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# Drillers suffer as mining hits hard times

**PAUL GARVEY** THE AUSTRALIAN DECEMBER 06, 2013 12:00AM

**A SLOWDOWN in activity in Australia has prompted a massive fall in earnings at Canadian-listed drilling giant Major Drilling Group, underscoring the tough outlook continuing to face Australia-listed groups such as Boart Longyear and Ausdrill.**

New Brunswick-based Major said earnings from its Australia, Asia and Africa division for the three months to October 31 had fallen by 77 per cent, while revenues had fallen by 43 per cent.

The company said its Australian earnings had been hit hard by a wave of project cancellations due to high costs, and warned that the challenging conditions would continue to have an impact on drilling in the short to medium term. There had also been a "significant slowdown" in activity in the gold sector this year, the company said.

"Lower levels of demand have significantly increased competitive pressures and will likely continue to have an impact for the remainder of calendar 2013 and beyond," the company said.

Shaw Stockbroking analyst Danny Younis said the Major results and commentary were a reminder of the bleak conditions facing Major's main competitor, Boart Longyear.

"While we are encouraged by new management's concentrated focus on balance sheet repair and costs savings, there are too many deep-seated issues with (Boart Longyear) and macro headwinds for us to take a positive view on the stock," Mr Younis said.

"With losses forecast for the foreseeable future and a depressed macro picture, we see little reason for investors to hold the stock."

Shares in Boart Longyear have taken a hammering this year, falling by more than 88 per cent since mid-February.

The stock closed yesterday at a record low of 27c.

Ausdrill, heavily exposed to drilling activity in the gold sector, has similarly dropped 75 per cent in value since February.

The comments out of Major came as analysts at Citi reiterated their uninviting diagnosis for the broader mining services sector on the back of further capital expenditure cuts by the major miners.

Citi analyst Natalia Mamaeva noted that Rio Tinto -- which has historically ranked as one of the mining world's biggest capex spenders -- now intended to spend just $US8 billion ($8.84bn) on capex in 2015. Rio Tinto spent $US17bn on capex last year.

Brazilian mining giant Vale has similarly cut its capex forecast for next year to $US13.9bn, down from the $US15bn spent this year.

"Overall, the news confirms the major change that is taking place at miners which continue to focus on cost and returns at the expense of capex," Ms Mamaeva said.

"Mining capex cuts are no longer new news but we believe the extent of downside, especially in 2014-15, are still underestimated by the market."

Citi said it could foresee earnings among companies exposed to mining capex falling by between 31 per cent and 45 per cent by 2015 as the capex downturn unfolded.

Australia's mining services sector has been hit hard this year. Cost-cutting by miners and a slowdown in expansions and new project approvals have eroded earnings. Companies including WorleyParsons, Ausdrill and Ausenco have announced multiple earnings downgrades this year on the back of the challenging conditions.