

# AUDITED RESULTS

for the year ended 31 December 2019



# AGENDA



Opening Remarks  
+ Market Update



Financial  
Results



2019  
Operational  
Review

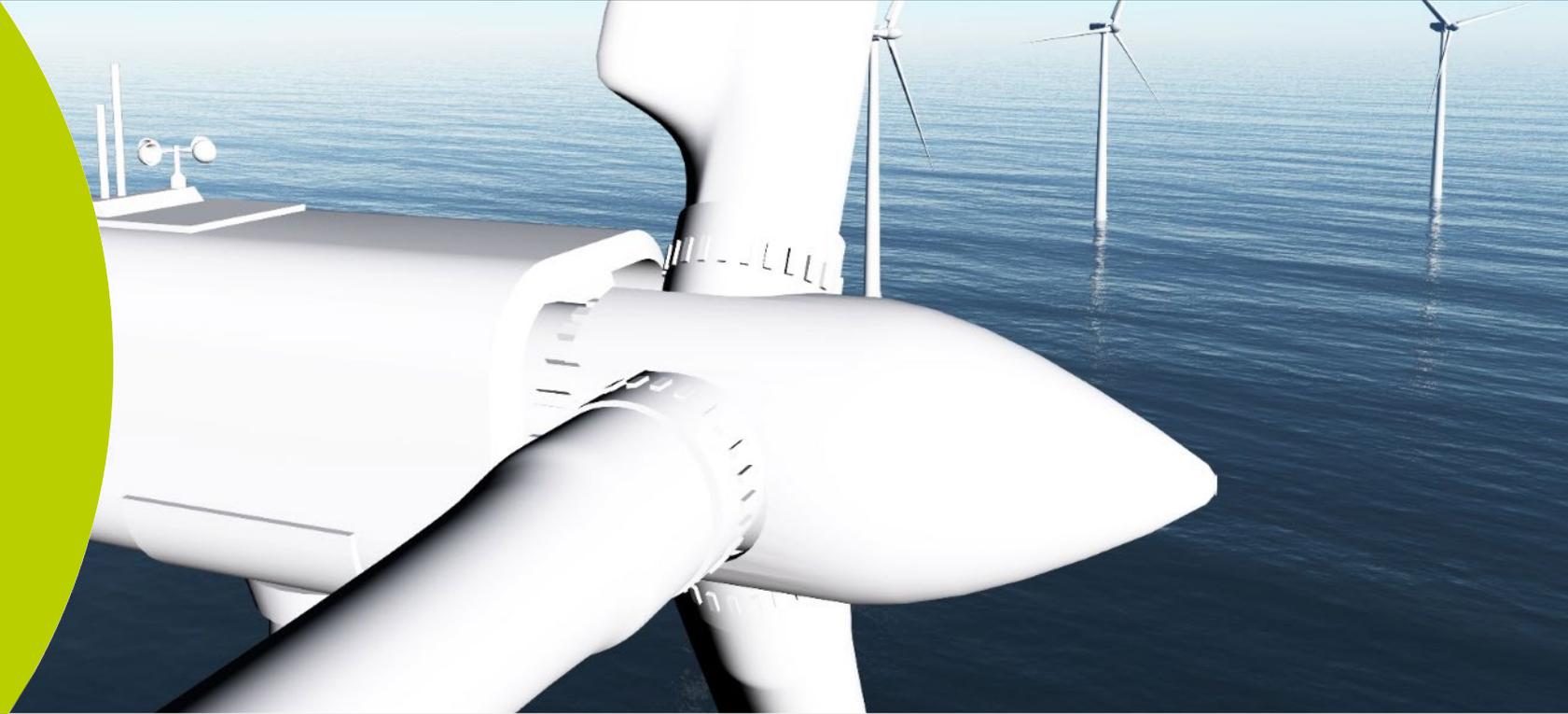


2019  
Turnaround  
Plan Delivery



Prospects for  
2020

# 1 OPENING REMARKS + MARKET UPDATE



## Continued focus on protecting the balance sheet

- R222 million free cash flow (FCF)
- Net debt / equity 11%
- Inventory reduced by c. 14 000 tons June to December 2019

