its growth capital expenditure for new contracts in late 2017.

In our base case, we forecast Ausdrill's credit metrics would improve in fiscals 2019 and 2020, with adjusted debt to EBITDA to be below 2.0x, and an adjusted funds from operations (FFO) to debt of above 45%. The forecasts reflect continued new project wins in Africa, as well as Ausdrill's consolidation of Barmenco and its 50% share in joint venture, AUMS.

Our base case assumes:

- Australia's real GDP growth to be 3.0% in calendar 2019, and 2.0% in calendar 2020;
- Ghana's real GDP growth to be 5.9% in calendar 2019, and 4.5% in calendar 2020;
- Significant revenue growth in fiscal 2019, as a result of the consolidation of Barmenco and AUMS joint venture, and new contract wins and extensions;
- EBITDA margins to be in the low 20s as a result of the consolidation of the higher margin AUMS and Barmenco businesses;
- Consolidation of Barmenco's assets and liabilities;
- Barmenco transaction and cash costs of about A\$42 million;
- Equity raise of A\$250 million before costs;
- Ausdrill's upsized senior secured syndicated revolving facility to A\$300 million from A\$200 million. The drawdown under the A\$100 million incremental facility is subject to the satisfaction of conditions precedent.
- Heightened level of capital expenditure in 2019 and 2020 to support growth; and
- Dividend distributions of 40% of underlying net income before amortization of intangibles.

Based on these assumptions, we arrive at the following credit measures for fiscals 2019 and 2020:

- Adjusted debt-to-EBITDA ratio below 2.0x over the next two years ending June 30, 2020;
- Adjusted FFO-to-debt ratio of above 45% over the next two years ending June 30, 2020; and
- Free operating cash flow to debt of about 10% in fiscal 2019, and between 20% and 25% in fiscal 2020.

Liquidity

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 that the group has upsized its revolving facility at a lower interest margin, and will repay the majority, if not all of its US\$300 million senior unsecured notes in fiscal 2019.

We view Ausdrill as having sound relationships with its banks, given the recently upsized revolving credit facility and generally prudent risk management. Ausdrill's A\$300 million syndicated revolving facility matures on July 1, 2020.

We expect the company to have the following sources and uses of liquidity over the following 12 months ending June 30, 2019:

Principal liquidity sources:

- Cash and equivalents of about A\$140 million-A\$160 million;
- Undrawn combined syndicated bank facilities (including Barmenco's revolving facility) of about A\$345 million; and
- Adjusted consolidated cash FFO of about A\$340 million over the next 12 months.

Principal liquidity uses:

- Low working capital outflows of about A\$10 million;
- Group capital expenditure of between A\$250 million and A\$260 million; and
- Dividend distributions of 40% of underlying net income before amortization of intangibles.

Outlook

The stable outlook reflects our expectation that Ausdrill will continue to generate positive free operating cash flows, and avoid significant missteps

with the integration of Barmenco. We also expect the group to grow its order book across its key geographies under the Ausdrill, Barmenco, and AUMS brands.

During benign industry conditions, the group could generate an adjusted debt-to-EBITDA ratio below 2.0x and 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

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 less likely 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 cycle.

Ratings Score Snapshot

Ausdrill Ltd.

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)

Issue Ratings--Recovery Analysis

The issue rating on Ausdrill Finance Pty Ltd. and Ausdrill International Pty Ltd.'s upsized A\$300 million, secured, syndicated bank loan maturing on July 1, 2020 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 rating on Ausdrill Finance Pty Ltd.'s US\$300 million senior unsecured notes maturing in November 2019 is 'BB', 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 unsecured notes have a recovery rating of '4', reflecting our expectation of average recovery prospects (30%) should a default event occur.

The rating on Barmenco's US\$350 million senior secured notes maturing in 2023 is 'BB', in line with the issuer credit rating on the Ausdrill group. These notes are not guaranteed by Ausdrill Ltd. because they are secured against the assets of the Barmenco security package. The secured notes have a recovery of '4', reflecting our expectation of average recovery prospects (45%) should a default event occur.

Our simulated default scenario assumes that 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. This hypothetical default scenario assumes the default would occur sometime during 2023.

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 Capital Goods Industry, Nov. 19, 2013
- 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

Ratings List

Upgraded; CreditWatch/Outlook Action

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

Upgraded; CreditWatch/Outlook Action

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such

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