# Magontec Limited
# (ASX: MGL)

## 2016 Annual Results Presentation
## 27th February 2017

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# 2016 Highlights

## Financial

- Underlying Net Profit After Tax up $1.37m on the previous corresponding period (+$1.12m v -$0.25m)
- Strong EBIT margin improvement in PRC primary Mg alloy production and EU Mg alloy recycling
- Mg anode (CCP) volumes + 7% in 2016 and + 40% in last 2 years driving higher EBIT margins in PRC and EU
- Cash flow from underlying operations up 40% to $4.9m versus $3.5m in the previous corresponding period
- Net Debt to Equity down to 23%

## Operational

- Magontec Qinghai Magnesium Alloy Cast House now commissioned and ready for Start of Production

# 2016 Highlights – Financials/Profit Analysis

| AUD '000s | 31-Dec-16 | 31-Dec-15 | % Chg |
|---|---|---|---|
| EBITDA | $4,254 | $3,297 | 29% |
| Depreciation & amortisation | ($1,713) | ($1,811) | -5% |
| EBIT | $2,541 | $1,486 | 71% |
| Interest expense | ($1,100) | ($1,291) | -15% |
| EARNINGS BEFORE TAX | $1,440 | $195 | 639% |
| Income tax expense | ($821) | ($150) | 447% |
| PROFIT/(LOSS) - AFTER TAX | $620 | $45 | 1283% |
| NPAT EX UNREALISED FX | $1,118 | ($248) | NA |

- Underlying Net Profit After Tax up $1.37m on pcp
- Net Debt down by $2m reducing interest costs although likely to rise in 2017 when Qinghai comes on stream
- Including recovery of tax losses from 2015 brings tax paid to $85k

# 2016 Highlights – Financials/GP

| AUD '000s | 31-Dec-16 | 31-Dec-15 | % Chg |
|---|---|---|---|
| Sale of goods | $128,096 | $139,758 | -8% |
| Cost of sales | ($113,670) | ($126,824) | -10% |
| Gross Profit | $14,426 | $12,934 | 12% |
| Gross margin (%) | 11.3% | 9.3% | 22% |

GP Margins driven by:

– Improved Mg alloy recycling manufacturing efficiencies in Germany and Romania (Romanian volumes +41%)

– On-going declines in primary Mg alloy conversion costs

# 2016 Highlights – Financials/G&A

| AUD '000s | 31-Dec-16 | 31-Dec-15 | % Chg |
|---|---|---|---|
| Other income | $844 | $908 | -7% |
| Impairment | ($303) | ($881) | -66% |
| Travel accommodation and meals | ($682) | ($697) | -2% |
| R&D | ($418) | ($301) | 39% |
| Promotional activity | ($67) | ($45) | 47% |
| Information technology | ($332) | ($340) | -2% |
| Personnel | ($6,750) | ($6,589) | 2% |
| Office expenses | ($333) | ($282) | 18% |
| Corporate & other | ($3,226) | ($3,493) | -8% |

Overall G&A costs flat

- R&D costs include new programs in China and EU + on-going patent and R&D program costs in Australia
- Other Income includes R&D subsidies from research partner companies

# 2016 Highlights – Financials/FX effects

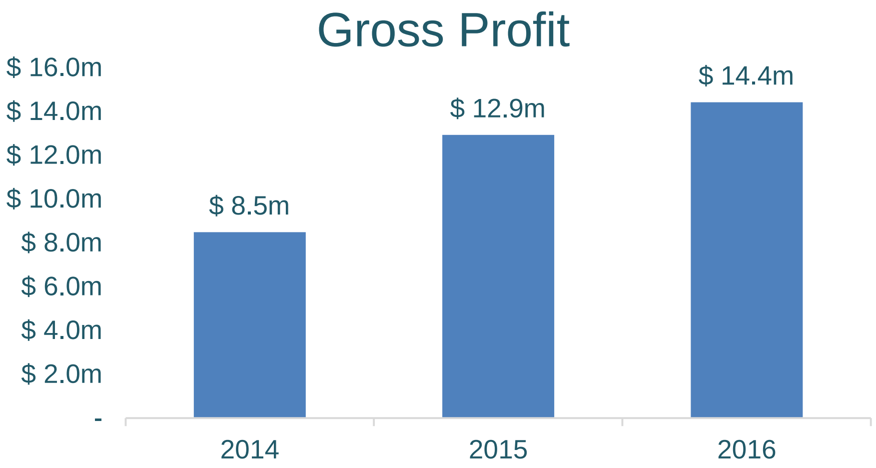
| AUD '000s | 31-Dec-16 | 31-Dec-15 | % Chg |
|---|---|---|---|
| FX gain/(loss) | ($143) | $771 | -119% |
| FX realised | $355 | $478 | -26% |
| FX unrealised | ($498) | $293 | -270% |