## Turnaround implemented

- Working capital management (c. R500 million released)
- Cost reduction of c. R400 million p.a.
  - In both rolled and extruded products
- Rebuilding US export sales channels

## Excellent safety record maintained

- Best in class safety performance - Total Recordable Frequency Rate (TRCFR) 0.24

# 2019 SALIENT FEATURES

## Group sales of 219 000 tons (2015: 245 000 tons)

- 11% lower
- Sales / Market constraints emerging
  - Particularly RSA and USA

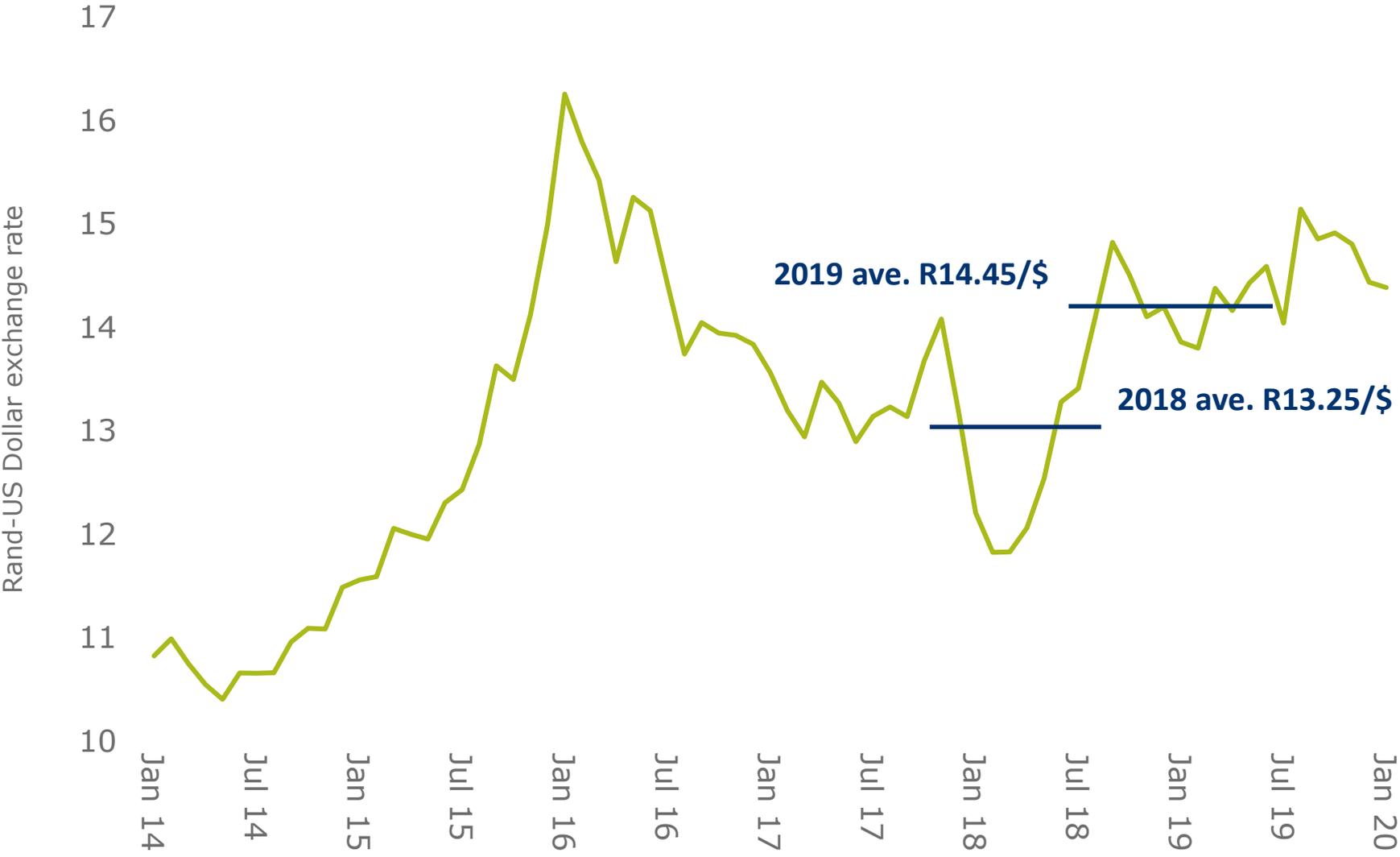
## Impairment charge R1.3 billion

- Across both Rolled Products and Extrusions
- Reflecting higher risk premiums to WACC
- Tighter market conditions locally and USA

