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HD **Long wait for light at end of dark tunnel**

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It's been a long, cold winter for the **mining** services sector as the slump in commodity prices, coupled with the strong Australian dollar, has prompted miners to cut spending across the board.

And as the downturn has deepened, the squeeze has been exacerbated as miners have taken advantage of the excess capacity throughout the sector to push for further cuts to contract prices.

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Yet despite the well-publicised financial woes of the likes of Boart Longyear and the collapse of some privately held operators such as DPSA and its **Mining** Equipment Maintenance unit, together with Tom Browne Drilling Services, and the withdrawal of global operators like Canada's Major Drilling Group, signs the market is bottoming out, let alone signalling an upturn, are scant.

Major Drilling Group, for example, told analysts just last week prices are at 15-year lows, with many smaller competitors slashing tendered prices to the bone.

And just as belief was building things couldn't get any worse, the renewed downturn in the **iron ore** price has resulted in more **mining company** collapses, triggering more losses.

The dive in the **iron ore** price sank Northern Territory miner Western Desert in early September, with contract driller Ausdrill warning of an $8 **million** exposure, and doubts as to whether all of this will be repaid.WA in for some pain

"There's no doubt Western Australia's going to see some pain," says Queensland entrepreneur Nathan Mitchell, who recently re-entered the domestic drilling industry.

Iron ore has not seen the downturn yet, he says, while **coal** and minerals have been flat-lining for a few years. As a result, he expects the **iron ore** sector could be in for a tough couple of years.

PPB Advisory partner and former Rio Tinto executive Campbell Jaski says there has been a slowing in the number of companies going into administration overall, but not in **mining** and mine services.

"Fundamentally, we've an oversupply of **mining** service capacity, and that needs to reduce to meet the reduced demand. It has taken time to do this. And when there's a shock, like with the **gold** price six to nine months ago, and **coal** before that and **iron ore** more recently, we see a rise in [advisory] activity."

He said that the mine service sector requires consolidation,and "given the fractured nature of the industry there should be more consolidation," but since many in the industry are family owned **operations**, this makes it difficult to accept, especially since many are being managed by the second or third generation.

"There is no easy exit," Jaski says. "They can **merge** but they can't get any cash off the table, and would end up ceding management control to a competitor." As a result of this possibility, many companies are trying to go it alone.

Different parts of the mine services sector are at different stages, with drilling closer to the bottom since the cuts to exploration spending began.Pressure points

"Other **mining** service companies are only now starting to come under acute pressure," PPB Advisory's Jaski says. "The two factors are the exchange rate, which is high, and commodity prices, which are weak. That is squeezing margins. If these pressures are maintained we'd expect a pick-p in activity."

In drilling services, for example, exploration budgets have been slashed.

Nathan Mitchell, one of the industry's best known players reckons "green shoots" of demand are emerging with an increase in tender activity but whether this will be sustained is not clear. He has emerged as one of the savviest operators in the mine services field after the family sold out of the local industry in 2008.

At the time, contractor AJ Lucas paid $150 **million** for the family's Mitchell Drilling Services which took Mitchell out of the domestic industry for five years due to a non-compete clause included in the **sale**. In retrospect, that deal was close to the top of the market.

"Warning signs were apparent just before that but the GFC struck three weeks later. That caught everyone by surprise – and cash was king."

After kicking around in India, **China** and most recently Africa, where Mitchell worked on the Riversdale **Mining**'s Zambeze resource in Mozambique, he made his re-entry to the local industry a year ago.

That's when he snared **equity** in the troubled Soul Pattinson-Brickworks affiliate Drill Torque, which is the vehicle being used to buy the assets of the collapsed driller Tom Browne.Positioned for upturn

At 20¢ in the dollar for more than $50 **million** of assets, this latest buy positions the restyled Mitchell Services for the industry upturn.

"Drill Torque wasn't travelling so well," Mitchell says. "With a good team operating internationally, it made sense to do a deal to get back into the industry here."

It took the Mitchell family 40 years to build up its assets last time round, before the **sale** to AJ Lucas, he said. Through Drill Torque, Mitchell emerged with 30 rigs, which will almost double with Tom Browne Drilling added in.

At some stage, the Mitchells' African **operations** will be merged into Mitchell Services, which will bring in another 20 rigs.

"The majors are pulling out of Australia, taking rigs out. Others are doing it tough. Will we do more deals? It depends. We want to grow the business, and be ready for the next upswing. We are seeing increased tendering. When we did the Drill Torque deal, there wasn't much work about.

"The focus of [mine] management is on production and near-mine reserves are being tapped at a quick rate," Mitchell says. "So it will have to turn at some point."

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