Secondary market for yellow goods in Australia

Mining and metals

Equipment utilization rates of yellow goods have fallen over the last 12 to 24 months, and the resulting surge of second-hand mobile plant finding its way into the market has severely reduced realizable values. Auctioneers and re-sellers of second-hand yellow goods (mobile plant predominantly used in the construction and mining sectors) have been reporting a reduction in values of up to 60%.

EY’s Capital Equipment Group has taken a deeper look at movements in the market for yellow goods to see whether the numbers support the anecdotal observations. The study looked at publicly available sales of a cross-section of yellow goods in the last six months and compared the values realized with sales of similar equipment between 6 to 12 months ago and 12 to 24 months ago. The results are compelling and confirm that the market has seen significant changes in supply and demand, resulting in a dramatic downward shift in values over that time.

We segmented our analysis into mining-specific and general purpose yellow goods. The graphs below show the number of units of each type of equipment sold at auction during three six-month timeframes between June 2011 and June 2013.

![Graph showing the number of units of general purpose and mining equipment sold at auction during three six-month timeframes between June 2011 and June 2013.]

Source: EY analysis based on data from IndustryResults.com.au

1. “Mining services, an EY perspective,” EY, June 2013.
The volume analysis for all types of equipment indicates that the market has seen significant changes on the supply side. Considerably more equipment was offered for sale in the second half of 2012, compared with the preceding 12 months and the following 6 months. This reflects the extent of surplus capacity in existing fleets and pressures on equipment owners to improve cash flows. In some cases, the equipment has come on to the market due to distressed sales, and in others due to equipment owners’ prudence in protecting their bottom lines.

Our value analysis used regression techniques, and it indicates that market values for mining-specific yellow goods have fallen by approximately 45% compared to prices realized 12–24 months ago.

Comparatively, values for general purpose mobile equipment have not been affected to the same extent, despite the surge in the volume of equipment coming on to the market. Our analysis indicates that values for general purpose mobile plant have fallen by approximately 13% for newer equipment, and as little as 6% for older equipment. When considering the broader Australian economy over a similar period, the fall in this sector of the market appears consistent with the wider economy.

Market for mobile mining equipment

![Graph showing realized value as a % of replacement cost for mobile mining equipment from June 2011 to June 2013.]

Source: EY analysis based on data from IndustryResults.com.au

Market for mobile construction equipment

![Graph showing realized value as a % of replacement cost for mobile construction equipment from June 2011 to June 2013.]

Source: EY analysis based on data from IndustryResults.com.au
As a result of reduced domestic demand for yellow goods, vendors will likely need to access global markets to move surplus assets. However, the high costs of relocating heavy equipment across international borders will further reduce values. Much of the affected equipment is located in remote areas and the distances over which equipment must be transported just to get it to a port of embarkation are significant. Larger items of equipment must be broken down to enable them to be transported safely. Costs of relocation that purchasers may have previously accepted to secure equipment are now straight deductions from the price that they are prepared to pay.

It is interesting that the rate at which equipment is coming on to the market has diminished over the last six months. However, this is still at a rate higher than that 12–24 months ago, indicating that oversupply is likely to continue for some time.

Equipment owners faced with a mismatch between contract terms and equipment lives are expected to increasingly reduce their in-house fleets. While the resultant increasing supply of surplus equipment and reduced demand will lead to further reductions in values, we believe these will be partially offset by the depreciating Australian dollar.

New yellow goods sales have plummeted, leading to forced layoffs by machinery dealers. In June 2013, Westrac, the leading Caterpillar equipment supplier in Australia, announced that 350 jobs would be cut in New South Wales and the Australian Capital Territory (ACT). Westrac management cited reduced demand for new equipment resulting from the downturn in the mining sector, leading to reduced investment in equipment.2

Lenders are getting increasingly nervous about financing secured by yellow goods. This is leading to higher lending costs, greater scrutiny of the cash flows that underpin the assets and higher hurdles for customers to overcome in order to secure financing or re-financing. This further impacts the market as potential equipment purchasers find that they are unable to secure bank funding on commercially acceptable terms.

However, the news is not all bad. It is possible that we may see the emergence of new equipment leasing businesses opportunistically establishing fleets from unutilized equipment and distressed assets. We also see opportunities for equipment leasing or repairs and maintenance specialist players to take advantage of this situation by:

• Creating a large-scale refurbishment business to cost-effectively refurbish fleets
• Picking up quality repairs and maintenance personnel in a quieter market
• Purchasing idle equipment, and pooling and reselling both locally and overseas
• Signing up agreements with major players to reduce overhaul costs
• Partnering with Chinese yellow goods and construction providers to refurbish their fleet


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EY’s Global Mining & Metals Center

With a volatile outlook for mining and metals, the global sector is focused on cost optimization and productivity improvement, while poised for value-based growth opportunities as they arise. The sector also faces the increased challenges of changing expectations in the maintenance of its social license to operate, skills shortages, effectively executing capital projects and meeting government revenue expectations.

EY’s Global Mining & Metals Center brings together a worldwide team of professionals to help you succeed — a team with deep technical experience in providing assurance, tax, transactions and advisory services to the mining and metals sector. The Center is where people and ideas come together to help mining and metals companies meet the issues of today and anticipate those of tomorrow. Ultimately it enables us to help you meet your goals and compete more effectively.

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