GR stands tall amid commodity fall

GR Engineering beat a number of rivals in open tender to win $114 million worth of work at the now Independence Group-owned Nova nickel project in WA's Fraser Range

In the face of the worst resources downturn in a generation, GR Engineering Services Ltd reported best ever revenues in FY2015. Better still, there is a rosy outlook for the Perth-based engineering firm.

"FY2016 has started well for us and it looks like we are going to have another solid revenue year and we also have a tail of earnings into FY2017, which is good," GR managing director Geoff Jones told **Paydirt**. "I am not sure how the market is going to develop through FY2016. Obviously we need some increases in commodity prices for projects to progress to development but it is difficult to determine on an international stage exactly what is going to be the catalyst to force commodity pricing up."

The services sector has felt the crunch of tapering commodity prices just as much as miners and explorers, in some cases more so. Forge Group was the highest profile casualty and while other firms have avoided complete collapse, the continued downturn has left many on their knees.

Geoff Jones

GR has not completely avoided the carnage. As recently as 2011/12, it could consistently boast 25 studies on the books, but with project development financing hard to access in the current environment, maintaining 12-14 studies is the new norm.

The quantity may be less, however, there is upside in the quality of study now being demanded to prove projects can withstand the volatility of commodity prices, according to Jones.

"We tend to maintain a reasonably consistent number of projects in the execution phase, but in the last two years the value of the projects we are doing has increased and our completion of EPCM projects has increased. This is reflected in our revenue growth in FY2015 and now FY2016," Jones said.

GR reported a 90% increase in revenue to $216.9 million in the 12 months from FY2014

An oxide circuit at Resolute's Syama mine, Mali, was completed by GR earlier this year

to FY2015, with EBITDA of $20.3 million and cash flow from operations of $42.5 million.

Net cash was up 72% to $63.5 million, while shareholders revelled in fully franked dividends of 9.5c/share (7c/share in FY2014).

Keeping low overheads has been crucial and an area in which GR maintains its discipline to effectively manage its business.

However, the real key to the company's success is its determination to promote an EPC fixed, lump sum delivery model.

Across the board commodity prices remain depressed, making the functionality of a fixed price contract appealing to juniors and mid-tiers struggling to raise equity and debt funding in the market.

"Financiers [are] really wanting to lock in a price," Jones said. "They are very keen to understand they are going to pay 'X' dollars for a project and no more, so that plays more to an EPC delivery model as opposed to an EPCM. We have historically focused more on EPC delivery, so I think it gives us an edge in the current market.

"We tend to complete EPCM work on projects that may have a higher risk profile, so in some countries we would look at an EPCM delivery model opposed to EPC. We recently completed the oxide circuit for Resolute Mining Ltd in Mali, which was delivered on an EPCM model."

Work under way for Finders Resources Ltd at the Wetar copper project expansion, Indonesia, is being completed under an EPCM arrangement and includes a 25,000 tpa processing plant and associated infrastructure.

Its separate EPC and EPCM delivery lines allow GR to be nimble in the global contracting space, a characteristic enhanced by its willingness to work in most jurisdictions.

When it listed in 2011, GR focused on growing organically through geographical diversity. It has since won work in Mali, Cote d'Ivoire, Tanzania, Laos, Mexico, Argentina, Indonesia and the UK.

"There are some countries we would have to think about regarding risk before we accepted work, but generally there are no 'no-go' zones. We will look at projects as they come and assess them on their merits," Jones said.

"We are seeing in Australia financing is difficult for the juniors and it is the same in South America. We are looking at the Americas as a market for GR but it is not something that will happen overnight, it is a very slow process, knocking on doors

GR is conducting the Epanko graphite feasibility study. Project owner Kibaran will make part payment in shares

Britain's first new metals mine in over 40 years, Hemerdon, was brought online this year. GR designed, constructed and commissioned the 3 mtpa tungsten and tin processing plant

Funding has dried up for resources projects all over the world, making the contracting space extremely competitive

and obtaining work. You have to start at the bottom and work your way up," he said.

Breaking new ground is a challenge at this point in the cycle but with GR's experience and growing international reputation, the company is well placed.

Helping its cause on the world stage was successful commissioning of Wolf Minerals Ltd's Hemerdon tin-tungsten project in England's south-west, which largely contributed to FY2015 being GR's best ever on revenue.

The fixed term EPC contract was worth £75 million to GR which completed design, construction and commissioning of the 3 mtpa tungsten and tin processing plant plus associated infrastructure at Hemerdon.

"We had a good spread of contracts [in FY2015], obviously the main contract was the Hemerdon tungsten project for Wolf Minerals and that added quite a lot to our revenue stream, so that was quite important for us," Jones said.

As Britain's first new metal mine in over 40 years, Hemerdon has garnered widespread attention both domestically and on the international mining scene.

More than 200 people are expected to be employed at the mine over the next decade as production ramps up towards 5,000 tpa tungsten and 1,000 tpa tin.

