

# SWICK MINING SERVICES

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ASX ANNOUNCEMENT

## SWICK – 1H FY18 Result and Operations Update

Swick Mining Services Limited (“Swick” or “the Company”; ASX: SWK), a leading provider of high quality and high value underground and surface mineral drilling services today announced its results for the half-year ended 31<sup>st</sup> December 2017.

### Highlights:

- Total 654,450 metres drilled, up 9.4% compared to the prior corresponding period (pcp) – excluding discontinued Long Hole division
- TRIFR of 13.9 at December 2017
- Increasing foothold in Nevada, with up to 7 rigs to be operating at Turquoise Ridge by June 2018.
- Exited two low margin contracts during the period, with a third concluded in January 2018.
- Group revenue (including other income) of \$71.1m – a 9% increase on pcp
- EBITDA of \$7.2m – down 10% on pcp
- Drilling business EBITDA of \$8.1m – down 1.9% on pcp

### Financial Performance and Dividend

Revenue and other income for the six months ending December 31, 2017 was \$71.1 million, 9.7% higher than the \$64.8 million for the corresponding period a year ago. The Company is operating at 22 mine sites for 15 individual clients, of which 3 sites are international.

EBITDA was \$7.2 million (10.1% margin) for the first half, down 9.9% from \$8.0 million (12.3% margin) in the corresponding period a year ago. EBITDA for the Drilling business was \$8.1 million (11.3% margin), in line with prior corresponding period (pcp) of \$8.2 million (12.5% margin). Increased spend in the Mineral Technology business as it approaches its product launch contributed to the EBITDA loss of \$0.9 million for the half compared to a loss of \$0.2 million in the pcp in this business.

The drilling business EBITDA margins were impacted during the half, primarily in the first quarter demobilisations in the Australian and US business and the subsequent lower rig count. This is improving significantly in the second half as Swick mobilises up to seven rigs into Turquoise Ridge mine in Nevada, with four rigs mobilised in the second half so far.

During the half, a review of the management structure was undertaken to simplify the overall business and reduce overhead costs. A total of six executive and senior management positions were removed from the organisation, with the expected annual savings of approximately

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\$2.1million. The half year results were impacted by one-off redundancy and severance payments incurred as part of this restructure.

Swick has a strong order book of around \$127 million and operates at a number of world-class operating mine sites. Swick is not actively seeking new work, but working with its clients to ensure that their expanding drilling needs can be met by the current fleet and that renegotiations of contracts as they expire provide an opportunity for Swick to meet its target returns at each site.

During the period, Swick concluded drilling at the Golden Grove (five rigs) and Kensington (four rigs) mines as it focussed on removing rigs from underperforming contracts in the portfolio to better margin contracts by taking advantage of the continuing improvement in market sentiment and rig demand. Subsequent to the period end, Swick has also demobilised from Rosebery mine as of the end of January, where it had four underground rigs operating as our client was unable to come to terms with the revised rates.

In general, the clients of Swick are showing signs of increased drilling budgets and a willingness to work with us on reaching agreeable terms as renewals take place. Swick commenced operations at Olympic Dam in August 2017 with one rig on a trial basis, with the possibility of additional rigs required in the future. An additional eight rigs are projected to be deployed to existing Australian contracts this half, and combined with the increases in the Nevada operations, Swick expects to reach approximately 91% utilisation or 63 out of 69 underground rigs in work by the year end.

Swick continues to be successful in winning campaign style contracts for the RC business, with 5 of the 9 rigs in work at end of the period. There is a good pipeline of opportunities currently being tendered which is expected to keep this utilisation level relatively stable.

A full time equivalent (FTE) of 56 rigs from a fleet of 75 were operating in the field in the first half of FY18 compared to a FTE of 55 rigs from a fleet of 78 a year ago.

Of the total rigs in work, the UD division represented a FTE of 52 rigs operating from a fleet of 68 (76% utilisation), compared to 45 rigs operating from a fleet of 68 (67% utilisation) a year ago.

Total metres drilled increased by 9.4% after adjusting for the discontinued Long Hole operation, with the underground diamond division increasing metres by 11%, while the RC division reduced 3%. Revenue per metre increased 7.5% over the pcp, with a core component of this improvement due to better rates achieved in new contracts entered in 2H17. Revenue per metre for the RC division reduced by 25% as the work pattern returned to the more traditional RC style work, away from activities such as water bores which are low productivity but high value per metre contracts.

