



# 2019 Full Year Results Presentation



26 February 2020  
Capral Limited (ASX:CAA)  
Level 4, 60 Phillip Street  
Parramatta NSW 2150

Approved and authorised by Capral's Board of Directors

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# Australia's leading supplier of aluminium products and solutions



5 plants; 8 extrusion presses



18 distribution centres  
Australia-wide



Annual extrusion capacity  
65k tonnes



Annual turnover ~\$420  
million<sup>1</sup>



Residential & commercial  
construction, industrial



Employs over 900 people



<sup>1</sup> 12 months to 31 Dec 2019

## Agenda

1. FY19 Highlights
2. FY19 Financials
3. Strategy and Outlook
4. Questions





## FY19 Highlights

Tony Dragicevich, CEO & MD

*"Full year earnings in line with guidance, stronger second half profits and continuation of dividend"*



# FY19 Performance Highlights

- Full year result in line with latest guidance
  - Trading EBITDA<sup>1</sup> of \$11.0m (FY18: \$14.3m) and EBITDA<sup>1</sup> of \$19.9m (FY18: \$13.1m)
  - 2H19 Trading EBITDA<sup>1</sup> of \$8.6m due to savings realised from business initiatives
  - Volumes down 6% on prior period with conditions stabilised in second half of 2019
- Final dividend declared at 0.5 cents per share (fully franked), underpinned by solid 2H19 result
- Strong balance sheet and net cash of \$17.9m
- Margins remain tight due to competitive landscape
- Major restructure of Bremer Park facility substantially completed, realising \$3.5m of savings in 2H19
- Market conditions soft in residential building sector
- Commercial construction and our key industrial markets were steady throughout 2019
- Key capital investment projects completed in 2019 to improve long term competitive position
- Safety - TRIFR<sup>2</sup> at 11.4 (FY18:13.2), improved 24%

## Important Note

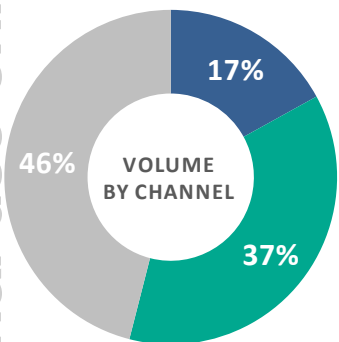
<sup>1</sup>EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation and incorporates AASB16 impact. Trading EBITDA is presented with reference to the ASIC Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011. Trading EBITDA is EBITDA adjusted for significant items that are material items of revenue or expense that are unrelated to the underlying performance of the business. Capral believes that Trading EBITDA provides a better understanding of its financial performance and allows for a more relevant comparison of financial performance between financial periods. These items are LME and Premium revaluation, one-off and other restructuring related costs that are non-recurring in nature and including the depreciation and interest on Right of Use assets as proxy for rent.

<sup>2</sup>TRIFR is total reportable lost time and medically treated injuries per million work hours.



# Volume Breakdown

Channels to market (volume)

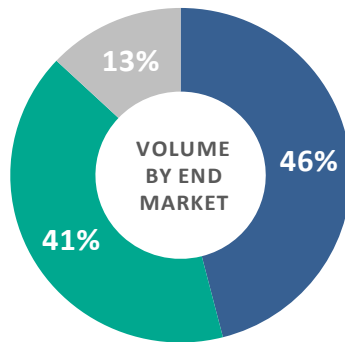


- Rolled aluminium (via DCs)
- Extruded aluminium (via DCs)
- Extruded aluminium (direct from mill)

Source: Capral  
DC: Capral Distribution Centre

- ~83% of total volume is Extrusion
- ~17% of total volume is Rolled (sheet & plate)

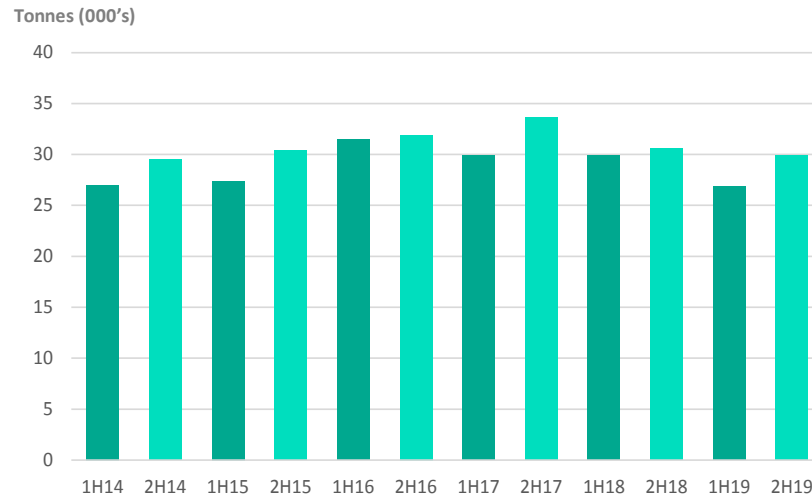
Diverse industry exposure



- Industrial
- Residential Building
- Commercial Building

\* Residential building includes additions and alterations  
\*\* Industrial includes transport, marine and other manufacturing sectors

