

## Strong cashflow takes net debt to zero

The key investment issues for Magontec are the trajectory of gross margins, and the restart of its molten magnesium supplier in Qinghai. While Magontec is a processor of magnesium, its gross margins show some correlation to the magnesium price. The metals business gross margins show typical scrap industry sensitivity to metal prices, and the Anodes segment gross margins are reflective of the strength of Magontec's supply chain. We are treating Q1 FY22 (Dec YE) as a peak quarter with gross margins for FY22 across both segments forecast to decline back to the average for FY21. A Qinghai restart continues to be expected in 2H FY22. The strength of the underlying earnings has prompted the company to announce its intention to pay a maiden interim dividend (0.6 cps) in August this year. Our FY22e and FY23 EBITDA forecasts have increased 190% and 36% respectively as earnings peak, while our valuation has increased 23% to A\$0.64.

## Anodes – strong steady volume growth

The anodes business continues to demonstrate strong steady volume growth, growing 13.7% in Q1 compared to 18% in FY21. We forecast volumes to continue to show double digit growth supported by Magontec's expansion into US – where it now holds a 20% share of the market. COVID related shutdowns of Magontec's Xian factory in early January were more than offset by growth momentum in European anode volumes as Magontec continues to leverage the supply security of its co-located recycling and anode factory in Romania.

## Metals

We forecast FY22 gross profit of the Metals division to be 2.5x FY21 with the strength of the gross margins more than offsetting volume weakness. A major driver of the strong gross margins is the inventory effect that is caused by rising magnesium prices. One would also expect to see higher volumes as the higher magnesium prices attract additional volumes of scrap magnesium that may otherwise be uneconomic to collect. That wasn't obvious in the 1Q result with volumes down 24% but was more than offset by the strong gross margins.

## Valuation

We continue to value the business using a sum-of-the-parts methodology. This reflects the earnings contribution from the Anodes business, the strategic value of the recycling business and a risk adjusted earnings-based valuation of the Qinghai plant. From A\$12m of net debt at the end of 2020, we forecast the Group to have no net debt at 31 December this year. While earnings have increased sharply, we are forecasting these to subside in coming periods. Combined with comparable company earnings multiples falling to 1/3 of what we previously used, our valuation increases by only 23% to A\$0.64. Refer to page 7 for an assessment of the risks to our valuation.



Founded in 1953, MGL's operations involve the manufacture of magnesium anodes for corrosion protection in water heaters, and manufacture and recycling of magnesium alloys that are sold into the global auto industry. The Company has manufacturing facilities in Europe and China and sales in those regions, as well as the US. Its primary alloy production facility in Qinghai, China is operating at a loss, awaiting the restart of its magnesium supplier. Once restarted, MGL will be one of the few suppliers of low-CO2 magnesium alloys.

<http://magontec.com/>

Stock	MGL.ASX
Price	A\$0.36
Market cap	28m
Valuation	A\$0.64 (prev. A\$0.53)

### Valuation estimates (per share)

Anodes	A\$0.40
Recycling	A\$0.13
MGL Qinghai	A\$0.12

### Next steps

Jul 2022: 2Q quarterly cash flow

2H FY22: Restart of magnesium supply to its alloy production facility in China

### MGL Share Price (A\$)



Source: FactSet

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Figure 1 – Financial Summary

Magontec Limited (MGL-AU)

Year End 31 Dec		2020A	2021A	2022E	2023E	2024E	Stock information							
Core PE	x	nm	6.5x	1.9x	2.9x	3.3x	Share Price	\$						0.36
EV/EBIT	x	27.8x	3.5x	1.3x	1.8x	1.6x	Market capitalisation	\$m						27.6
<b>EV/EBITDA</b>	<b>x</b>	<b>8.7x</b>	<b>2.7x</b>	<b>1.1x</b>	<b>1.5x</b>	<b>1.3x</b>	<b>Valuation</b>	<b>\$</b>						<b>0.64</b>
Div yield	%	0.0%	3.3%	3.6%	3.9%	4.2%	Shares on issue (Basic)	m						76.7
FCF Yield	%	1.0%	17.9%	56.6%	38.7%	33.8%	Shares on issue (diluted) (m)	m						82.1

