

Industry Trend Analysis - Mine Services To Target High-Value Commodities, Technology

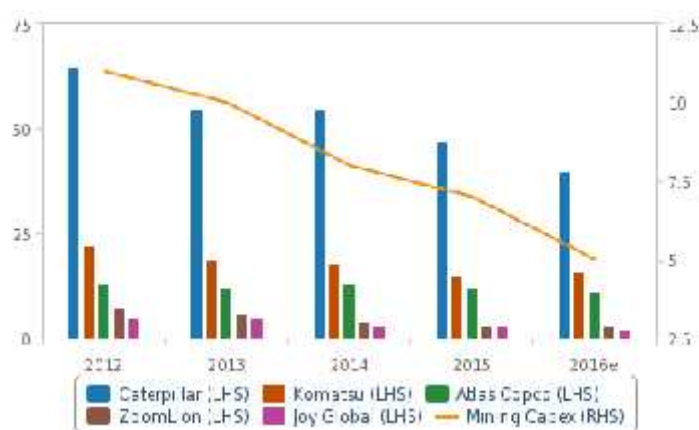
28 Jul 2016 Global Mine Services Komatsu Equipment

BMI View: Mine services companies will increasingly target better-performing commodities and focus on technology research and development to help miners streamline operations and cut costs as the weak mineral price environment continues to weigh on profit margins.

Mine equipment, technology and services companies (METS) will adjust their strategies to reflect a structurally lower mineral price environment over the coming years. We expect firms to prioritise higher profit margin minerals, such as precious metals, over bulk commodities. Firms will do this by investing more in underground machinery than in surface mining equipment, exemplified by Japanese company **Komatsu's** recent acquisition of US firm **Joy Global** (see 'Komatsu Acquisition Of Joy Global: Initial Thoughts', July 25). Furthermore, METS companies will focus on technological developments in the 'Internet of Things' space to provide cost-saving products to beleaguered miners.

Miners' Downfall Contagious

Select Mine Service Companies' Revenue & Bloomberg Global Diversified Miners Capex (USDmn)



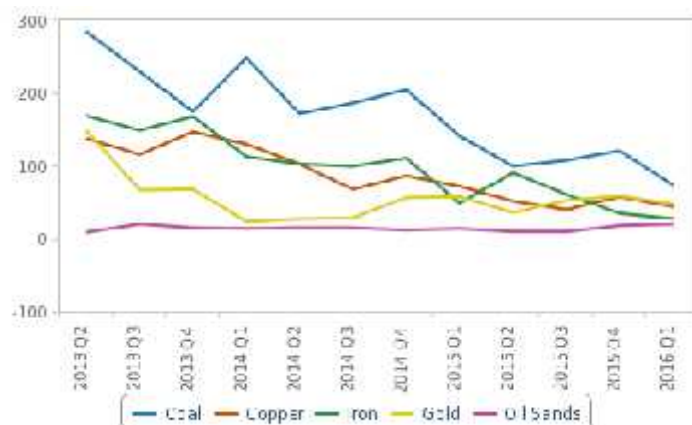
e = Bloomberg estimate. Source: Bloomberg, BMI

Underground Equipment To Gain Interest

Underground mining equipment will emerge as a key area of growth for METS, supported both by a stronger price recovery in precious metals than in bulk commodities and miners' interest in extending the lifespan of existing assets. Underground mines, as opposed to open pit mines, require additional machinery for complex ventilation systems, area and local ground support, and bringing ore up from significant depths. As underground mines entail higher costs, this method generally is used with higher-grade ore to offset losses.

Bulk Commodities' Demand To Remain Downtrodden

Mining Equipment Shipments By Mineral (units)

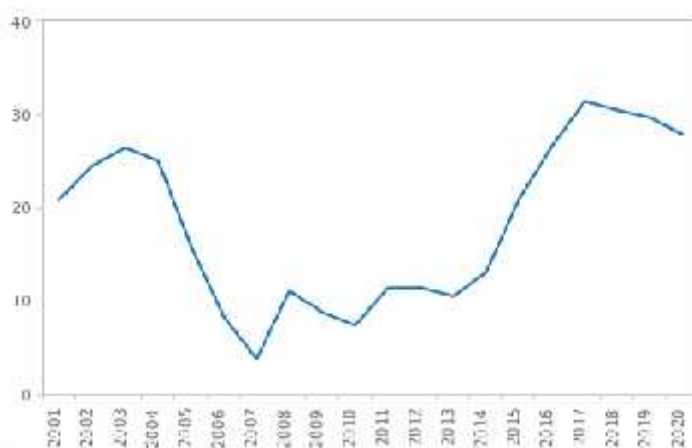


Source: Bloomberg

Given our positive outlook for gold prices, particularly compared with our expectation for a limited recovery in iron ore prices, miners will be more likely to advance higher value ore projects (see *'Gold: Upward Revision On Inflation Pressure'*, May 6 and *'Iron Ore: Chinese Stimulus Only Short-Term Boost To Prices'*, May 5). We expect the mining industry to gradually shift from open pit to underground mining over the coming years due to declining metal reserves and less visible environmental damage. In this context, Komatsu's acquisition of Joy Global, whose underground equipment complements Komatsu's surface mining products, will prove a solid strategy for growth. Indeed, the number of global mining services deals in H116 totalled 89, the highest in more than five years, suggesting that firms will continue to use acquisition as a strategy.

Gold To Outperform

Gold Price (USD/oz) & Iron Ore Price (USD/tonne) Ratio



Note: Rise in ratio implies gold outperforming. f = BMI forecast. Source: Bloomberg, BMI

Internet Of Things To Be Growth Bright Spot

Mine service firms will increasingly target Internet of Things (IoT) data analytics and processing to provide products that streamline operations and enhance productivity (see *'IoT: The Future Of Mining'*, February 16). While capex cuts in the mining industry will continue over the next few years, improving technology will remain an area on which natural resource companies are willing to spend as lower commodity prices prompt a drive to increase efficiency and output at existing operations. Demand weakness is US giant **Caterpillar's** major challenge, and we anticipate its drive to improve technology integration in its machines to be the biggest advance made to address this (see *'Caterpillar: No Recovery Until 2017'*, February 15).

Major miners will remain the key drivers behind incorporating mining technology within their operations as they have the resources even in a weak price environment, unlike small-scale miners (see *'Australian Miners To Lead Global Mining Technology Boom'*, July 1). For instance, in March, **Fortescue Metals Group**, in collaboration with Caterpillar, embarked on the second phase of the automation process at the firm's Solomon Hub Kings iron ore mine in the Pilbara region.

LARGEST MINE SERVICE FIRMS - FINANCIAL DATA, 2015

Company	Market Capitalisation	Revenue (USDmn)	EBITDA (USDmn)	Net Income (USDmn)	Profit Margin	Total Debt/EBITDA	PE Ratio	Capex (USDmn)
Caterpillar	39,575	47,011	6,302	2,102	4.5	6.0	15.5	3,261
Atlas Copco	29,973	12,119	2,863	1,390	11.5	1.0	21.7	202
Komatsu	16,055	15,464	2,676	1,146	7.4	1.4	13.1	1,388
Sandvik AB	10,986	10,183	1,496	267	2.6	2.7	26.6	387
Zoomlion	5,693	3,303	321	14.2	0.4	17.4	242	64.0
Hitachi Construction Machinery Co	3,380	6,322	579	73.4	1.2	3.5	43.2	146
Joy Global	1,677	3,172	-967	-1,178	-37.1	na	8.2	71.3

na = not available. Source: Bloomberg