

FINANCIAL REVIEW

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HD **No let-up for mining services**
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Pressures on companies servicing the mining and energy sector are showing few signs of easing, with laboratory testing operator ALS flagging a sharp profit fall as it battles to boost cash flow following recent acquisitions.

ALS said underlying net profit after tax for the six months to the end of September will be \$74 million, 26.5 per cent below \$100.7 million recorded a year earlier, it told shareholders at Tuesday's annual general meeting. The company's shares were driven down a heavy 6.5 per cent to \$7.50.

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If sustained, this will be the second year of declines, following the 28 per cent drop in the underlying net profit in the year to March.

"We continue to see volatility in our markets," ALS chairman Nerolie Withnall told shareholders.

She pointed to the minerals division, and the geochemical business, which "continues to face very challenging market conditions".

This is despite a pick-up in fund-raising by explorers in Canada and an anticipated pick-up in drilling activity in Latin America, as well as robust commodity prices.

Even so, ALS, formerly known as Campbell Bros, is "yet to see conditions on the ground translate into increased sample volumes".

"Whilst pricing for our services remains stable, we have seen geochemical sample flows in the June quarter down 27 per cent on the same quarter last year, with Canada being particularly challenging".

Even so, ALS said it is optimistic the bottom of the cycle has been reached for its minerals division, which accounts for around a quarter of group revenue.

Similarly, pressures in the oil and gas sector are also evident, with June quarter activity having been pushed into the September quarter.

And then there is the currency, with the strength of the Australian dollar a continued drag on earnings, since it undercuts activity in Australia while weighing on the value of offshore earnings, which now make up more than half of the total.

Management had said earlier that the first quarter was tough, Todd Guyot of Moelis said.

"The first half was always going to be difficult, and it is looking to a better second half. That's good in theory. There needs to be better demonstration that it's achievable. The visibility is minimal."

Morningstar's Ross MacMillan said ALS was optimistic that activity is bottoming, but gave no proof.

"I struggle to see a recovery for the next two to three years," he said. "China is slowing, major miners are focused on production, they've done their exploration, and juniors are struggling to raise money."

He has a \$7.50 valuation on ALS, and is recommending clients "hold" at this level.

With the downturn and the rise in debt following the \$US533 million purchase of oil and gas outfit Reservoir Group last year, ALS said it will focus on lifting cash flow to reduce borrowings.

"Acquisition activity ... will remain subdued at least through the next twelve months as we concentrate on existing operations and strengthening the balance sheet in preparation for future diversification opportunities," the managing director, Greg Kilmister, told shareholders.

The profit warning from ALS came as another group which services miners and also the oil sector, Imdex, raised a further \$17 million by offloading the balance of its shareholding in Sino Gas and Energy, a coal seam gas explorer in China.

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