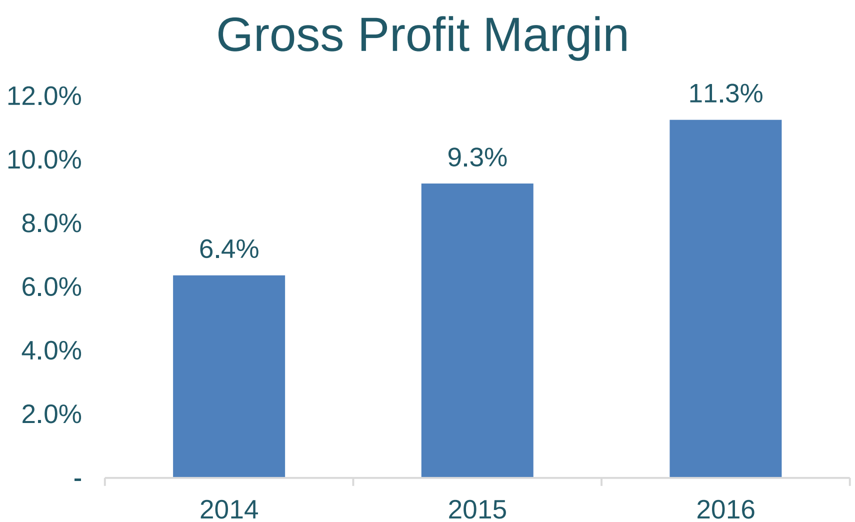
Rising A$ v RMB key contribution to negative unrealised FX effect on profitability

– Average RMB/A$ for 2016 = ¥4.95 (2015 = ¥4.68)

– Further strengthening of A$ since 1 Jan 2017

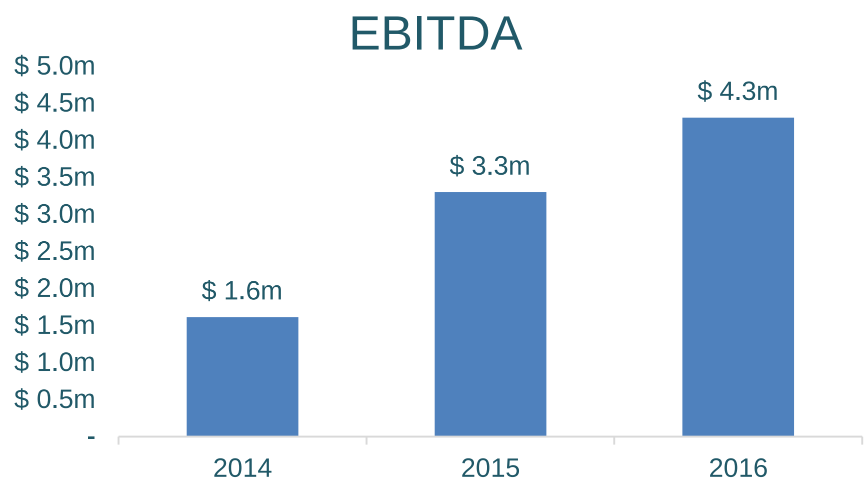
# 2016 Highlights

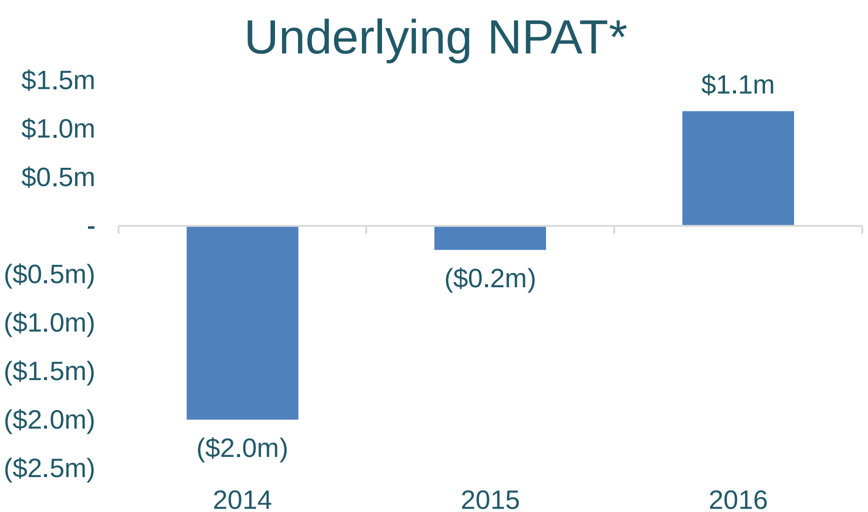



- 12% increase in Gross Profit and overall GP margin now 11.3%
- GP improvements driven by rising volumes and production efficiency gains
- New higher margin products expected to contribute further GP improvement in 2017