Swick continues to be an industry leader in innovation, production and Safety. Swick's award winning training facility has been a success enabling a rigid selection process that ensures we have the right people for the job. The facility serves multiple functions, it enables us to replicate an underground drill site, complete with a rig and ancillary equipment to prepare our new employees for the rigors of underground drilling, and it also serves as a technical training facility and enables us to test research and development (R&D) projects in a controlled environment..

Free cash out flow for the half of \$0.4 million was impacted by a delayed receipt from a key customer of \$1.7 million which was scheduled to be paid in December 2017 but was delayed and paid in early January 2018. Had this debtor receipt been received as scheduled in December 2017, the free cash flow generated for the half would have been \$1.3 million and the EBITDA cash conversion would have been 101.8%. Capital expenditure decreased by \$1.4 million compared to the prior corresponding period as the company focuses on stay-in-business capital and low capital intensity R&D projects and rig upgrades.

In a significant milestone for the Mineral Technology business, the first of two GeoCore X10 scanning machine (for base metals core scanning) arrived in Perth in January 2018. A business launch is being planned for March/April 2018.

Product development continues with core sent from Australian clients of the drilling business to Orexplore in Sweden for scanning and testing. The core samples are being used to further refine the scanning and analysis process and analytics of Orexplore, and is also working towards having these clients as early adopters of this new technology.

This world first portable mineral scanning technology has the potential to capitalise on the multi-billion-dollar a year minerals analysis industry by providing detailed, non-destructive, on site analysis of drill core, providing assay information, structural 3D tomography, mineralogy, lithology and density information.

Due to the loss result for the period, the Company has decided not declare an interim dividend for 1H FY18.

### **Outlook**

Second half revenue and margins for the Drilling business are expected to be higher than the first half as the planned increase in rigs in work in Australia and USA are mobilised. Swick's estimate for full year FY18 is revenue of \$135 - \$145 million and EBITDA of \$17.5 - \$19.5 million for the Drilling business. These estimates are based on not having any material changes in the expected rig utilisation in Australia and the mobilisation of additional rigs to the Turquoise Ridge project in USA going according to plan.

### **Commentary on results for the half year ended 31<sup>st</sup> December 2017**

Kent Swick, Managing Director stated: *"Whilst rig demand is on the increase, Swick is carefully considering its strategies for asset allocations to its client group. Clearly the industry needs an uplift in rates and Swick will work with its clients as renewals present to secure appropriate rates to ensure target financials are achieved at each and every drilling site. Swick provides the most versatile and powerful drill rigs on the market with excellent safety, production and reliability of service and this was not compromised at all over the last four years during the extended downturn. We have many clients that recognise and appreciate that and are working with us to allow Swick to claw back some of the very significant savings we offered our clients in their times of need as far back as 2013."*

*"Swick rigs are continuing to drill faster and deeper each year, and our crews are working extremely hard to ensure we are well placed to service the increased demand as it comes and assist our clients to improve their business. With a reputation built over more than a decade on high productivity and safety, our reputation has evolved to also being a leading provider of*

*deep, directional drilling as our rigs have been upgraded to be the most powerful in the industry without compromising their mobility and nimbleness.”*

*“Swick is approaching a major milestone of achieving ten million metres of core since our activities in this type of drilling began back in June 2004. We intend to celebrate this breakthrough around July 2018, and it is an amazing result in such a short time, and indicates the attraction of our unique equipment, systems and people to achieve this organically, without acquisition.”*

**About Swick Mining Services:**

Swick Mining Services Ltd (ASX: SWK) is one of Australia’s largest mineral drilling contractors, providing high quality underground and surface drilling services to a diverse group of mining houses and across a spread of commodities. The Company has a strong reputation for innovation in rig design and drilling practices that delivers improvements in productivity, safety, versatility and value. Swick has a global presence with Operational revenue from Australia, the United States and Europe.

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**Disclosure Statement:**

These materials include forward looking statements. Forward looking statements inherently involve subjective judgement and analysis and are subject to significant uncertainties, risks and contingencies, many of which are outside of the control of, and may be unknown to, the Company. Actual results and developments may vary materially from those expressed in these materials. The types of uncertainties which are relevant to the Company may include, but are not limited to, commodity prices, political uncertainty, changes to the regulatory framework which applies to the business of the Company and general economic conditions. Given these uncertainties, readers are cautioned not to place undue reliance on such forward looking statements. Forward looking statements in these materials speak only at the date of issue. Subject to any continuing obligations under applicable law or any relevant stock exchange listing rules, the Company does not in providing this information undertake any obligation to publicly update or revise any of the forward looking statements or any change in events, conditions or circumstances on which any such statement is based.

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