Volume Seasonality

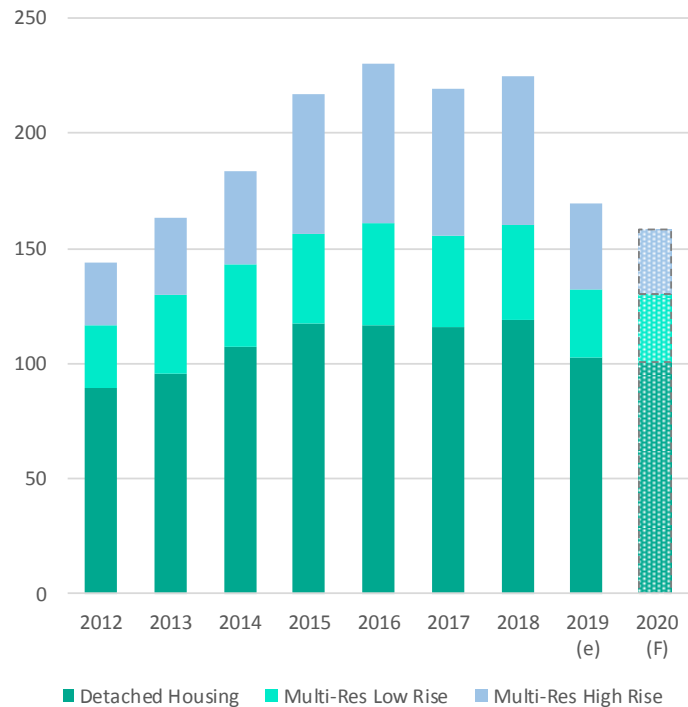


Source: Capral

- 1H19 volume 10% lower than 1H18
- 2H19 volume 2% lower than 2H18
- Full year volume down 6% on FY18
- Impacted by slow down in residential construction
- Imports remained high throughout FY19 and combined with surplus domestic capacity continued to impact volumes

# Conditions Deteriorated in Residential Market

Annual Dwelling Commencements<sup>1</sup> ('000)



## 2019

- Capral's volume in the residential market is mainly aligned with Detached and Low Rise Dwellings (shaded green in adjacent graph)
- Residential commencements have declined significantly through 2019
  - Latest estimate<sup>1</sup> 170,000 starts for 2019
  - 24% decline on prior year
- Multi-Res High Rise showing the sharpest decline, estimated 42% down in 2019, however Capral's participation in this segment is only modest due to predominance of fully imported windows
- Multi-Res Low Rise estimated to have declined by 27% in 2019
- Detached Dwellings declined by an estimated 14% in 2019, with all major states in decline

## Future

- Overall market is forecast to remain relatively flat during 2020 with growth expected in detached and low rise from mid 2020 onwards

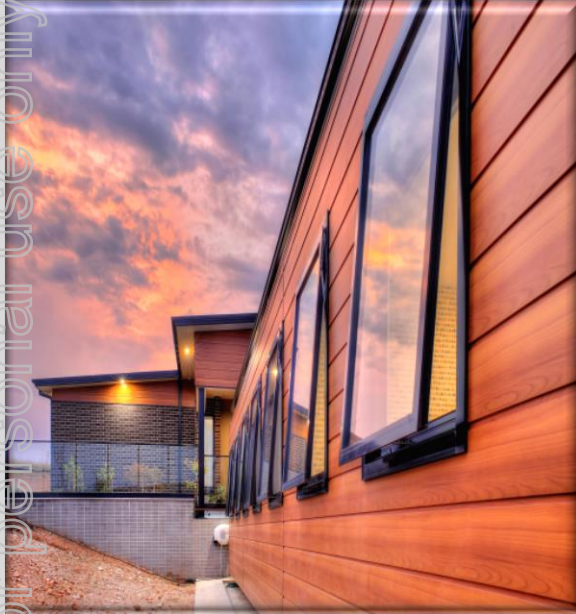
Source:

