

Case study: HydroWorks

NZECO solution: Secure Export Sale / Access Trade Finance

NZECO product: General Contract Bond Guarantee

Sector: Manufacturing

NZECO Bond Guarantee helps turbine design company secure a contract in Australia

Ambitious Christchurch design company HydroWorks was poised for the big time.

The turbine design company had acquired long-time collaborator MACE Engineering and the board was committed to hiring experienced executives to lead the business through an ambitious growth phase. With MACE's precision manufacturing capabilities now in-house, HydroWorks could bid for complete design, manufacture, project management and refurbishment contracts.



Straight away, it appeared the expansion was paying off when HydroWorks secured an \$8.5 million contract to refurbish a hydroelectric plant at Somerset dam in Queensland. The client was the South East Queensland Bulk Water Supply Authority South East Queensland (known as Seqwater).

As is typical with this kind of contract, Seqwater would pay HydroWorks \$1.6 million in advance, so advance payment, performance and warranty bonds were required to ensure the money would be repaid if HydroWorks failed to deliver.

But HydroWorks' balance sheet was looking pretty thin after its costly expansion.

Chief executive Andrew Rodwell says: "We were a little design company doing \$2 million a year, with grand plans. We were forgoing short-term profitability in pursuit of long-term growth."

The bank was unable to issue the bonds without additional support. HydroWorks approached the New Zealand Export Credit Office (NZECO) to guarantee the bond, so its bank would then be comfortable to post it. NZECO business originator Tina Leung says that the team engaged closely with HydroWorks' management in order to fully understand their business before providing support.

"It was a real fact finding exercise, Leung says.

"It wasn't a case with an easy solution but we could see they had sound governance and the experience to deliver on the contract. There were very good, sound reasons why their

balance sheet looked the way it did – they’d made a conscious decision to expand to capture lucrative new contracts, and growth is costly.”

Rodwell says NZECO’s faith was well-placed and very much-needed.

“There were times when it would have been very easy for the NZECO to walk away, but they didn’t. They stuck with it,” Rodwell says.

NZECO provided a General Contract Bond guarantee of approximately \$2 million to Hydrowork’s bank which, when combined with HydroWorks’ shareholder support of \$600,000, enabled the bank to issue the bonds required to secure the contract.

Rodwell says NZECO’s backing was “transformational”.

“NZECO’s support was incredibly instrumental in enabling us to proceed and provide the service to Seqwater. And Seqwater has been the making of us - our defining project,” Rodwell says.

“The delivery of a project of this complexity, in another country, has earned us credibility in the market and we’ve now secured a major contract with Melbourne Water. Last year our turnover was \$4 million. This year it’s forecast to be \$11 million. Next year we’re looking at \$17 million. Seqwater was our step-change and NZECO’s backing made it possible.”

HydroWorks

NZECO contacts:

Tel: +64 04 917 6060

Email: nzeco@treasury.govt.nz

This document is available at www.nzeco.govt.nz