# 2016 Highlights



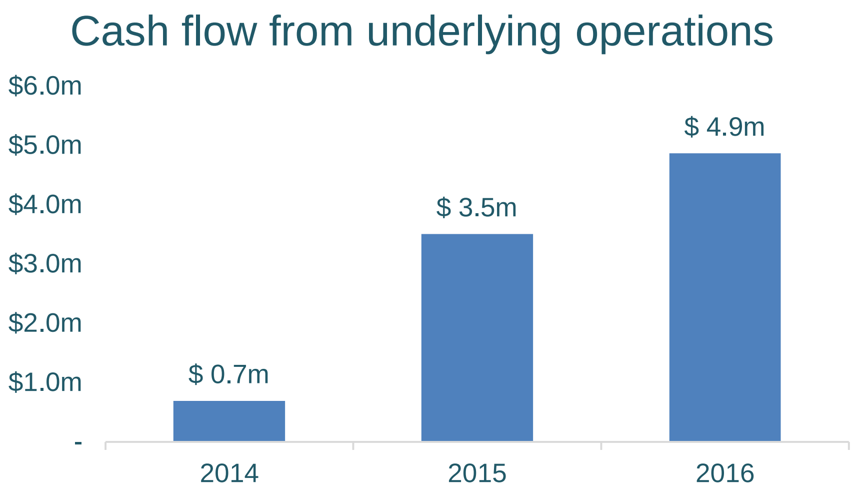



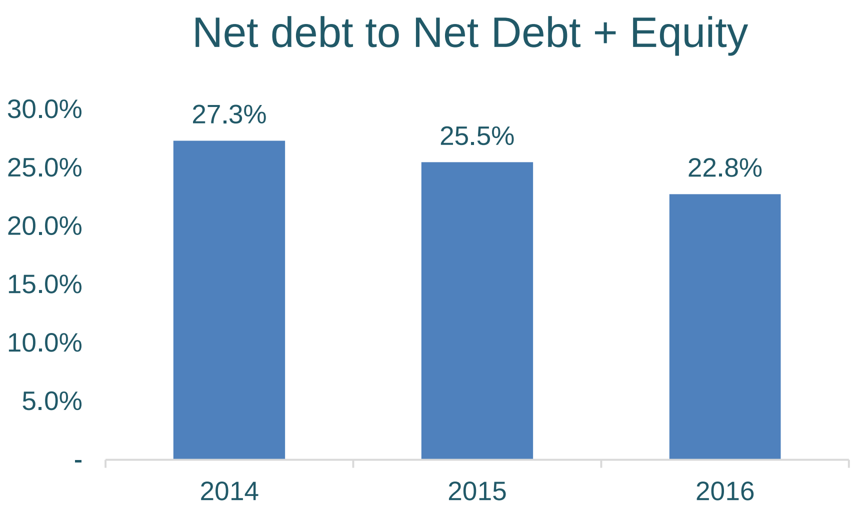

– 29% lift in EBITDA to $4.3 million reflecting strong improvement in earnings leverage on flat G&A costs

– Underlying NPAT up $1.37 million over pcp

*Underlying NPAT is defined as reported net profit after tax excluding unrealised FX gains and losses.