1) BIS Oxford Economics - December 2019



# Recent Capral Residential & Commercial Projects

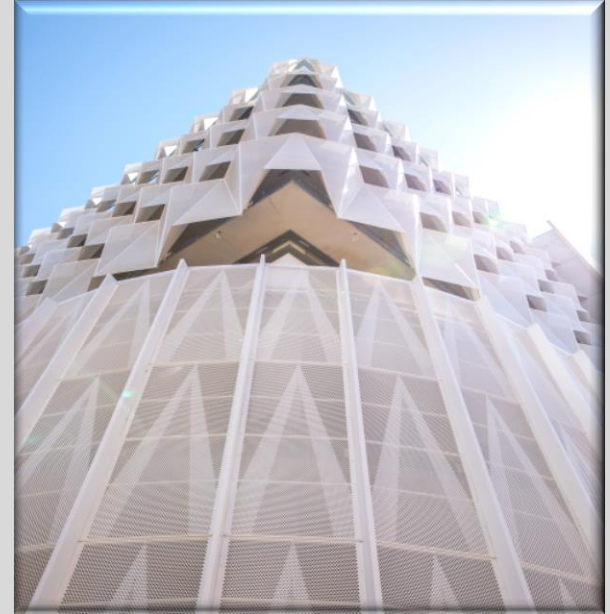
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Kunzea House, Springvale, NSW



Hume Splash Swim Centre, Craigieburn, VIC

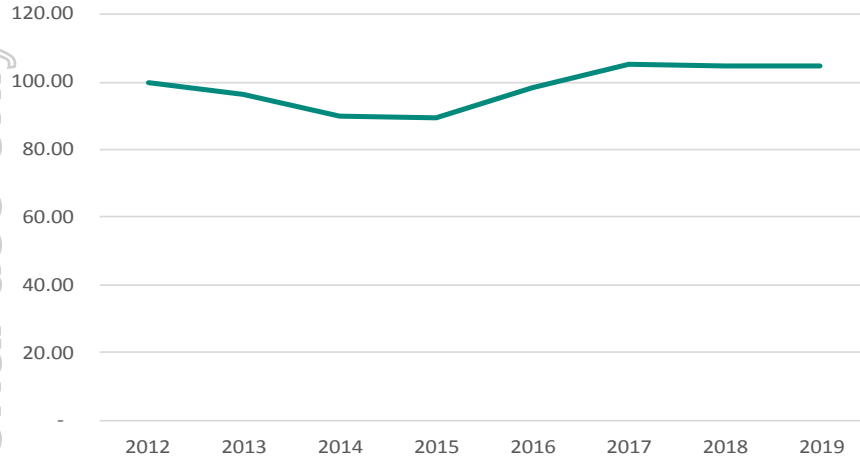


Denmac MHM Prime House Office Tower, WA



# Industrial Sector Steady

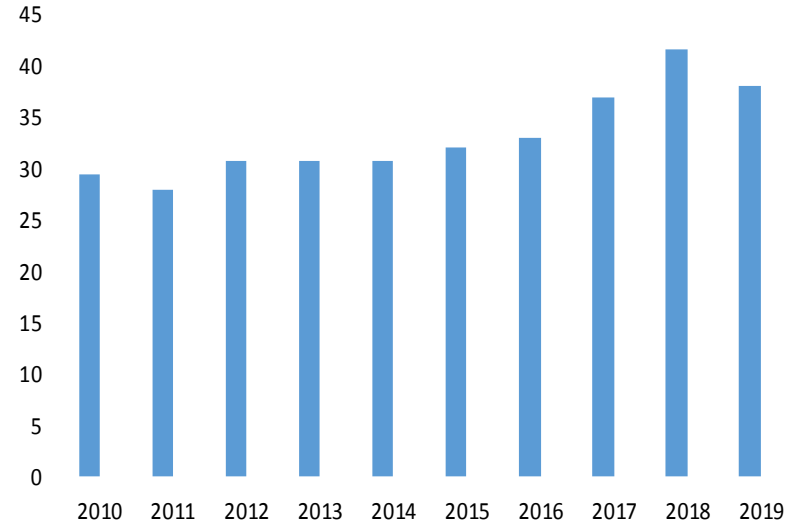
Total Capral Industrial Volumes (Index 2012)



Source: Capral

- Marine sector strong – commercial ferries and defence
- Transport slowed
- Manufacturing and general fabrication steady
- Defence – Government has committed \$195 Billion over next 10 years (see page 18)
- Cladding –Capral introduced Smartfix, a patented, tested and certified solid aluminium cladding system (see page 18).

