CAPRAL ALUMINIUM

CAPRAL ASX ANNOUNCEMENT

29 April 2020

ANNUAL GENERAL MEETING
CHAIRMAN AND MANAGING DIRECTOR ADDRESSES

CHAIRMAN'S ADDRESS

Financial Results

The Company recorded a Net Loss After Tax of $4.2 million for the year ended 31 December 2019 (2018: Profit $6.4 million).

Sales revenues for the year of $419 million were 8% lower than the $455 million achieved in 2018, primarily as a result of 6% lower volumes compared to the prior year. As a consequence of the decrease in revenues, Capral delivered a Trading EBITDA[1] of $11.0 million for the year (2018: $14.3 million). EBITDA at $19.9 million is not directly comparable with FY18 EBITDA of $13.1 million due to the impact of adopting AASB16 during the year.

The 2019 year was a tale of two halves for Capral.

While lower Trading EBITDA in the first half was primarily due to lower volumes, the Company's volumes recovered modestly in the second half of 2019. The benefit of more stable volumes in the final 6 months of 2019 were partly offset by continued pricing pressure from local competitors' and low-priced imports. However, the higher volume levels and the permanent operational savings achieved from automation and the right sizing of Bremer Park operations produced Trading EBITDA of $8.6 million in the second half, compared to $7.4 million in 2018.

The Net Loss After Tax of $4.2 million included LME stock revaluation charges of $1.1 million and Abnormal charges of $6.7 million, which relate primarily to the costs incurred in right sizing and restructuring our operations at Bremer Park. The LME price fell meaningfully in the final months of 2018 and continued to be soft throughout 2019.

Year-end net cash on hand was $17.9 million. Capral has a strong balance sheet, supported by a $50 million facility with the ANZ which was extended during the year through to January 2021.

The major portion of the Company's $5.0 million cash expenditure on capital items in 2019, on top of the $10.4 million invested in 2018, is directed towards productivity improvements. These capital investment projects in new technology and automation to improve Capral's long-term competitive position are contributing to reduced costs through increased productivity.

Operations

The Bremer Park restructure was an important milestone for the Company. Through the closure of the anodising operation and an excess paint line, combined with the right sizing of our extrusion operations, our fixed cost base has been substantially reduced. In addition, further savings were achieved through lease negotiations and additional space to a third-party sub-lease. Our goal at Bremer Park was not simply to take out costs, but to make structural improvements to the way we operate. The total annualised savings are expected to be in the order of $8 million.

By driving costs lower and optimising our full value chain, Capral seeks to achieve sustainable profitability and leverage. This will improve the overall health of the company at current activity levels and prepare us better to leverage our cost base to higher volumes.

Increased measures against dumped Chinese imports were introduced in mid-2019 and Border Force compliance activities have escalated. Whilst we anticipate some positive impact on import levels, imported extrusions continue to negatively affect the marketplace. It is important that meaningful sanctions are imposed against suppliers breaking Australian laws. With our industry's support, the Company will continue to monitor and pursue anti-dumping and circumvention cases to ensure that Australian manufacturers are competing in a fair market.

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Safety

Capral has a strong focus on safety, and safety performance measures during 2019 compare favourably to those of the past 3 years. Capral will continue to prioritise safety improvement through risk assessment, education and monitoring of the workplace.

Dividends

Capral resumed paying dividends with effect from its 2016 financial year. Over the past 3 years the Company has returned over $19 million to its shareholders by way of fully franked dividends. In the year under review the abnormal costs of LME stock revaluation charges and costs relating to the right sizing and restructuring of Bremer Park impacted the Company's free cash flow, thereby restricting the quantum of any dividend payment under its banking covenants. However, given the strong second half performance, the traction which the restructure at Bremer Park has already demonstrated and the outlook for 2020, the Directors resolved to pay a dividend to shareholders, having received the support and dispensation from its bankers to do so.

The Company declared a fully franked dividend of 0.50 cents per ordinary share (2018: 1.00 cents) which was paid on 25 March 2020 in respect of the financial year ended 31 December 2019. Shareholder elections under the Capral Dividend Reinvestment Plan accounted for 50.4% of the total dividend amount paid.

In the annual report I stated that the Company was proposing a share consolidation. Although the directors still believe that such a consolidation represents an opportunity to further enhance shareholder value, the proposed share consolidation has been withdrawn as a result of the market volatility due to the Coronavirus.

The Company is taking decisive action to proactively manage the business through this period and ensure it remains well positioned for when conditions stabilise. In light of the deteriorating macroeconomic conditions and resultant market uncertainty caused by COVID-19, the Company advises that it has withdrawn FY20 earnings guidance. Tony Dragicevich will update shareholders on the business in his Managing Director's address.

On behalf of the board, I would like to thank all of Capral's employees, its customers, suppliers and service providers, as well as our shareholders, for their commitment and support during the past year. We will work with all stakeholders to manage through this challenging situation. I would also like to record my appreciation to my co-directors for their contributions and support.