Profit & Loss Statement	\$m	2020A	2021A	2022E	2023E	2024E	1H FY19	2H FY19	1H FY20	2H FY20	1H FY21	2H FY21
<b>Revenue</b>		<b>95.1</b>	<b>115.2</b>	<b>121.9</b>	<b>168.3</b>	<b>160.0</b>	<b>67.3</b>	<b>63.4</b>	<b>46.0</b>	<b>49.1</b>	<b>50.9</b>	<b>64.3</b>
Change pcp	%		21.1%	5.8%	38.1%	-4.9%	0.0%	-3.0%	-31.6%	-22.5%	10.6%	31.0%
<b>EBITDA</b>		<b>4.5</b>	<b>12.8</b>	<b>24.5</b>	<b>17.7</b>	<b>15.8</b>	<b>2.6</b>	<b>0.1</b>	<b>1.9</b>	<b>2.6</b>	<b>3.4</b>	<b>9.4</b>
margin	%	4.8%	11.1%	20.1%	10.5%	9.8%	3.8%	0.2%	4.2%	5.3%	6.6%	14.6%
<b>EBIT</b>		<b>1.4</b>	<b>10.0</b>	<b>21.6</b>	<b>14.7</b>	<b>12.8</b>						
margin	%	1.5%	8.7%	17.7%	8.7%	8.0%						
Net interest expense		-0.6	-0.5	-0.4	-0.4	-0.4						
<b>Profit Before Tax</b>		<b>0.8</b>	<b>9.4</b>	<b>21.2</b>	<b>14.3</b>	<b>12.3</b>						
Tax and adjustments		-1.1	-5.0	-5.9	-4.0	-3.5						
<b>NPAT (underlying)</b>		<b>-0.3</b>	<b>4.4</b>	<b>15.3</b>	<b>10.3</b>	<b>8.9</b>						
Significant, discontinued et.al		-0.4	0.6	0.0	0.0	0.0						
NPAT (reported)		-0.7	5.0	15.3	10.3	8.9						

Per Share Data		2020A	2021A	2022E	2023E	2024E	Performance ratios						
Ave. diluted shares outstanding	m	76	79	82	82	82	ROE (%)	2021A	2022E	2023E	2024E		
<b>Underlying EPS</b>	<b>cps</b>	<b>-0.4</b>	<b>5.6</b>	<b>18.6</b>	<b>12.5</b>	<b>10.8</b>	ROIC (%)	19.1%	46.0%	30.4%	29.5%		
growth pcp	%		nm	234%	-33%	-13%	Net debt/(Net debt + Eq)	16%	0%	-5%	-21%		
Reported EPS	cps	-0.9	6.3	18.6	12.5	10.8	Interest cover (EBITDA)	24.4x	69.8x	40.1x	35.8x		
growth pcp	%		nm	195%	-33%	-13%	Capex/Depreciation	34%	36%	36%	36%		
DPS	cps	0.0	0.0	1.2	1.3	1.4	Days Working Capital	87	87	70	70		
Payout (on underlying)	%	0%	0%	6%	10%	13%							