## Turnaround actions largely complete

- Cost reductions c. R400 million p.a.
- Rolled Products and Extrusions
- Olifantsfontein plant consolidated into PMB
- Release of working capital c. R500 million
- New sales channels

# RAND VS. US DOLLAR 2014 TO 2019



# MARKET OVERVIEW

## LME aluminium price changed course – weakening from end H1 2018

- LME average in 2019 \$1792/t (2018: \$2110/t)
  - Demand softening
  - USA market protectionism

## USA demand flat, then softening sharply into 2020

- Slow GDP
- Massive aluminium flat rolled products over-stocking
- Protectionism emerging in USA

## Supply concerns continue in global beverage can stock markets

- Plastic (single use) packaging raising environmental concerns

## Automotive demand for aluminium softens in line with global slow-down

## Local economy remains soft

## 2 FINANCIAL RESULTS



## Loss per share of 380 cents up by 57%

- R0.9 billion (after tax) reduction in valuation of Rolled Products and Extrusions cash-generating units
- R0.1 billion deferred tax asset non-recognition
- Impacted by softer market outlook and increased uncertainty in the macro environment

## Headline loss per share of 76 cents (2018: HEPS 91 cents)

- Retrenchment costs R114m
- Negative metal price lag R68m (2018: gain R3m)
- IAS 39 hedge “ineffectiveness” charge R25m (2018: gain R61m)
- Settlement of Isizinda share-based payment R65m

## Sales volumes down by 11%

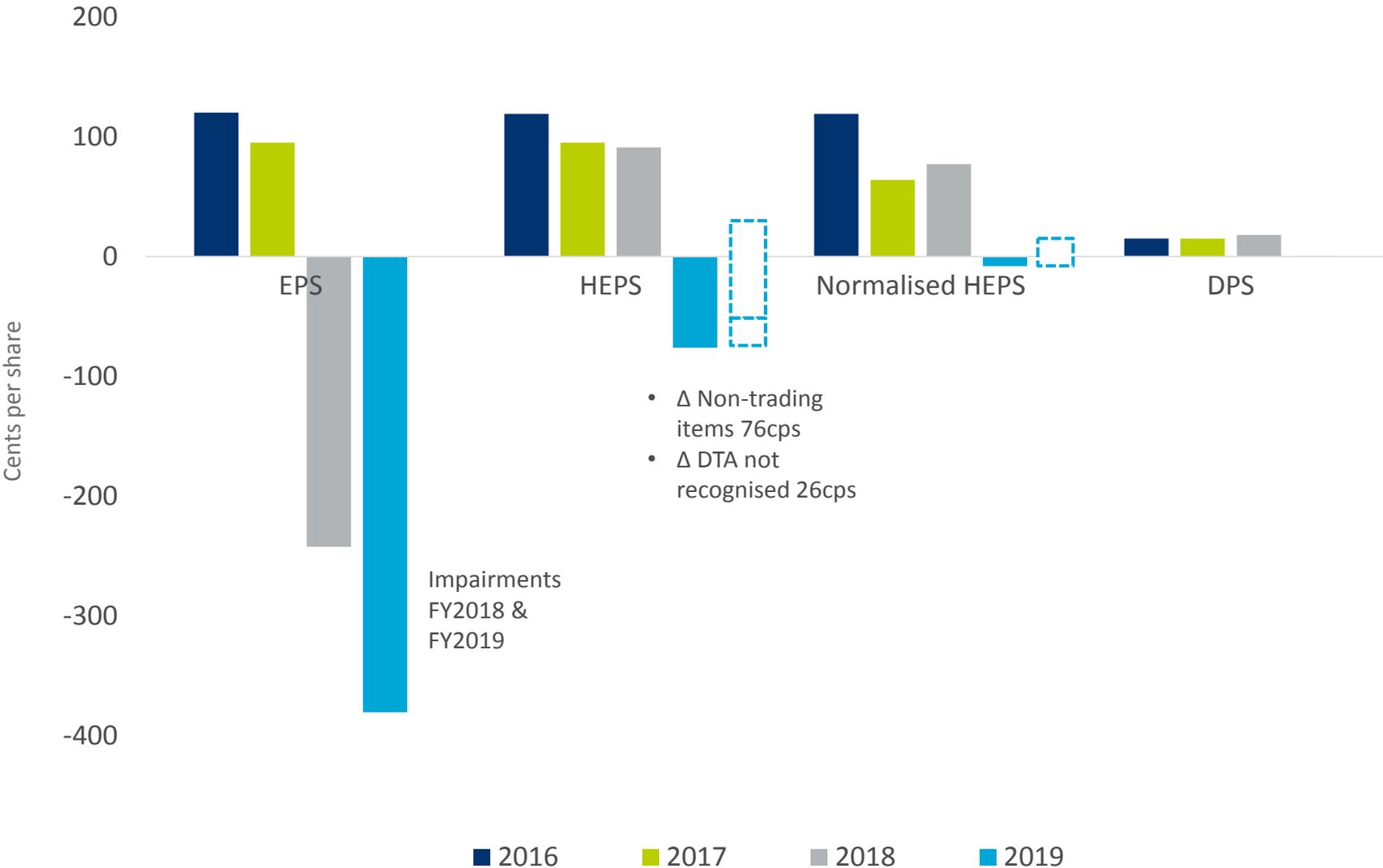
- Normalised EBITDA<sup>1</sup> down by 54% to R313m
- Soft SA market conditions
- Rolled Products US market disruption
- Extrusions press failure