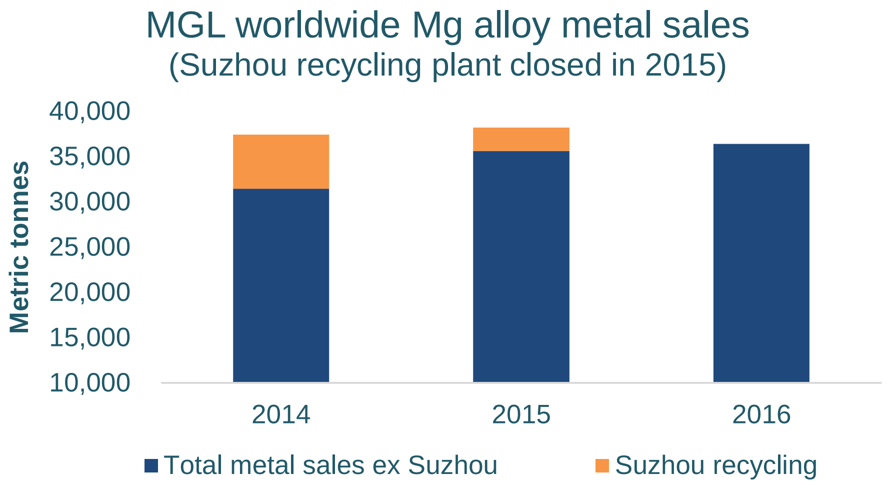
# 2016 Highlights



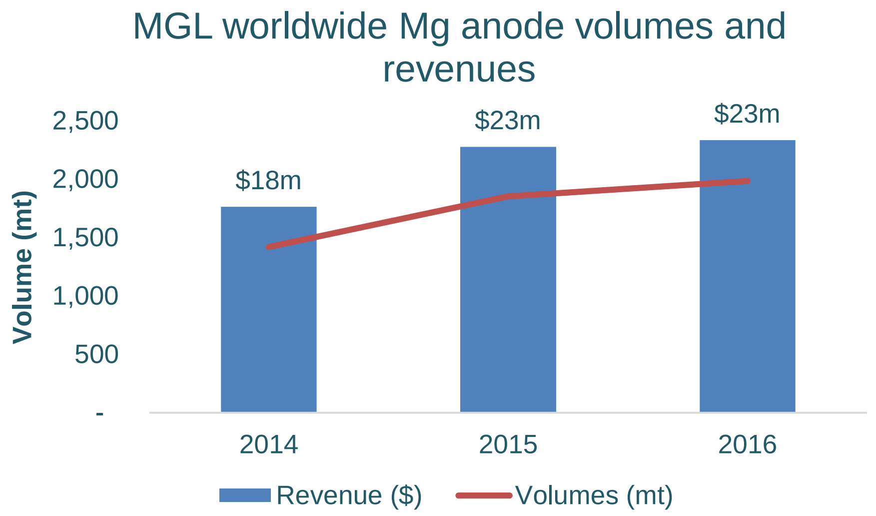



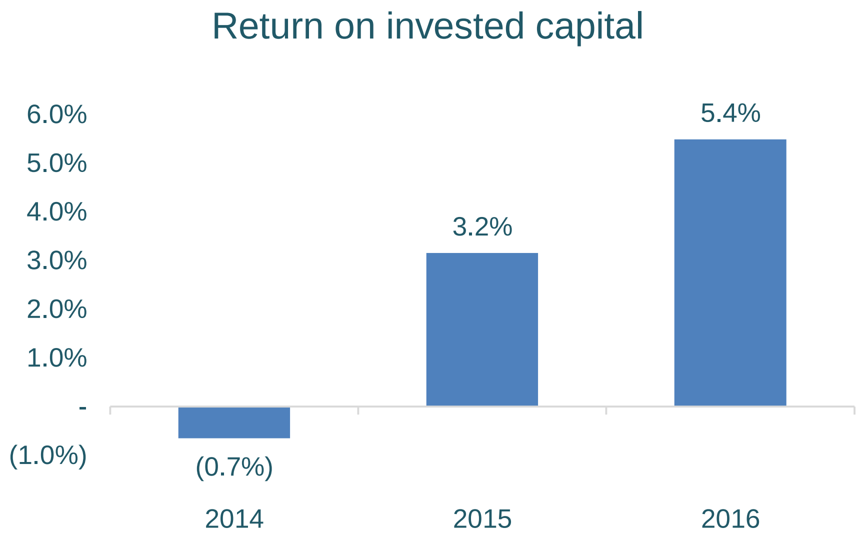

- Cash flow from underlying operations up 40% to $4.9m
- Capital expenditure requirements in 2017 expected to be ~$3m
- Rising cash flow and debt repayment drove lower net debt
- Net debt in 2016 fell $2m to $10m although likely to rise again in 2017 as Qinghai comes on stream given increased working capital requirements.

# 2016 Highlights




- Metal volumes steady overall although continued rising trend in EU recycling
- Mg anode volumes higher but revenues flat
- Return On Invested Capital up to 5.4%



# 2017 Outlook

- Start of Production at Qinghai remains some months away
- Impact of Qinghai metal sales likely to be material only after some months of production
- European recycling and PRC primary Mg alloy volumes remain robust
- Mg anode (CCP) volumes likely to benefit from additional sales and marketing coverage in N America
- Further manufacturing and process improvements in Mg alloys and Mg anodes expected to positively impact COGS in 2017

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