Balance sheet	\$m	2020A	2021A	2022E	2023E	2024E	Segments				
Cash & Deposits		5	5	12	13	18	<b>Revenue</b>				
Receivables		22	21	23	25	24	Anodes	43.1	47.1	50.0	52.3
Inventory		22	24	25	32	31	Metals	72.1	74.8	118.3	107.7
PP&E (incl right of use assets)		19	18	16	14	12	<b>Total Revenue</b>	<b>115.2</b>	<b>121.9</b>	<b>168.3</b>	<b>160.0</b>
Intangibles		3	3	3	3	3	<b>Gross Profit</b>				
Other Assets		3	12	3	3	3	Anodes	13.6	19.6	14.3	14.0
<b>Total Assets</b>		<b>75</b>	<b>83</b>	<b>81</b>	<b>91</b>	<b>91</b>	Metals	5.6	13.8	12.2	10.7
Payables		13	18	19	25	24	<b>Total Gross Profit</b>	<b>19.2</b>	<b>33.4</b>	<b>26.6</b>	<b>24.7</b>
Borrowings		17	12	12	12	12	<b>Gross Profit margin</b>				
Provisions / other (incl. Lease Liab.)		17	17	17	17	17	Anodes	31.6%	41.7%	28.6%	26.7%
<b>Total Liabilities</b>		<b>46</b>	<b>46</b>	<b>47</b>	<b>54</b>	<b>53</b>	Metals	7.8%	18.5%	10.4%	9.9%
<b>Shareholders' Funds</b>		<b>29</b>	<b>36</b>	<b>34</b>	<b>37</b>	<b>38</b>	<b>Avg Segment margin</b>	<b>16.7%</b>	<b>27.4%</b>	<b>15.8%</b>	<b>15.4%</b>
<b>Net Debt</b>		<b>12</b>	<b>7</b>	<b>0</b>	<b>-2</b>	<b>-7</b>	Overheads	-6.4	-8.9	-8.9	-8.9

Cashflow statement	\$m	2020A	2021A	2022E	2023E	2024E	Share price and volume				
EBITDA		4.5	12.8	24.5	17.7	15.8					
Net interest		-0.6	-0.5	-0.4	-0.4	-0.4	<p>Volume (Thousands)</p> <p>Price (AUD)</p> <p>Source: FactSet Prices</p>				
Tax paid		-0.5	-1.7	-5.9	-4.0	-3.5					
Working capital movements		1.4	-3.6	-1.6	-3.2	1.6					
Other		-0.3	-1.1	0.0	0.0	0.0					
<b>Operating CF</b>		<b>4.5</b>	<b>5.8</b>	<b>16.7</b>	<b>10.0</b>	<b>13.4</b>					
Capital expenditure		-0.7	-0.9	-1.0	-1.0	-1.0					
Asset sales		0.0	0.0	0.0	0.0	0.0					
Acquisitions		0.0	0.0	0.0	0.0	0.0					
Other		-0.4	0.0	0.0	0.0	0.0					
<b>Investing CF</b>		<b>-1.1</b>	<b>-0.8</b>	<b>-1.0</b>	<b>-1.0</b>	<b>-1.0</b>					
Net borrowings		-2.8	-5.3	0.0	0.0	0.0					
Dividends paid		0.0	0.0	-0.9	-1.0	-1.1					
New share issues		0.0	0.0	0.0	0.0	0.0					
<b>Financing CF</b>		<b>-2.8</b>	<b>-5.7</b>	<b>-0.9</b>	<b>-1.0</b>	<b>-1.1</b>					
<b>Net change in cash</b>		<b>0.7</b>	<b>-0.7</b>	<b>14.7</b>	<b>8.0</b>	<b>11.4</b>					

Company description						
Founded in 1953, MGL's operations involve the manufacture of magnesium anodes for corrosion protection in water heaters, and manufacture and recycling of magnesium alloys that are sold predominantly into the auto industry. The Company has manufacturing facilities in Europe and China. It has sales in those regions, as well as the US. Its primary alloy production facility in Qinghai, China is operating at a loss, awaiting the restart of its magnesium supplier. Once this supply has restarted, MGL will be one of the few suppliers of low-CO2 magnesium alloys.						

Note: accounts are post-AASB 16; Right of use assets = ~3% of PP&amp;E

Source: Company, MST Access

## Investment thesis

MGL operates three magnesium processing businesses with processing plants based in China and Europe. The Cathodic Corrosion Protection (Anodes) segment produces anodes for residential and commercial water heaters in China and Europe which are sold to original equipment manufacturers (OEMs) in China, Europe and the US. The Metals segment has two elements: a magnesium alloy Recycling business in Europe whose customers are motor vehicle manufacturers and Tier 1 suppliers; and a magnesium alloy production business in Qinghai, China sited next to a magnesium plant (QSLM) from which it will receive molten magnesium once this plant restarts. This plant halted production in late 2019, and it is expected to restart supplying molten magnesium to MGL's Qinghai facility in 2022.