Whether or not a mining renaissance in Britain stems from Hemerdon remains to be seen, however, the recent experience will surely have GR front of mind for any future projects on the island nation.

In the meantime, even as capital markets remain tight and development projects remain idle due to funding constraints, GR has many commitments locally to keep it occupied.

MZI Resources Ltd has locked in GR for EPC work at its Keysbrook mineral sands project, 70km from Perth, which is worth $54.6 million, while after completing the Andy Well project for Doray Minerals Ltd, the company was again engaged to work on the Deflector gold-copper project.

Two years in from the commissioning of Andy Well, Doray managing director Allan Kelly said the plant was running at a higher capacity than originally designed.

"They [GR] did a great job at Andy Well on a fixed price contract and after starting behind schedule they caught up and came in under budget. Having a fixed price contract takes out any of the unknowns from a market point of view and it is important there's no cost blowouts," Kelly said.

"The plant is the single biggest piece of the Deflector budget and because it is funded by debt [the fixed price contract] the banks are a bit more comfortable too."

Meanwhile, the big domestic fish landed by GR is the Nova nickel project.

Nova, in Western Australia's Fraser Range, has been one of Australia's most talked about projects in the last five years and is under construction. GR is undertaking design and construction of the mineral processing and paste fill plant.

GR was awarded the $114 million contract earlier this year and at the time Jones said: "Securing this contract ranks highly in the

GR will assess every project on its merits and there are few jurisdictions it won't consider entering

GR Engineering's recent and current contracts

Sirius Resources/Independence Group NL
Project: Nova nickel, Fraser Range, WA
Award date: June 2015
Status: Completion set for November 2016
Details: Nova ranks as one of GR's finest contract wins. The company will complete mineral processing plant and paste fill facilities, while also providing services for all non-process infrastructure associated with the project.

Western Areas Ltd
Project: Forrestania mill recovery enhancement project, Forrestania, WA
Award date: July 2015
Status: Pending
Details: GR has had a long association with Western Areas having completed the Cosmic Boy processing plant in 2009. Western Areas is yet to pull the trigger on the mill enhancement programme but when it does the contract will be worth $22 million.

Wolf Minerals Ltd
Project: Hemerdon tungsten-tin project, Plymouth, England
Award date: March 2013
Status: Completed September 2015
Details: GR was awarded the contract for a 3 mtpa tungsten and tin processing plant and associated infrastructure. Commissioning was completed in September and GR has handed the keys over to Wolf.

Finders Resources Ltd
Project: Wetar copper project, Wetar Island, Indonesia
Award Date: October 2014
Status: In progress
Details: Finder's Indonesian subsidiary PT Batutua Tembaga Raya engaged GR's EPCM services to refurbish and recommission the 18,000 tpa SX-EW plant formerly operated at Whim Creek in Western Australia. When completed the processing rate will be increased to 1.65 mtpa sulphide ore for production of 25,000 tpa LME A grade copper cathode.

Rio Tinto Ltd
Project: Paraburdoo moisture reduction project, Paraburdoo, WA
Status: Completed in April 2015
Details: GR delivered an innovative design solution with the flexibility to use new belt filters and existing dewatering screens to classify and dewater the fines iron ore. The EPC contract included all structural, mechanical, piping and electrical works for the installation of two 85 sqm horizontal vacuum belt filters to improve the dewatering of fines iron ore product.

MZI Resources Ltd
Project: Keysbrook mineral sands project, near Perth, WA
Award date: December 2014
Status: Completion set for December 2015
Details: A 4.5 mtpa wet concentrator plant to produce 119,000 tpa of HMC which will be processed further through the existing Doral mineral separation plant is being engineered, designed, procured and commissioned by GR. Annual production of 68,000t leucoxene and 28,000t zircon concentrate for export is being planned by MZI subsidiary Keysbrook Leucoxene Pty Ltd.

After successfully commissioning Andy Well, GR was again selected by Doray to build the Deflector gold-copper plant

company's record of achievements to date. The company is pleased to play an important role in the development of one of the more significant Australian base metal resource developments of recent times."

In July, GR's participation at Nova was increased with the contract award for all non-process infrastructure worth $12 million.

"It is a very competitive market so the client has the upper hand in the negotiation process," Jones said. "The work we are doing at the Nova nickel project for Independence was won in open tender against three other bidders. The market is much more competitive, but we are maintaining our margins. At the end of the day, suppliers that supply to us – mill suppliers, screen suppliers, pump suppliers – are all bidding keenly to us."

While the competition is hot, one of GR's strengths to handle the heat is involvement from a lot of major shareholders in the day-to-day running of the business which ensures precision management of projects and client satisfaction.

It is a mantra GR has carried on from the early days of JR Engineering (which GR was born from) in the mid-1980s.

