WHILE IT IS not unusual to see a local gobbled up by a multinational during a downturn, it is interesting to see the giant GE build its mining division on the back of such a (relatively) small manufacturer – GE’s 2011 earnings were $147bn, Industrea’s $357m. GE Mining chief executive, Geoff Knox explained the strategy to *AJM*: “We are not out to buy volume, we are out for smart transactions that allow us to leverage market technology.”

GE began its friendly takeover of the coal-focused Industrea in May. Closure of the deal was marked with a tour of what is now known as GE Industrea’s Thornton plant in the Hunter Valley in December 2012.

GE Industrea employs 700 people across a range of service facilities in NSW and Queensland and has a manufacturing facility in China. The purchase, along with the simultaneous acquisition of US underground vehicle manufacturer Fairchild, formed the building block of GE’s mining division.

Industrea’s products and services include underground directional drilling, a range of flameproof underground vehicles, diesel power generators, a mining services business called Industrea Mining Services and a mining technology division.

Industrea has a history of successful research and development, which includes advanced collision avoidance systems, remote asset monitoring and in-vehicle monitoring systems. GE says Industrea’s drill guidance technology has its oil and gas division licking its lips.

Investors will no doubt question the timing of the acquisition, which was announced at a time when significant value was yet to fall from the coal market.

Another manufacturer with an Aussie coal focus, Sandvik, recently announced 73 redundancies across its Australian operations, which it said were a “direct result of the downturn in the mining industry – in particular the coal market in Australia.”

Nevertheless, Knox puts a brave face on the Industrea deal. He said although Industrea was bought before the coal industry’s slide had bottomed out, the purchase remains sound.

“You have to be careful when you say the coal market is down. If you look at where we came in from 2000 and where we got to this year, we are going to go down in capital spend on inventory in 2013. But on the way down it is not tragic. There are still going to be quite serious volumes.”

Industrea reported some solid figures as the boom waned in FY2011: a 14% increase in revenue with a $51.5m net profit after tax. However, Industrea’s mining equipment revenue fell 35%, shedding $73.4m.

But an uptick in Chinese coal in the last quarter of FY2011 had the company boasting of 15 longwall roof support carrier sales to the tune of $22m.
We don’t see [the downturn] as a reason to change valuations [of Industrea]. Underground equipment, basically every five years it either has a major overhaul or needs to be replaced and you don’t do that for growth, you do that for standard production,“ Knox said.

“The guys in Industrea built a very smart platform that required regular replacement that produces great volume. This business is not proofed from the cycle, but it is certainly strong in the cycle.”

No doubt GE viewed Industrea’s gas management business as an enticing prospect, given the scope for growth in gas drainage and dewatering of new mines, both at home and abroad, especially in the Chinese coalfields.

Industrea recently released its own drill rig, the fruit of its research and development. It features advanced drill hardware and cutting edge drill guidance technology for increased efficiency and safety.

“We can leverage the business overseas with our existing markets. I think there is a huge opportunity to do that,” Knox said.

In mid-2011, Industrea spent $25.5m on AJ Lucas’ drilling business, Underground

In Seam Gas Services, with 89 drill rigs and around 45% share of the Australian market, to form GE Industrea’s gas management division.

In FY2011, Industrea sold $95m of gas drainage and directional drilling equipment into the market. Revenue grew 85% over the three years leading into 2011.

Industrea had three facilities in China, which GE Industrea plans to roll into one. The consolidated site will house Fairchild’s range.

The company will be hoping that the raft of new products released over the last year or so pays dividends. 2011/12 saw the release of Industrea’s first proprietary underground flameproof drill rig, a tier 3 mine cruiser and a dozer.

Knox said “The underground space is particularly attractive. There is a need for efficiency and effectiveness and working with Industrea, we can make the gear more efficient with [GE’s existing] electric drives inverter systems.

“The other thing is that we can sell this gear to anywhere in the world through our distribution channels that already exist. From the electronics side, the control side, we can add a lot more value.

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The sale was made to Armstrong Coal for the company’s new underground thermal coal mine at Lewis Creek, Kentucky.

Armstrong purchased 24 machines: four Caterpillar CM235 continuous miners supported with face haulers, roof bolters, scoops and feeder breakers.

Lewis Creek mines the 1.27m thick West Kentucky No. 9 Seam. Targeted sales of clean coal from the mine are 726,000tpa to 816,000tpa.

The sale represents Armstrong’s first purchase of Caterpillar underground equipment. According to Caterpillar Mining North American general manager, Phil Kelliher, this sale is an important progression for the former Bucyrus machines.

“The trust and confidence Armstrong has placed in us by buying this line of products is absolutely critical. This is the example that we want to build on with our customers.”

The new equipment is being put into service as it arrives, with the final delivery expected to take place in early 2013.

Caterpillar has high hopes for the CM235 continuous miner in Australia, which has the world’s second largest population of continuous miners operating.

Caterpillar milestone for Bucyrus underground fleet

Caterpillar has made its first sale of a full fleet of room and pillar mining equipment, completing the transition of the Bucyrus range to its new home in the Caterpillar stable.

“The mechanical side is relatively straightforward. You can make it a little more efficient, but from the electronic side there is a huge opportunity.”

When GE launched takeover proceedings in May 2012, Industrea had the option to sell its contracting division in a side deal. Profits for the Mt Isa-based contracting business rose 31% in FY2011 to $169.1m. Evidently a suitable buyer was not forthcoming, leaving GE to put a positive spin on the outlier within Industrea’s portfolio.

“Industrea Mining Services is a great little business… We like it, it is well positioned. Even though the market is coming off a bit it is well positioned. It has good, strong customer relations. It can’t proof against the cycle, but it can help protect on the downturn.”

Looking to the future, Knox explained Industrea was adding lean manufacturing processes to its facilities before the takeover, and GE Industrea “will enhance that.”

GE has ambitious growth plans for its mining division, planning to grow its revenue to $5bn within the “next few years”.

On this front, research and development will undoubtedly play a key role. GE invests 1% of its company-wide revenue into R&D annually.

Contact: www.ge.com/mining/