From a valuation perspective, we consider MGL in three parts: Anodes, Recycling and Qinghai.

### Anodes and Recycling – aggregate value underpins the current share price

The Anodes business produces traditional magnesium anodes and electronic anodes that are used in water heaters to prevent corrosion. Revenue and earnings show solid stable growth over the past 5 years with MGL having high market share in what is a niche sector. This is a stand-alone business and we have therefore valued it separately on an EV/EBITDA basis using the average multiple of comparable companies discounted by 30%.

The Recycling business does not report separately, but its high market share as an important supplier to the European and North American markets gives it strategic value. We estimate its value based on the price achieved in 2019 on a capacity based multiple for a smaller but similar business.

### Qinghai – serious upside but out of MGL's control

MGL's Qinghai magnesium alloy cast house was designed to be supplied molten magnesium by Qinghai Salt Lake Magnesium Co. Ltd (QSLM). The business is currently loss-making as MGL is sourcing a nominal amount of high cost magnesium to ensure at least some of its customers continued to get supplied. QSLM has announced that it will be restarting operations in 2022 with ramp up expected over subsequent months.

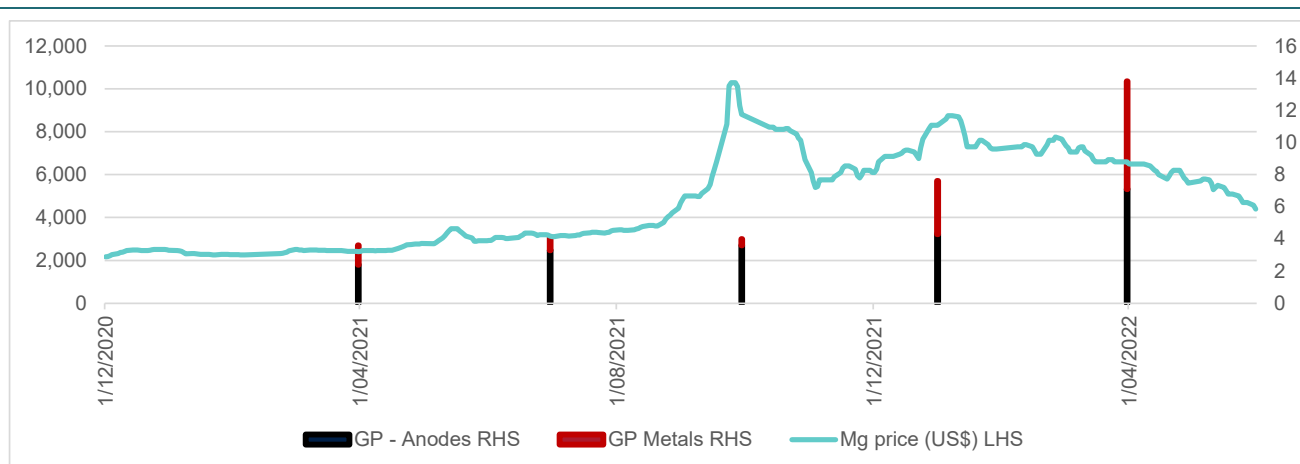
Qinghai is the source of substantial upside but is wholly dependent on the supply of molten magnesium from QSLM. Should MGL's Qinghai plant achieve 75% capacity utilisation (based on product from QSLM), this would add a further A\$0.90 per share to our valuation.

We are not aware of the details of the supply and access contract between QSLM and MGL and the potential scenarios should QSLM not meet its contractual obligations to supply magnesium metal to MGL Qinghai's alloy production facility. We note that QSLM has a 29% stake in MGL, but we are not aware of a link between that and QSLM's agreements with MGL.

## Magnesium price

While Magontec is a processor of magnesium (rather than a primary producer), both of its segments remain linked to the magnesium price.

Figure 2 – Magnesium price (US\$ / t) and segment gross profit (GP) (A\$m)



Source: Company, MST Access

MST Model \ Mg Price V3

We break down the earnings by segment, and then update our forecasts in the following section.