Rex Wood-Ward
Chairman
29 April 2020

[1] EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation and incorporates AASB16 impact from 2019.
* 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 ($1.1 million), one-off and other restructuring related costs ($6.7 million) that are non-recurring in nature and for 2019 includes the depreciation and interest on Right of Use assets as proxy for rent ($16.7 million).

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MANAGING DIRECTOR'S ADDRESS

Financial Review

Conditions were soft during 2019 mainly due to the slowdown in residential building activity which fell 24% to 170,000[2] starts. Full year volume was 6% below 2018. However, the market stabilised in the second half with volume declining only 2% compared to the second half of 2018.

As announced in our June 2019 half year results release, Capral undertook a major restructuring and rightsizing of its largest manufacturing plant at Bremer Park in Queensland. The restructure was executed in the 3rd quarter of 2019 and included; the closure and removal of the anodising plant and a paint line, and the relocation of warehousing facilities to accommodate additional space for third party sub-lease. The restructure included 62 redundancies and was substantially completed by year end and, together with renegotiated lease terms, the annualised cost base has reduced by around $8 million. This led to improved second half earnings even though volume was down.

Capral delivered a lower profit in 2019, with a Trading EBITDA[1] of $11.0 million (2018: $14.3 million) due to lower volumes. EBITDA of $19.9 million (2018: $13.0 million) included a net positive impact of AASB 16 of $16.7 million, negative LME revaluation of $1.1 million, and restructuring and one-off costs of $6.7 million. As a result a net loss after tax of $4.2 million (2018: $6.4 million profit) was recorded. Capral paid a fully franked final dividend of 0.5 cent per share on 25 March 2020.

Key Initiatives and Strategies

During 2019 we completed the automation of our Bremer Park packing line. At our Canning Vale site in WA, we commissioned a new technology paint line and consolidated our distribution warehouses onto the one site.

The focus in 2020 will be to extract cost savings from recent capital projects and further streamline our manufacturing operations. We will also focus on improving the market offer and service in our distribution business with the longer term goal of increasing the volume and profitability of Capral's direct channel.

Fair Trade

Capral continues to lead the local aluminium extrusion industry in the pursuit of fair trade. During 2019 key initiatives were:

- The successful review of measures on Chinese imports leading to increased dumping duties.
- Supporting Australian Border Force in the prosecution of importers circumventing the anti-dumping measures through misclassification and transhipment of aluminium.

Despite our efforts, import volumes remain high and continue to suppress selling prices and injure local industry. It is important that Australian manufacturers continue to fight for Fair Trade and return volume on-shore especially at this extraordinary time.

Safety

Capral continues to prioritise the safety of its people with an on-going focus on training, systems and culture. During 2019 Capral retained its Safety and Quality Management accreditations. The 2019 total reportable injury frequency rate fell to 11.4 (2018: 13.2).

With the outbreak of coronavirus our focus quickly turned to ensuring the safety of our employees as our first priority. Based on medical advice from government authorities, Capral has implemented a raft of measures and protocols to help protect our people and the communities in which we operate.

Outlook

Capral's operations have continued to function since the outbreak of coronavirus. The conditions under which we all currently operate, both at work and home, are unprecedented in our lifetimes. Not only has Capral acted to safeguard its people but has also taken steps to safeguard its business for the future. We have been fortunate to have been able to operate through Level 3 restrictions and it appears that we will be permitted to continue to do so.

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Our results for the first quarter of 2020 were pleasingly in line with our original budget and guidance. However, given the uncertainty of the duration and impact of the coronavirus pandemic, prior assumptions of market conditions going forward are now irrelevant and Capral therefore considers it prudent to withdraw its full year guidance.

While we face uncertain times as to the economic effect of coronavirus, we have carefully implemented measures to manage its impact on our people and our business. In early April work from home arrangements were put into place for the majority of non-operational staff. Salaried staff remuneration was reduced by 20% through reduced working hours and utilising paid or unpaid leave. Director's remuneration has been reduced by 25%. Discretionary spending and non-essential capital expenditure have been deferred. These measures will remain in place while the business continues to be impacted. At this time Capral is not eligible for government assistance or subsidies. Contingency plans are being developed to deal with a potential significant deterioration in economic and trading conditions.

Capral currently remains net cash positive with additional undrawn bank facilities available. We will continue to maintain regular contact with our bank to maintain and preserve business continuity during this crisis.

The outlook for LME is difficult to predict given the influence of external factors, especially at this time of uncertainty. Global demand has fallen in 2020 and the aluminium market is in oversupply. As a result, USD LME fell to 11 year lows during April 2020. This has however been largely offset by a weaker AUD. External analysts are forecasting LME to remain soft in 2020.

While we will continue to focus on the key business initiatives, the priority during 2020 has turned to safeguarding our people and business from the effects of the coronavirus pandemic.

Tony Dragicevich
Managing Director
29 April 2020

[1] Refer to Trading EBITDA explanation in footnote to Chairman's Report on Page 2

[2] BIS Oxford Economics – December 2019

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