In a modern era where professionals have chopped and changed roles at will, GR has been able to retain staff to enable it to continually meet project goals.

While many services companies continue staff cutbacks during one of the worst resources downturns in history, GR has added about 80 people to its roster since the start of the year, boosting its number of employees to approximately 250.

Commodity prices will dictate whether GR continues to grow or if it needs to apply the brakes.

"There is a lot of experience in the company and collectively we have worked through many cycles over a 30-year period, so I think we have evolved through experience to successfully work through any prevailing market," Jones said.

"It's not ideal, but when we are cycling with commodity prices as we do, that's the name of the game."

When the next boom in traditional commodities – gold, iron ore, base metals – will come is anybody's guess, but one thing's for sure; Jones won't be kept up at night waiting for it to happen.

Today's resources sector is much broader than gold and iron ore and equipped with wide-ranging technical experience, GR has expanded its credentials in the tech-driven space of graphite and rare earths.

Last year, GR and Tanzanian graphite hopeful Kibaran Resources Ltd entered an agreement whereby the former would conduct a feasibility study on the Epanko deposit and was willing to accept part payment of Kibaran shares for its services.

"We like Kibaran because it will be a small-ish producer on the world scale and it already has off-take agreements in place and a pipeline of projects, so it has some real potential and we are very supportive of that. With advances in technology commodities like lithium, graphite, rare earths are going to come into play more," Jones said.

Upstream Production Solutions contracts

Origin Energy Resources Ltd
Project: Surat Basin, south-west Queensland
Award date: February 2015
Status: Current
Details: GR's wholly owned oil and gas subsidiary won a $5 million,12-month contract to complete scheduled and unscheduled mechanical maintenance services for Origin Energy in Australia. The Master Services Agreement compliments the work already being carried out for the upstream operator of the Australia Pacific LNG project, Origin Energy.

Empire Oil Company Ltd
Project: Red Gully gas condensate facility, Perth Basin, WA
Award date: September 2015
Status: Current
Details: Since the Red Gully processing facility was commissioned in 2012, Upstream has operated and maintained it. The recent two-year contract award is for the provision of operations and maintenance services to the Red Gully gas condensate facility.

At the time of print, GR Engineering Services Ltd added another contract award to its stable, this time in Greece. Eldorado Gold Corp's subsidiary Hellas Gold selected GR for EPCM for Phase II work at the Olympias project on the Halkidiki Peninisula.

GR will design and construct a 385,000 tpa gold, lead, zinc concentrator at Olympias.

Engineering design work has started, with GR expected to deliver works under the contract by the end of next year. The work being carried out is worth about $7 million.

On Australian shores, GR has a number of projects keeping it busy

German banks are warming towards helping Kibaran with financing options over the $77 million Epanko project, adding weight to GR's decision to back the junior.

The Kibaran deal is not a one-off for GR, which will pursue equity positions in mining companies if propositions meet strict investment criteria.

Through Mutiny Gold, GR has a small shareholding in Doray, while the Nebo-Babel project in the Musgrave region of WA compelled the company to invest in Cassini Resources Ltd.

"We have a small pool of funds that the GR board has set aside to invest in companies that have solid projects and we intend to selectively invest. We believe our technical expertise and delivery model can add value to any project entering a financing phase and view our investment as a positive for all stakeholders," Jones said.

Investments won't be made lightly and will be a topic of conversation during GR's review into its business strategy.

Jones said the strategy for growth – geographical expansion and organic growth, plus M&A – set out upon listing on the ASX in 2011 won't change much.

While some services companies are facing dire situations due to the drop off in advancing projects, the appetite for M&A in the space hasn't been whet like many predicted and it remains hard to forecast if a surge in activity is on the horizon.

Nevertheless, GR delivered on its M&A plan when a deal was done to create an oil and gas subsidiary.

Upstream Production Solutions was formed in early 2014 and despite oil prices falling sharply since it has been a good addition for GR.

"We went into oil and gas to diversify the business and move away from the mining sector cycle, of course with the drop in the oil price that hasn't worked as well as we would have hoped," Jones said.

GR is bullish on the non-traditional sectors of graphite, lithium and rare earths

"That business is, however, going very well – meeting all our expectations with regard to revenue and return. It was a very good acquisition, GR is open to look at M&A but at this stage there is nothing really in the pipeline but we continue to be open to possibilities."

GR's willingness to pursue opportunities and create a variety of work for its people has been an important part of its culture.

"Over the years we have maintained a good work flow, so there has been plenty of work to keep our people busy. Everyone at GR is committed to the task of getting the best solution on every project and achieving the targets that we set and I think this collaborative effort is key to GR's success," Jones said.

"Within Australia our site works are completed with our own labour. That tends to stand us apart from our EPC competitors as everything from the process engineering, detailed engineering and drafting, project management and construction is all under one roof and controlled by one entity. [We offer] total accountability over the entire project cycle by one focused group."

– Mark Andrews