## Forecasts and valuation

Our forecasts rely on making estimates of volumes, prices and margins. As shown in the last few quarters, these can vary significantly. In the Anodes business, the earnings have risen sharply in the latest quarter driven mostly by strong gross margins. As a processor of magnesium, one would not normally expect to observe margins to increase sharply as the magnesium price increases. We attribute the sharp increase to Magontec’s control over its supply chain in a difficult environment.

In the metals business, we saw volumes decline from 5500 tonnes to 4175 tonnes (a decline of nearly 25%). However, gross margins rose sharply reflecting the nature of the recycling business where rising raw material prices lead to strong margin improvement.

For both businesses, we expect earnings to subside as the magnesium price decreases. However, this is somewhat offset by the ongoing volume growth (12% – 15%) in the Anodes segment and a small contribution from Qinghai in FY23.

Figure 3 – Group forecasts

Mg Price (US\$ / t) and Gross Profit (A\$m)		FY 19	FY 20	FY 21	FY 22e	FY 23e	FY 24e
Mg Price	US\$ / t	2289	1952	4247	4500	3500	3000
<b>Anodes</b>							
Volume (Mg Anodes only)	t	2285	2795	3295	3789	4243	4753
... growth	%		22%	18%	15%	12%	12%
Revenue	A\$m	31	31	43	47	50	52
<b>Gross Profit</b>	<b>A\$m</b>	<b>7.9</b>	<b>8.2</b>	<b>13.6</b>	<b>19.6</b>	<b>14.3</b>	<b>14.0</b>
... margin		26%	26%	32%	42%	29%	27%
<b>Metals</b>							
Volumes (Qinghai from FY23)	t	9862	5108	5664	4248	10000	16000
... growth	%		-48%	11%	-25%	135%	60%
Revenue	A\$m	100	64	72	75	118	108
<b>Gross Profit</b>	<b>A\$m</b>	<b>5.2</b>	<b>4.0</b>	<b>5.6</b>	<b>13.8</b>	<b>12.2</b>	<b>10.7</b>
... margin	%	5%	6%	8%	18%	10%	10%
<b>TOTAL GROSS PROFIT</b>	<b>A\$m</b>	<b>13.1</b>	<b>12.2</b>	<b>19.2</b>	<b>33.4</b>	<b>26.6</b>	<b>24.7</b>
Overheads	A\$m	-10.4	-7.7	-6.4	-8.9	-8.9	-8.9
<b>EBITDA</b>	<b>A\$m</b>	<b>2.7</b>	<b>4.5</b>	<b>12.8</b>	<b>24.5</b>	<b>17.7</b>	<b>15.8</b>

Source: Company, MST Access

We have calculated our FY22e gross profit estimates after considering quarterly results for the past five quarters. For both the Anodes division and the Metals division, we have estimated the last two quarters of FY22 (Dec YE) to be the average quarterly gross profit of FY21. For the 2Q, we have taken the mid-points between Q1 and Q3.

Figure 4 – Quarterly divisional earnings – FY21 and forecast FY22

ANODES		1Q21A	2Q21A	3Q21A	4Q21A	1Q22A	2Q22E	3Q22E	4Q22E
Volumes	tonnes	775	880	740	925	880			
Revenue (est)	A\$m	8.3	9.7	10.0	13.9	16.9			
Gross Profit	A\$m	2.4	3.3	3.6	4.3	7.1	5.3	3.4	3.4
Gross Margin	%	29.0%	34.0%	36.0%	31.0%	42.0%			
<b>Full year Gross Profit</b>	<b>A\$m</b>				13.6				19.2
<b>METALS</b>									
Volumes	tonnes	5500	5300	4575	4600	4175			
Revenue (est)	A\$m	17.6	12.9	17.8	23.1	34.2			
Gross Profit	A\$m	1.2	0.8	0.4	3.3	6.7	4.1	1.4	1.4
Gross Margin	%	6.8%	6.2%	2.3%	14.3%	19.6%			
<b>Full year Gross Profit</b>	<b>A\$m</b>				5.7				13.6

Source: Company, MST Access

We have summarised the changes to our forecasts in the following table.