## Balance sheet strength maintained

- Free cash flow of R222m<sup>2</sup>
- Net debt to equity up to 11%, impacted by impairment
- Adequate liquidity

1. Normalised EBITDA excludes metal price lag and material non-trading items  
2. Including receipt in transit of R208m at 31 Dec 2018, received in Jan 2019

# EARNINGS PERFORMANCE



# SALIENT FEATURES

		2019	2018	% Change
<b>KEY PARAMETERS AND ACTIVITIES</b>				
Average LME	US\$	1 792	2 110	(15)
Average exchange rate	R/US\$	14.45	13.25	9
Group sales volume	Tons	219 000	245 000	(11)
Rolled Products sales volume	Tons	206 000	228 000	(10)
Revenue <sup>1</sup>	Rm	10 294	11 534	(11)
<b>PROFITABILITY</b>				
EBIT	Rm	(1 421)	(950)	50
Normalised <sup>2</sup> EBIT	Rm	177	437	(59)
Normalised <sup>2</sup> EBITDA	Rm	313	678	(54)
EPS	Cps	(380)	(242)	57
HEPS	Cps	(76)	91	(184)
Normalised <sup>2</sup> HEPS	Cps	(8)	77	(110)

1. 2019 excludes resale revenue of R415m to aid comparability

2. Normalised EBIT, EBITDA and HEPS exclude metal price lag and material non-trading items

## SALIENT FEATURES (CONTINUED)

		2019	2018	% Change
<b>CASH FLOW AND DEBT</b>				
Capital expenditure	Rm	311	242	29
Net working capital as % of revenue	%	18	21	(3)
Free cash flow (cash flow before financing activities) <sup>1</sup>	Rm	222	90	147
Net borrowings	Rm	226	294	(23)
Net debt <sup>2</sup>	Rm	272	294	(7)
Debt equity ratio	%	11	8	3

1. FY2018 and FY2019 free cash flow impacted by receipt in transit of R208 million received in Jan 2019 relating to Dec 2018

2. 2019 includes lease liability (IFRS 16) of R46m

# IMPAIRMENT OF NON-CURRENT ASSETS

Hulamin's share price trades at a significant discount to underlying net asset value

- IAS 36 requires assessment of recoverable amounts of non-financial assets / CGU's

R1.30 billion non-cash impairment (2018: R1.45 billion impairment)

- R1.25 billion – Rolled Products VIU (R1.38 billion)
- R30 million – Extrusions VIU (2018: R74 million)
- R19 million – Isizinda property and Olifantsfontein assets

