

THE FUTURE DIRECTION OF HDD

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All businesses must manage change and those in the HDD game are no exception. Moving into the next decade, contractor Maxibor sees several challenges and opportunities that will require a rethink of strategies to optimise outcomes for stakeholders, including providers and customers.

A good starting point in planning for the future is identifying and assessing the risks and opportunities in the business and broader sector.

Action plans can then be developed and implemented to mitigate the risks down to an acceptable level and to optimise the opportunities.

Some of the major challenges for horizontal directional drilling (HDD) providers include:

- NBN coming to an end
- Increased competition on small rig projects
- Sluggish economy
- Tightening credit from lenders
- Ageing workforce and plant
- Health, safety, environment and quality (HSEQ) compliance
- Lack of skilled drillers
- Local and social content of projects
- Tier 1 concentration
- Ability to optimise value of the business at exit time

Some key HDD opportunities include:

- HDD as part of climate change solutions
- HDD as part of cultural solutions
- Growing understanding of benefits of trenchless solutions
- Ageing water and sewer, rail and power infrastructure
- Skills development
- Growth sectors for new infrastructure, such as rail, gas, renewables, subdivisions, drought resistance
- Tier 1s reducing exposure to plant ownership
- Collaborative business models

The process to address these challenges is to work in a collaborative manner with key stakeholders across the HDD delivery chain. The HDD providers that have well developed relationship, respect and response with stakeholders will be best positioned to successfully address these challenges and optimise outcomes from opportunities and challenges.

NEARING COMPLETION

The National Broadband Network (NBN) construction chart (Figure 1) illustrates that most of the network is now complete. Work for smaller rigs, (less than 18,150 kg), will quickly diminish throughout 2019. A significant number of specialised HDD providers will struggle to replace this work in the next decade.

The loss of the higher margin rock work will be a particularly 'hard hit' to the sector. The end of the construction of the NBN will result in increased competition in the small rig segment. History tells us it will culminate in a rationalisation of smaller HDD providers, and a lot of specialised HDD plant on the market.

In this context, HDD providers need to be planning for their post NBN world, now, rather than later. If they don't, they may get left holding plant which they cannot sell and be burdened with legacy overheads too high for a reduced level of business priced at lower margins. As regards plant, advice from Tony Taylor of Blue Asset Advisory is worthwhile listening to.

"Those that fair best are businesses that have kept comprehensive service and enhancement records of their key plant items," he says.

"Evidence-based valuations of plant, whether for disposal, insurance or business sale purposes, will always provide higher value outcomes and more interest from buyers willing to pay for known quality."

Business realignment or exit strategies from the sector are best not left to the last minute as there is a chance the process will be taken out of your hands. Administrators and liquidators are not always friendly to owners as they are there to protect creditors; good strategic planning starts now rather than later.

Finding an equivalent volume of work to replace the once in a lifetime NBN will be a struggle for the small rig providers. New opportunities will mostly fall to providers with good performance records, strong

HSEQ systems and culture, and certified drilling operators and supervisors; however, the consistency and volume of the NBN construction will not be there.

Specialised HDD businesses will need to diversify into other activities, whether it be in the civil construction or other sectors. If not already in your plans, now might be the time to look for that next 'opportunity in business'.

There is increasing demand for providers in the medium rig market, classed as more 18,150–45,350 kg; however, price of entry is more than just the cost of the rigs. There are the added costs associated with pumps and cleaners, as well as drillers and crews with a different skill set.

Providers in this market segment also need to be able to cover added overhead costs for design, estimation, HSEQ, insurance, cash guarantees and funding. Risks are also higher as the degree of difficulty increases with bore length and size, more difficult ground conditions, design complexities, delays, contract conditions and so on.

The step up to maxi rig projects is even more difficult with only a select few having the resources and skills to participate at this level. Recent years have seen a rationalisation in this segment of the market with no new entrants on the horizon.

Moving into other specialised trenchless areas such as pipe ramming, auger boring and microtunnelling is similarly difficult. Expertise is the main inhibitor once you solve the funding for the specialised plant.

Civil construction businesses that have already diversified and have HDD as just one element of their business will be less impacted by the loss of NBN work; however, they will find it increasingly difficult to justify a separate HDD service.

They may be best placed by linking up with a specialised HDD provider to deliver that service. This will reduce the risk of underutilisation of both specialised HDD plant and drillers.

ECONOMY AND GROWTH

In a world with less economic growth and more uncertainty there will be an increasing dependence on government for infrastructure spend. Although government debt and deficit remain an issue, with both being a constraint on total spend. The government as a saviour should not always be taken for granted.

Rail and defence sectors look to be the prime beneficiaries of spend at a federal level. The inland rail, various level crossing replacement projects and the 121 defence sites around Australia all provide some growth opportunity for HDD.