Figure 5 – Earnings changes

(A\$m, Dec y/e)	FY22e			FY23e		
	Previous	Current	% Chg	Previous	Current	% Chg
<b>Revenue</b>						
Anodes (CCP)	43.5	47.1	8%	46.0	53.0	15%
Metals	76.2	74.8	-2%	88.6	118.3	34%
<b>TOTAL</b>	<b>119.7</b>	<b>121.9</b>	<b>2%</b>	<b>134.6</b>	<b>171.3</b>	<b>27%</b>
<b>Gross Profit</b>						
Anodes (CCP)	11.8	19.6	66%	13.2	15.2	15%
Metals	5.4	13.8	156%	8.9	12.2	38%
<b>TOTAL</b>	<b>17.2</b>	<b>33.4</b>	<b>94%</b>	<b>22.1</b>	<b>27.4</b>	<b>24%</b>
<b>Gross Profit Margin</b>						
Anodes (CCP)	27.1%	41.7%	1459 bps	28.7%	28.6%	-9 bps
Metals	7.1%	18.5%	1137 bps	10.0%	10.4%	31 bps
<b>TOTAL</b>	<b>14.4%</b>	<b>27.4%</b>	<b>1307 bps</b>	<b>16.4%</b>	<b>16.0%</b>	<b>-42 bps</b>
Overheads	-8.9	-9.5	6%	-8.9	-9.5	6%
<b>EBITDA</b>	<b>8.3</b>	<b>24.0</b>	<b>189%</b>	<b>13.2</b>	<b>18.0</b>	<b>36%</b>
Margin	6.9%	19.7%	1275 bps	9.8%	10.5%	68 bps
NPAT underlying	3.5	15.3	336%	7.1	10.9	53%
<b>Earnings per Share (A\$ cents)</b>	<b>4.3</b>	<b>19.3</b>	<b>348%</b>	<b>8.6</b>	<b>13.7</b>	<b>59%</b>
Dividends per Share (A\$ cents)	0.0	1.2	nm	0.0	1.3	nm

Source: Company, MST Access

## Valuation

We continue to use a sum of the parts valuation methodology for the Group. This consists of capitalising earnings from the Anodes business using an EV/EBITDA multiple derived from a list of comparable companies which was then discounted by 30%. We use the same valuation of the recycling business (part of Metals division) used in our initiating coverage report which was based on the sale of a magnesium recycling company similar to Magontec's European recycling business. We use a heavily discounted valuation estimate for Qinghai and estimate its value based on it operating at 28% capacity utilisation; estimate EBITDA is capitalised at 8.4x.

Figure 6 – MGL Sum of the parts valuation

Business	Valuation methodology	EV (\$m)	Net Debt (\$m)	Equity val. (\$m)	per share (\$)
Anodes	EV / EBITDA multiple (disc comps)	31.3	0.0	31.3	\$0.38
Recycling	Capacity multiple (recent txn)	11.0		11.0	\$0.13
<b>Total</b>	<b>(fully operating businesses)</b>	<b>42.3</b>	<b>0.0</b>	<b>42.3</b>	<b>\$0.52</b>
Qinghai	EV / EBITDA at 28% capacity util.	10.0		10.0	\$0.12
<b>TOTAL</b>		<b>52.3</b>	<b>0.0</b>	<b>52.3</b>	<b>\$0.64</b>

Source: Company, MST Access

Our valuation of the Anodes business is based on the capitalisation of FY22 earnings by the median multiple of a range of metal processing companies which we discount by a further 30%. Note that the initiation coverage used the FY20 multiples which gave a median multiple of 12x. We have further refined our comparable company data collection and now use a forecast FY22 median multiple which has fallen from 12x to 4x - likely reflecting the strong earnings performance which we expect has been much stronger than the share price appreciation (reflecting expectations of weakening earnings) for the stocks in this list of comparable companies.