New Truck and Van builds<sup>1</sup> ('000)



<sup>1</sup> Source: TIC (Truck Industry Council of Australia) (Prime Mover Magazine)

- New truck and van builds down 9% from 2018 record year, 2H19 down over 20% from 2H18.

# Recent Capral Industrial Projects



Commercial Ferry, Bajamar Express  
Henderson, WA



"Veiled" by Britt Mikkelsen  
Sculptures by the Sea, Bondi, NSW



Maxi-Cube trailer built by MaxiTRANS  
Ballarat VIC

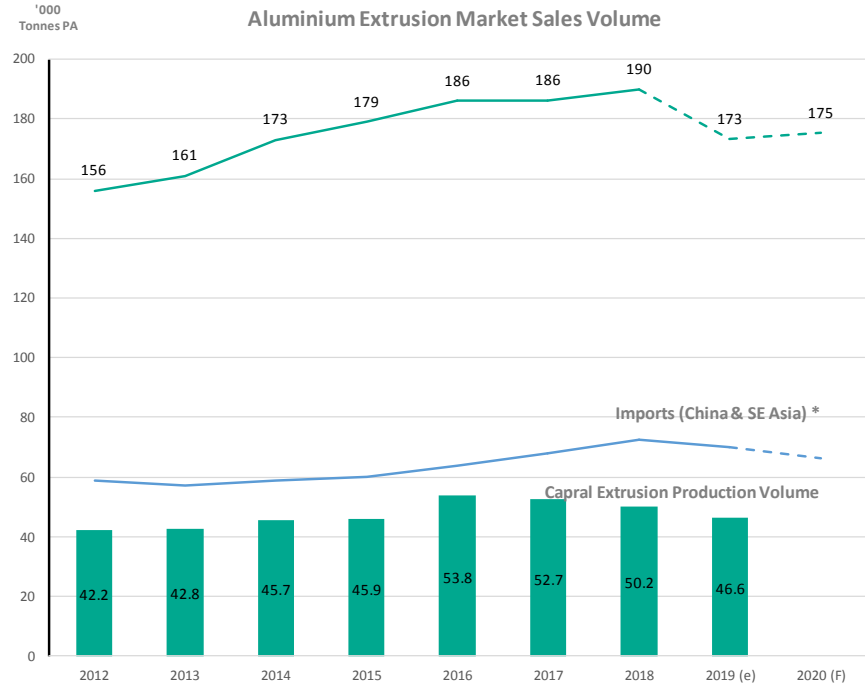
# Extrusion Demand and Supply

2019

- Capral has an estimated 26% share of the Australian aluminium extrusion market
- Import volumes and share of market increased in FY18 and maintained high levels through FY19. Positive anti-dumping outcomes in 2019 should see imports begin to fall
- Excess domestic extrusion capacity remains

## Future

- BIS Oxford Economics and HIA predict the Building Industry to pick up from second half 2020
- Imports should decline with the higher duties and activity of Border Force enforcing the Anti-Dumping measures (see page 18)
- Industrial markets starting to improve with infrastructure work, defence and general industry strengthening



Source: Capral

\* Adjusted down in 2019 by estimated reclassification volume due to Border Force compliance activities

## FY19 Financials

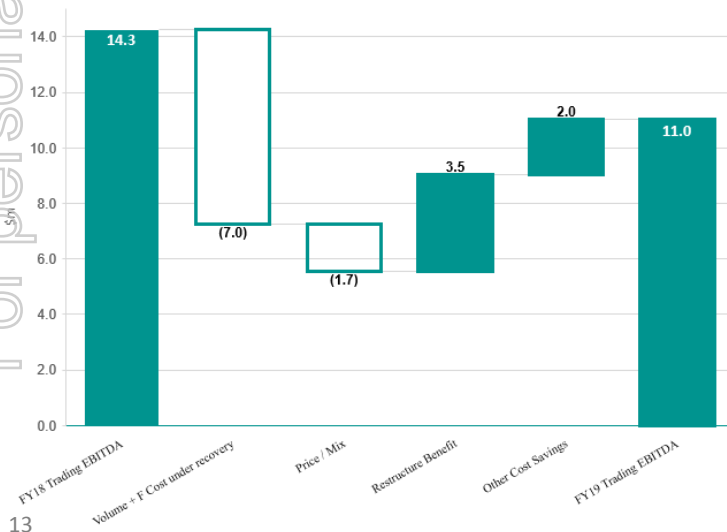
Tertius Campbell, CFO

*"Earnings improve in second half, in line with guidance,  
and above same period last year despite lower sales"*