These sectors require the highest standards of HSEQ compliance and other requirements of entry including design capability, local and social outcomes and in the case of certain rail bodies, very high insurances. Smaller and less mature HDD providers will find it difficult to participate in these sectors.

At a state and local government level the ageing water and sewer infrastructure assets will provide an ongoing need for trenchless solutions. The water and sewerage market has strong upside, particularly in older areas where significant asset maintenance backlogs

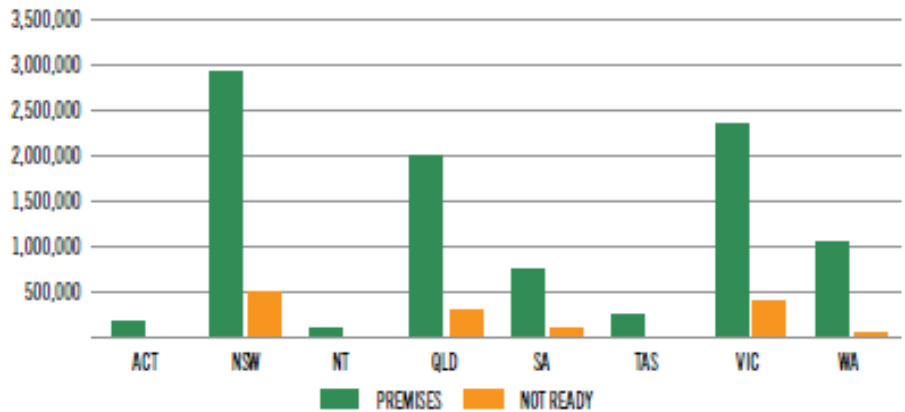


Figure 1: A graph illustrating the status of the construction of the NBN in each state.

need to be overcome. New subdivisions to support population growth will provide some local opportunities in outer metropolitan areas in the east. Both will create an opportunity for smaller rigs but competition will be fierce.

Private sector spend on gas, telecommunications and related ocean outfall projects requiring maxi rigs will continue to be available on an ad-hoc basis. The incumbents with design knowledge, maxi rigs and previous experience will continue to

provide significant barriers to entry to others.

The disposition of Tier 1s to sell or scale down their owned HDD plant in favour of use of subcontractors is an indication that the current delivery model accessing a few key providers will continue.

The increasing concentration of ownership of the Tier 1s, their need to meet social procurement criteria to win large projects and the use of the subcontractor delivery model creates an opportunity for HDD businesses, like Maxibor, with a full suite of rigs to forge



LEADING THE WAY

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- Expertise to advise at the right time in the project delivery cycle
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- Build a future we all look forward to

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closer links with the Tier 1s. Collaboration on the delivery of social outcomes on projects – such as local employment, Indigenous engagement, community benefit – are all added value areas where a tighter connect can be made. Drought resistance and food security projects which link water resources, farmland and mining infrastructure are receiving increased interest from investors and government. Early connection into these projects by HDD providers can create design and delivery opportunities using mid-range and maxi rigs.

Tightened lending criteria from banks and other financial institutions plus the impact of the Banking Royal Commission on finance brokers will all make it more difficult to obtain funding in the civil construction sector. Lenders seeing reduced levels of revenue, lower margins, difficult market for plant sales and a smaller pipeline of projects will 'model' those HDD providers without strong equity in their business out of the game. HDD businesses need to build a confident relationship with their lenders. Now is the time to negotiate your financing arrangements rather than wait till the end of

2019 when the future picture may be less attractive. One of the major growth constraints for HDD providers has been access to quality drilling staff. Often it is the owner-operator who has all the HDD brains; however, this select group is ageing and becoming lost to the sector.

As an industry and as a business, there is a growing need to build up skills through participation in training courses such as Cert III Trenchless Technology, Cert IV Drilling Operations and even Cert IV Frontline Management for Supervisors.

Infrastructure asset owners and principal contractors are increasingly requiring these levels of qualification. Providers who can demonstrate evidence of consistent and relevant training programs will be much better placed to win business and will be much more productive over time.

To optimise the use of trenchless methods, the HDD sector needs to better educate infrastructure asset owners, principal

contractors and engineering design professionals on its benefits. Every opportunity needs to be taken to make project decision makers more comfortable and knowledgeable of the benefits of trenchless technology.

People of influence in wider areas such as infrastructure investors, environmental interest groups and the Indigenous community need to be better informed on the trenchless solutions which are available to help them better achieve their objectives. This education process will also help overcome past prejudices regarding use of trenchless solutions on projects.

Maxibor is more than willing to discuss the risks and opportunities in the HDD sector in order to get a better outcome for all stakeholders.

Anyone interested is most welcome to contact the Maxibor team through Business Development Manager David Turner, at david.turner@maxibor.com.au T

For more information visit www.maxibor.com.au