**Resources** Mining slowdown hits services companies

**Loss deepens to $127m for AJ Lucas**

Madeleine Heffernan

A recent equity raising by mining services company AJ Lucas Group looks to have rescued it from potential disaster, as the company scales back its operations to focus on the most profitable business lines.

Details of the company’s dire financial position were disclosed on Friday night in preliminary accounts yet to be signed off by the auditor that showed a widened loss of $127 million.

Australia’s mining services industry has been in turmoil as the resources boom has cooled. Difficult trading conditions forced AJ Lucas to write down the value of assets by $45 million, and the company also reported difficulty attracting business due to its poor financial health.

The annual results showed a working capital deficiency at the end of the financial year, meaning current liabilities exceed current assets by $40 million.

But AJ Lucas said recent equity raisings had bolstered the “company’s financial position and removed many of these concerns”.

“Difficult trading conditions, principally due to weak commodity prices and client focus on cost reduction, resulted in the group recording underlying earnings before interest, depreciation and amortisation of $3.3 million,” the company told the ASX.

“A reluctance to award work to the company whilst its balance sheet remained under strain also contributed to the poor performance, with revenue declining by 41.5 per cent, from $504.3 million to $294.8 million.”

AJ Lucas reported almost $62 million in one-off costs. It said it would focus on core strengths in its engineering and contracting division, where it reported a “very disappointing” halving of revenue to $131.4 million in the year to June.

“The company took into account the continuing support of substantial shareholder and lender Kerogen in assuming it was going concern for accounting purposes, as well as recent contract wins and the prospect of further cash from its British Bowland prospect asset.”

Shareholders will be asked to vote on extending AJ Lucas’ debt to Kerogen for three years until early 2017 – an agreement that AJ Lucas said would leave it without material borrowings falling due for 11 years.

AJ Lucas shares closed at $1.40 on Friday ahead of the announcement of its full-year loss, compared with a price above $5 in the best years of the mining boom. Analysts said they had had low expectations for the result but were more upbeat about the financial outlook.

The recent equity raisings – $107 million in June and $63.7 million in July – means that AJ Lucas’ gearing level has fallen to 24.8 per cent, from 41.4 per cent previously. One of Australia’s richest businessmen, Paul Fudge, recently increased his stake in AJ Lucas to 10 per cent.

AJ Lucas is not alone in experiencing financial difficulties. Drill contractor Borr Longyear last week revealed further job cuts amid the ongoing contraction in mining activity. It swung to a net loss of $183 million in the June half-year, largely due to heavy write-offs and a fall in revenue.

“We fought against a decline which is unprecedented in a lot of ways. The market will come back, I can’t predict when, but I can tell you it will,” Borr chief executive Richard O’Brien said.

But engineering company UGL reported good news in Australian coal miners seeking tenders for maintenance for the first time in 12 months. UGL reported a decline in net profit for the year to June of $417 million, from $154.4 million, on the back of weakness in its engineering arm.

**Murray bides time for new broad financial system inquiry**

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Opposition spokesman on finance Joe Hockey has for the past few years been calling for a “root-and-branch” review of the architecture of Australia’s financial system.

The Federal Treasury has also said Australia’s three main financial institutions – the Reserve Bank, Treasury and the Australian Prudential Regulation Authority – should continue to balance transparency, independence and accountability, but that government needed to be more transparent about its dealings with the agencies.

“If you look at the lead-up to the global financial crisis and the post-crisis period, governments find it too easy to say, ‘Well, the central bank’s independent’, or ‘The numbers are from Treasury’, or ‘The bank supervisor is independent’,” he said. “But the reality is that the government remains accountable for the outcomes.”

Mr Murray said if he were asked to chair a review of the financial system he would give it “careful consideration”. He also said he believed business confidence would pick up after the election if the government delivers a stable majority government.

And the new government would have to drive a productivity agenda that started to deal with the high cost structure of the economy.

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