# Second Half Earnings Up On Prior Period

1. FY19 Volume 6% lower than prior year. 2H19 volume 2% lower than 2H18
2. Sales revenue reduction driven by lower volume and reduced sales price due to lower LME
3. Margins continue to be under pressure due to imports, excess local capacity and lower utilisation
4. Restructuring will deliver annualised savings estimated at \$8m of which \$3.5m was realised in 2H19
5. AASB16 EBITDA impact of \$16.7m includes property rent offset of \$16.2m
6. Finance cost higher due to increased use of Letter of Credit facilities for imported rolled products. Finance cost includes facility fees



	NOTE	1H19	2H19	FY19	1H18	2H18	FY18
Sales Volume ('000 tonnes)	1	26.8	30.0	56.8	29.9	30.6	60.5
		\$m	\$m	\$m	\$m	\$m	\$m
Sales Revenue	2	201.2	217.8	419.0	222.6	232.5	455.1
<b>Trading EBITDA<sup>1</sup></b>	<b>3</b>	<b>2.4</b>	<b>8.6</b>	<b>11.0</b>	<b>6.9</b>	<b>7.4</b>	<b>14.3</b>
Restructuring and one-off costs	4	(6.4)	(0.3)	(6.7)	-	-	-
LME Revaluation		(1.0)	(0.1)	(1.1)	0.7	(1.9)	(1.2)
AASB16 Lease cost reversal	5	8.4	8.3	16.7	-	-	-
<b>EBITDA<sup>1</sup></b>		<b>3.4</b>	<b>16.5</b>	<b>19.9</b>	<b>7.6</b>	<b>5.5</b>	<b>13.1</b>
Depreciation/Amortisation							
- Owned Assets		(2.8)	(2.7)	(5.5)	(2.8)	(2.8)	(5.6)
- Right of Use Assets		(6.4)	(6.5)	(12.9)	-	-	-
<b>EBIT</b>		<b>(5.8)</b>	<b>7.3</b>	<b>1.5</b>	<b>4.8</b>	<b>2.7</b>	<b>7.5</b>
Finance Cost							
- Working Capital	6	(0.6)	(0.6)	(1.2)	(0.5)	(0.6)	(1.1)
- Right of Use Leases	5	(2.0)	(2.5)	(4.5)	-	-	-
<b>Profit(Loss) after tax</b>		<b>(8.4)</b>	<b>4.2</b>	<b>(4.2)</b>	<b>4.3</b>	<b>2.1</b>	<b>6.4</b>

<sup>1</sup>See Important Note (page 5)

# Stable Financial Position Supports Dividends and Reinvestment

1. Inventory consists mainly of raw material (billet) and finished goods (rolled product and extrusion). \$6.1m reduction from FY18 due to lower LME and reduction in billet stock
2. Trade receivables are insured. DSO is consistently below 50 days.
3. Capral has a \$50m committed facility with ANZ, expiring Jan 2021 extended annually in June. At December 2019, \$27.8m of the facility was used for bank guarantees and trade instruments; \$3.6m fixed asset funding. Net Cash impacted by dividend payments and restructuring costs
4. Liability relates to lease liabilities of \$103.6m, consisting primarily of property leases as defined in AASB16. Net impact is a reduction in Net Assets of \$29.3m
5. Increase in Non-Current Assets relates to inclusion of \$76.9m "right of use assets" as required by AASB16.
6. Dividend Reinvestment Plan established for FY19 final and future dividends. Not underwritten for FY19 final.

BALANCE SHEET	NOTE	DEC '19*	DEC '18
		\$m	\$m
Current Assets			
Inventory	1	78.9	85.0
Trade Receivables	2	62.6	65.4
Net Cash and Equivalents	3	17.9	27.6
Other		1.6	1.7
		<u>161.0</u>	<u>179.7</u>
Current Liabilities			
Trade Payables		(65.4)	(78.4)
Lease Liabilities	4	(13.9)	-
Provisions and Other		(14.6)	(13.2)
		<u>(93.9)</u>	<u>(91.6)</u>
Net Current Assets		67.2	88.1
Non Current Assets	5	120.6	48.1
Non Current Liabilities	4	(94.8)	(4.7)
Net Assets		<u><u>93.0</u></u>	<u><u>131.5</u></u>
Net Tangible Asset Value		89.7	128.5
NTA cents per share		18.5 c	26.7 c
Franking Credits	6	19.0	21.0
Accumulated Unrecognised tax losses		296.7	279.7

\* FY19 incorporates AASB16 impact (FY18 does not)