Figure 7 – Comparable companies

Valuation		Price (AUD)	MCAP (AUD)	EV (AUD)	EBITDA Margin		EV / EBITDA		Price / Earnings		Net Debt / EBITDA	
					2021	2022	2021	2022	2021	2022	2021	2022
SGM-AU	Sims	16.03	3,118	3,390	9.8%	10.6%	5.8x	3.5x	11.5x	5.7x	0.0x	-0.1x
UMI-BE	Umicore	39.32	14,537	15,817	31.6%	27.4%	8.4x	9.2x	14.2x	17.0x	0.8x	1.0x
600459-CN	Sino-Platinum Metals	18.11	2,296	2,975	2.1%	2.3%	18.6x	15.1x	27.9x	19.1x	-	-
DBG-FR	Derichebourg	6.46	1,545	2,483	10.7%	9.5%	4.3x	3.6x	5.9x	5.3x	0.5x	1.2x
SCHN-US	Schnitzer Steel Inds	37.18	1,481	1,999	10.5%	10.1%	4.9x	4.0x	6.1x	5.3x	0.2x	0.4x
7456-JP	Matsuda Sangyo Co., Ltd.	1981.00	613	610	-	-	-	-	5.4x	5.9x	-	-
ERA-FR	Eramet	113.90	4,914	6,852	26.5%	32.9%	4.3x	2.6x	10.9x	4.0x	0.9x	0.3x
RS-US	Reliance Steel & Aluminum	179.77	16,050	17,810	15.5%	16.0%	5.7x	4.8x	8.1x	6.4x	0.7x	0.0x
AGS-DE	Allgemeine Gold- und Silbers	-	-	-	-	-	-	-	-	-	-	-
<b>Mean</b>					<b>15%</b>	<b>16%</b>	<b>7.4</b>	<b>6.1</b>	<b>11.2</b>	<b>8.6</b>	<b>0.5</b>	<b>0.5</b>
<b>Median</b>					<b>11%</b>	<b>11%</b>	<b>5.7</b>	<b>4.0</b>	<b>9.5</b>	<b>5.8</b>	<b>0.6</b>	<b>0.3</b>

Source: MST Access, FactSet

This gives a capitalisation multiple of 2.8 times to apply to MGL's FY22 earnings.

Figure 8 – Valuation of the Anodes business based on discounted comparable company EV / EBITDA multiple

EV / EBITDA valuation - Anodes		Dec-22
Comparable companies - median	x	4.0
Discount for company size	%	30%
EV / EBITDA multiple for Anodes	A\$m	2.8
Avg FY22e and FY23e EBITDA	A\$m	11.2
Enterprise Value	A\$m	31.3

Source: MST Access

We have retained the original valuation methodology of the recycling business which was based on a transaction multiple of a European magnesium recycling company in 2019 (refer to [initiation coverage report](#) for further details).

Similarly, we have retained the valuation methodology for MGL's Qinghai business. Our analysis assumes that QSLM re-starts production of magnesium in 2022, and the liquid metal starts being delivered to MGL Qinghai's cast-house in the FY23. Should QSLM fail to deliver molten magnesium to MGL Qinghai, then at some point in the future, we would expect QSLM may be in breach of its agreement. It is not clear what recourse MGL might have to QSLM, however, we note that QSLM owns 29% of the equity of MGL.

## Risks

Key risks to our forecasts and valuation include:

- Failure of the Qinghai cast house to receive the planned magnesium metal
  - QSLM magnesium production does not restart or does not produce the contracted level of magnesium metal
  - The problems with trucks used to deliver the metal from QSLM to MGL's cast house remain unresolved (notwithstanding that there has been more than sufficient time to fix the problem.
  - QSLM divert the magnesium to other customers to an extent that is in breach of the agreement
- MGL loses its licence to operate in the Qinghai province
- Unforeseen operational (including safety) problems at Qinghai, or indeed any of its other processing plants in China, Germany and Romania
- A dramatic deterioration of the competitive environment in one or more of its markets
- A loss of access to capital which is particularly important to fund working capital which increases in line with sharply rising magnesium prices
- We may have underestimated the extent to which demand for structural magnesium in vehicles will offset the decline in demand for magnesium used in engines and drive chains as electric vehicles replace internal combustion engines
- We may have over-estimated the long-term demand for "green" magnesium from the transport industry

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