

# FINANCIAL REVIEW

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HD **AJ Lucas eyes drilling, pipe options**  
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Embattled **mining** services provider AJ Lucas is to eye up opportunities in drilling and gas pipelines as new chief executive Russell Eggers sees "green shoots" of recovery in the sectors.

Mr Eggers, who took the helm of **company** in early June, is overseeing a strategic review that is nearing completion and set to "refresh" the business plan, after an overhaul in senior management and the board.

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He said the difficult market conditions that have plagued **mining** services could throw up new opportunities, while the expansion of the east coast gas market pointed to new business in pipeline construction.

"It's a tough market to be in but it also means that there are opportunities in the marketplace as well," Mr Eggers said, pointing to the recent \$9.5 **million acquisition** by Mitchell Services of the assets of Tom Browne Drilling Services, which had fallen into receivership. "We're well positioned with supportive shareholders to take advantage of that."

AJ Lucas, 49 per cent owned by **Hong Kong**-based private **equity** fund Kerogen, last week reported a narrowing in its full-year net loss to \$91.7 **million**, thanks to an improved market in the second half, as well as cost cutting. "There's green shoots. I wouldn't say it's a verdant field, but that would be reflective of anybody in the **mining** services game at the moment," he said.

Mr Eggers is seeking to revive AJ Lucas's fortunes after a difficult few years marked by a collapse in its share price, debt refinancing difficulties and several **equity** raisings.

His predecessor Allan Campbell resigned in January, 19 years after acquiring AJ Lucas, but still owns about 6.5 per cent through his private **company**.

AJ Lucas's share price has yet to respond to the improvement, falling about 50 per cent in the past 12 months and hitting a 23-month low in August. The stock closed Monday at 69.5¢, valuing the **company** at \$185.8 **million**. Big staff cuts

Mr Eggers said AJ Lucas had significantly cut support staff numbers in 2013-14, while some of the construction workforce had departed as projects came to an end. Head office costs have been reduced as the Macquarie Park office shrank in size.

Further efforts will be made to rein in costs but there will not necessarily be more job losses. "As we progress it gets harder but we will look at all of our systems and look for opportunities to continue to drive our efficiency," said Mr Eggers, a former chief executive of pipeline supplier Vinidex and drilling **company** Australian Drilling Services.

He said business in AJ Lucas's specialty of directional drilling for the **coal** industry was gradually coming back, while the construction division, which focuses on pipelines, would benefit from upgrades

to gas networks. "In pipelines we are seeing tender activity. I think that reflects that there's a bit of ageing infrastructure out there but also the east coast gas demand is growing."

Growth in the gas sector was also prompting some offers by other parties to co-operate on pipelines, he added.

Mr Eggers also voiced quiet confidence about progress towards shale gas exploration in the UK by partly owned Cuadrilla Resources, despite protests at proposed drilling sites. "We believe we will be mobilising early in 2015 with respect to a potential four wells at two different sites in Lancashire," he said. "All of our planning is towards that and all of Cuadrilla's planning is towards achieving that goal."

He said while he expected ongoing resistance to shale drilling in the UK, "there is an environment where we will be able to achieve the drilling permissions". Results from the strategic review are expected at the annual shareholder meeting in mid-November.

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