# Cash Generation Impacted by Restructuring and Weak First Half

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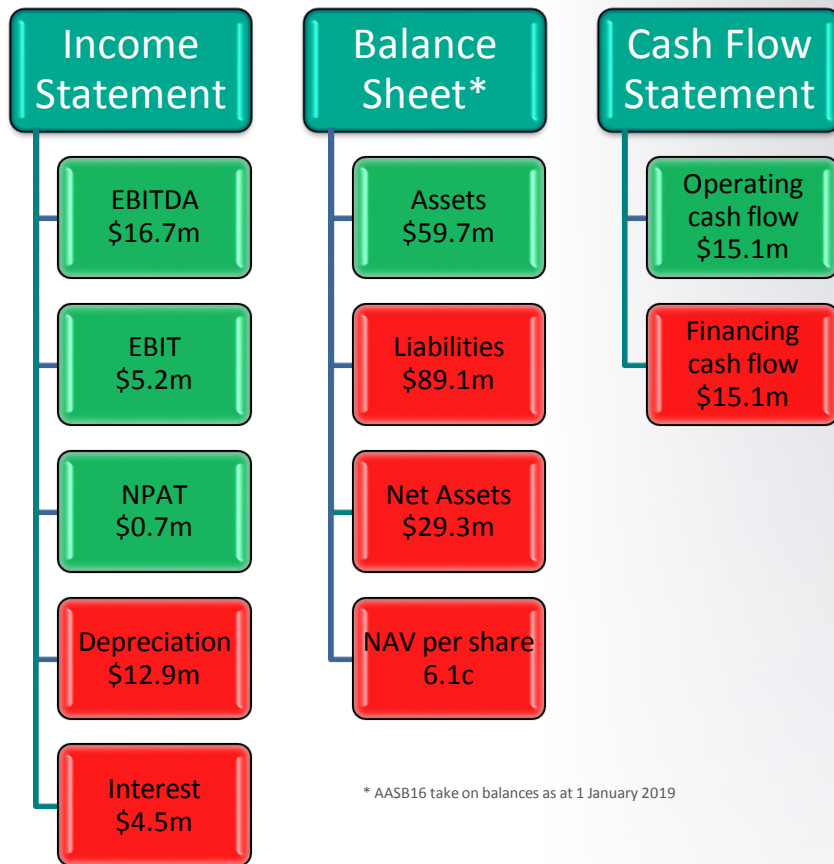
1. Working Capital increase mainly driven by delayed Debtor payments at Year End
2. Right of use lease interest of \$4.5m. Operational interest charge in line with FY18
3. Maintenance capex is around \$3m per annum. Proceeds from sale relate to sale and lease back of automation equipment and paint line
4. Lease payments per AASB16
5. Capral's policy is to declare dividends between 40 – 80% of Net Profit After Tax. At 31 December 2019, franking credits of \$19m are available for distribution.  
  
Declared dividend payable in March 2020 approved by ANZ Bank on back of stronger 2H19 results

CASH FLOW	NOTE	FY19*	FY18
		\$m	\$m
EBITDA		19.9	13.1
Working Capital	1	(3.4)	-
Finance Cost & Other	2	(5.6)	(1.1)
<b>Operating Cash Flow</b>		<b>10.9</b>	<b>12.0</b>
Capex Spend	3	(5.3)	(10.4)
Proceeds from sale	3	4.7	-
Lease Principal payment	4	(15.1)	-
<b>Free Cash Flow</b>		<b>(4.8)</b>	<b>1.6</b>
Dividend Paid	5	(4.8)	(8.4)
<b>Increase/(Decrease) in Net Cash</b>		<b>(9.6)</b>	<b>(6.8)</b>

\* FY19 incorporates AASB16 impact (FY18 does not)



# AASB 16 Leases: Impacts for FY19



\* AASB16 take on balances as at 1 January 2019



## Strategy and Outlook

Tony Dragicevich, CEO & MD

*"Deliver benefits from restructuring and technology investments  
to further improve Capral's long term competitive position"*

**BUILD**  
On our  
strengths

**OPTIMISE**  
What we do

**GROW**  
For the  
future



# Improve Productivity and Competitiveness

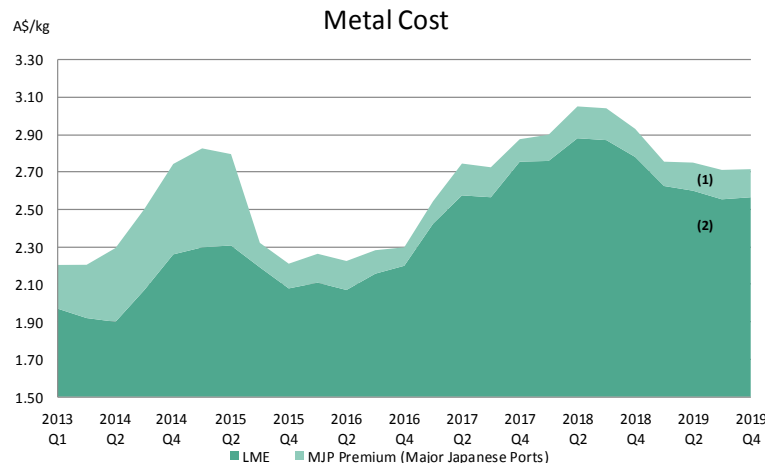
<b>Manufacturing</b>	Investments in key capital projects (automation at Bremer Park and new paint line at Canning Vale) were completed in 2019. These projects, as well as the restructuring at Bremer Park, have lowered Capral's breakeven point. Focus in 2020 to deliver cost savings from projects and streamline operations post restructure.
<b>Distribution</b>	Improvements in market offer and service in our aluminium distribution business with the longer term goal of increasing volume and profitability of Capral's direct distribution channel.
<b>Market Development</b>	<p><b>Solar</b></p> <p>The solar market in Australia is continuing to grow.</p> <p>Anti-dumping measures provide the opportunity for Capral to compete in the solar rail market.</p> <p><b>Defence</b></p> <p>Government has committed \$195 billion in Defence spend over the next 10 years. Capral has been accredited as an approved supplier into all relevant defence contracts. Currently Capral is already supplying a number of projects with others in tender stage.</p> <p><b>Cladding</b></p> <p>Following on the Grenfell and Lacrosse cladding fires, the majority of composite panels are now banned. Nationally over 1,000 buildings need cladding replaced and all new buildings must meet new standards. Capral has signed an exclusive licence and supply agreement with Smartfix, a fully tested and certified solid aluminium cladding system patented in Australia.</p>
<b>Sales</b>	Leverage investments in systems technology such as CRM, EDI and E-store to improve sales effectiveness.

# Key Industry Influencing Trends

## Anti-Dumping Activities

2010 to 2015	<ul style="list-style-type: none"> <li>▶ Case won in 2010 with low level duties imposed on Chinese imports</li> <li>▶ Reforms to federal legislation and methodology</li> </ul>
2017	<ul style="list-style-type: none"> <li>▶ Measures imposed against all Vietnam and some Malaysian sourced extrusions</li> </ul>
2018	<ul style="list-style-type: none"> <li>▶ Anti-circumvention trans shipment finalised</li> <li>▶ Case against Thailand and two Chinese exporters unsuccessful</li> </ul>
2019	<ul style="list-style-type: none"> <li>▶ Variable Measures Review of China finalised with increase in duties implemented in May 2019</li> <li>▶ Compliance activity: Border Force issue significant duty owed notices. Action includes shutdown of companies and visa cancellations. ABF affirm enforcement to be a key focus area</li> </ul>
Future	<ul style="list-style-type: none"> <li>▶ Continue to interact with Government around strengthening the anti-dumping regime and monitor circumvention</li> <li>▶ Application made to extend Chinese duties for a further 5 years past October 2020 expiry. Case underway</li> <li>▶ Three new cases focusing on Malaysia and Vietnam underway</li> <li>▶ Monitoring other jurisdictions and will take action as required</li> </ul>
Challenges	<ul style="list-style-type: none"> <li>▶ Limited information available on imports</li> <li>▶ Trans Shipment</li> <li>▶ New import sources</li> </ul>

## Aluminium Price



Source: London Metals Exchange: Reuters

1. MJP premiums relatively stable since major fluctuations in 2013 – 2015
2. LME (in USD) declined during 2019, however a weaker AUD partially offset this decline resulting in 8% reduction in LME in AUD (from AU\$ 2,783/t to AU\$ 2,565/t)

# Outlook

- LME<sup>1</sup> is forecast to remain at current levels throughout 2020
- AUD weakened to ~\$US0.67 early in 2020 and forecast to remain close to that level through 2020<sup>2</sup>
- Residential commencements are expected to bottom during the first half but recovering in the second half to finish around 158,000 units for 2020<sup>3</sup>
- Non-Residential construction is forecast to grow modestly
- Industrial sector anticipated to remain at current levels
- Overall Extrusion market expected to remain flat
- Capral will continue to play a leading role in the pursuit of fair trade by:
  - Working with Government to strengthen anti-dumping measures
  - Monitoring and pursuing circumvention activities
  - Prosecuting new cases as required
- Benefits from key capital projects and restructuring will continue to flow in 2020
- Absent any unforeseen events, FY20 EBITDA<sup>4</sup> is expected to be between \$30m to \$32m and Trading EBITDA<sup>4</sup> between \$14m and \$16m. On that basis Capral would be in a position to continue payment of a fully franked dividend
- Capral has franking credits of \$19m available for distribution

<sup>1</sup> Source: Harbor Aluminium Intelligence Unit

<sup>2</sup> Source: ANZ January 2020

<sup>3</sup> Source: BIS Oxford Economics December 2019 forecast

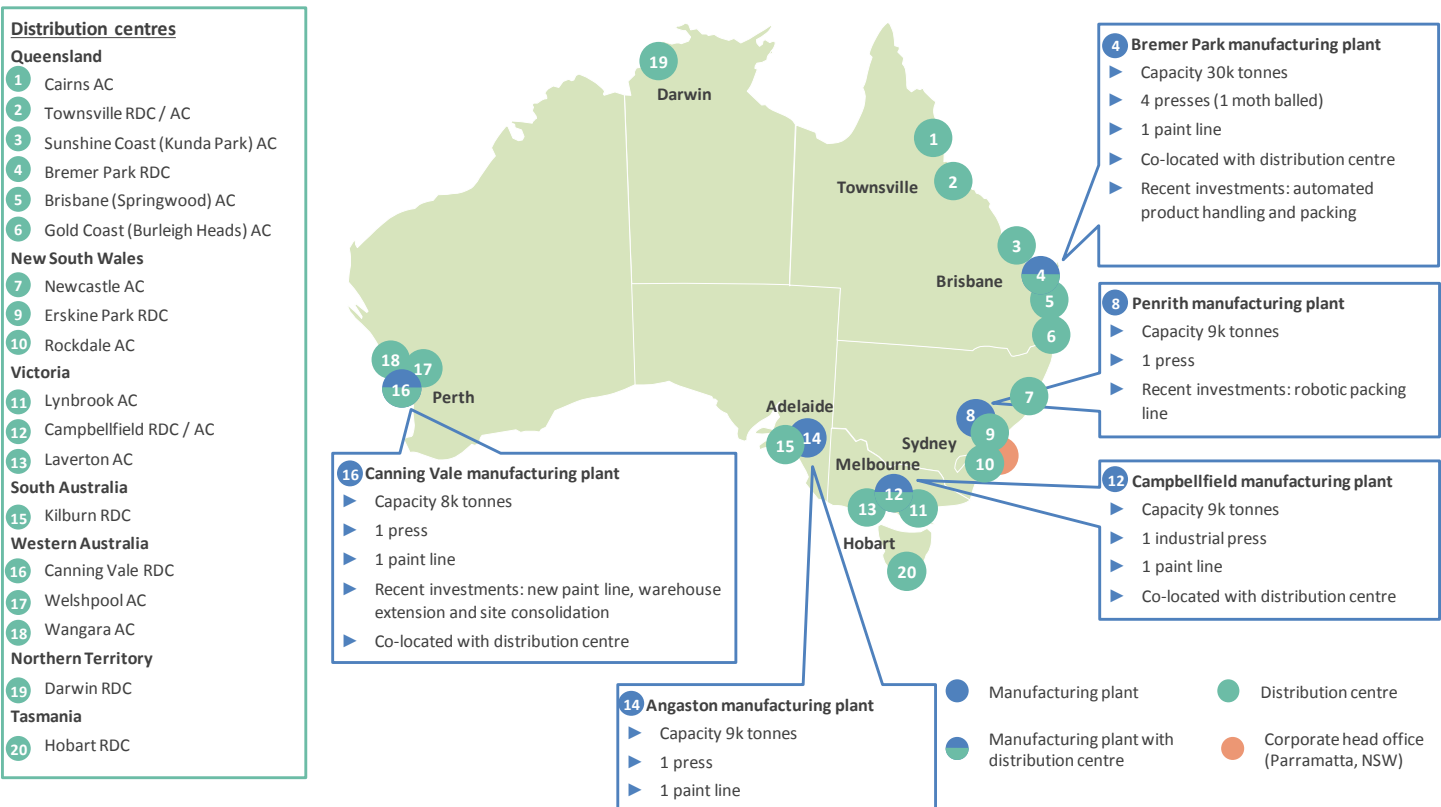
<sup>4</sup> See Important Note (page 5)

This presentation includes forward-looking estimates that are subject to risks, uncertainties and assumptions outside of Capral's control and should be viewed accordingly



# Strategic National Footprint

Capral has a national footprint with a presence in every state and extrusion plants near five mainland capital cities



## Questions