Impairment due to lower forecast cash flows and increase in WACC

- Valuation very sensitive to currency, volumes and conversion prices
  - $\Delta 5\% \rightarrow$  valuation impact  $>R1$  billion
- Softer outlook for common alloy, automotive, heat-treated plate
- WACC up 1% in Rolled Products to 17%
  - Increased global volatility / US tariffs
  - Vulnerable domestic economy
  - Metal supply

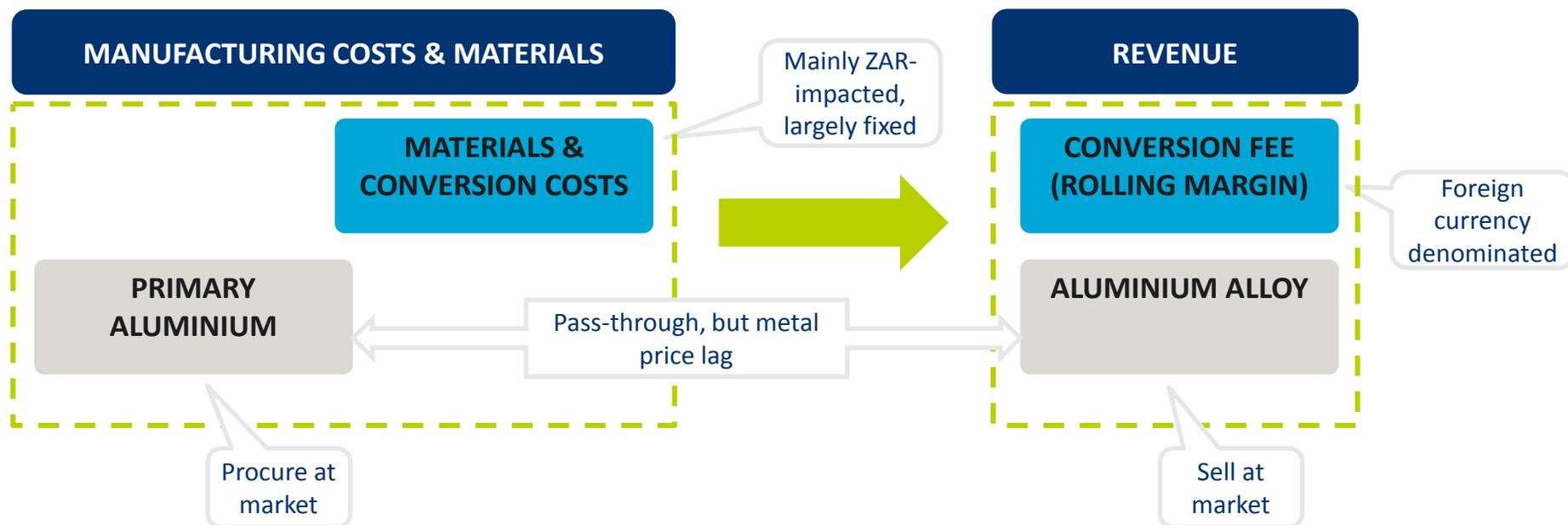
# SEGMENT REPORT

## SIGNIFICANT NON-TRADING / IFRS ITEMS IN FY2019

	2019			2018		
	Rolled Products R'm	Extrusions R'm	Group R'm	Rolled Products R'm	Extrusions R'm	Group R'm
<b>EBITDA*</b>	<b>105</b>	<b>(87)</b>	<b>18</b>	<b>745</b>	<b>(3)</b>	<b>742</b>
Restructuring costs	75	39	114	-	-	-
Metal price lag	68	-	68	(3)	-	(3)
Isizinda unbundling settlement	65	-	65	-	-	-
(Loss) on disposal of assets/profit on sale of investment	26	(3)	23	-	-	-
Commodity risk management programme not qualifying for hedge accounting in prior periods	25	-	25	(61)	-	(61)
<b>Normalised EBITDA*</b>	<b>364</b>	<b>(51)</b>	<b>313</b>	<b>681</b>	<b>(3)</b>	<b>678</b>

\* Before impairment charge

# FUNDAMENTALS OF FINANCIAL PERFORMANCE



## Hulamin has a large currency exposure

- The Rand/USD and EUR exchange rate is Hulamin's "gold price"
- Conversion fees in foreign currency, conversion costs mainly Rand-based

## Volume-sensitive

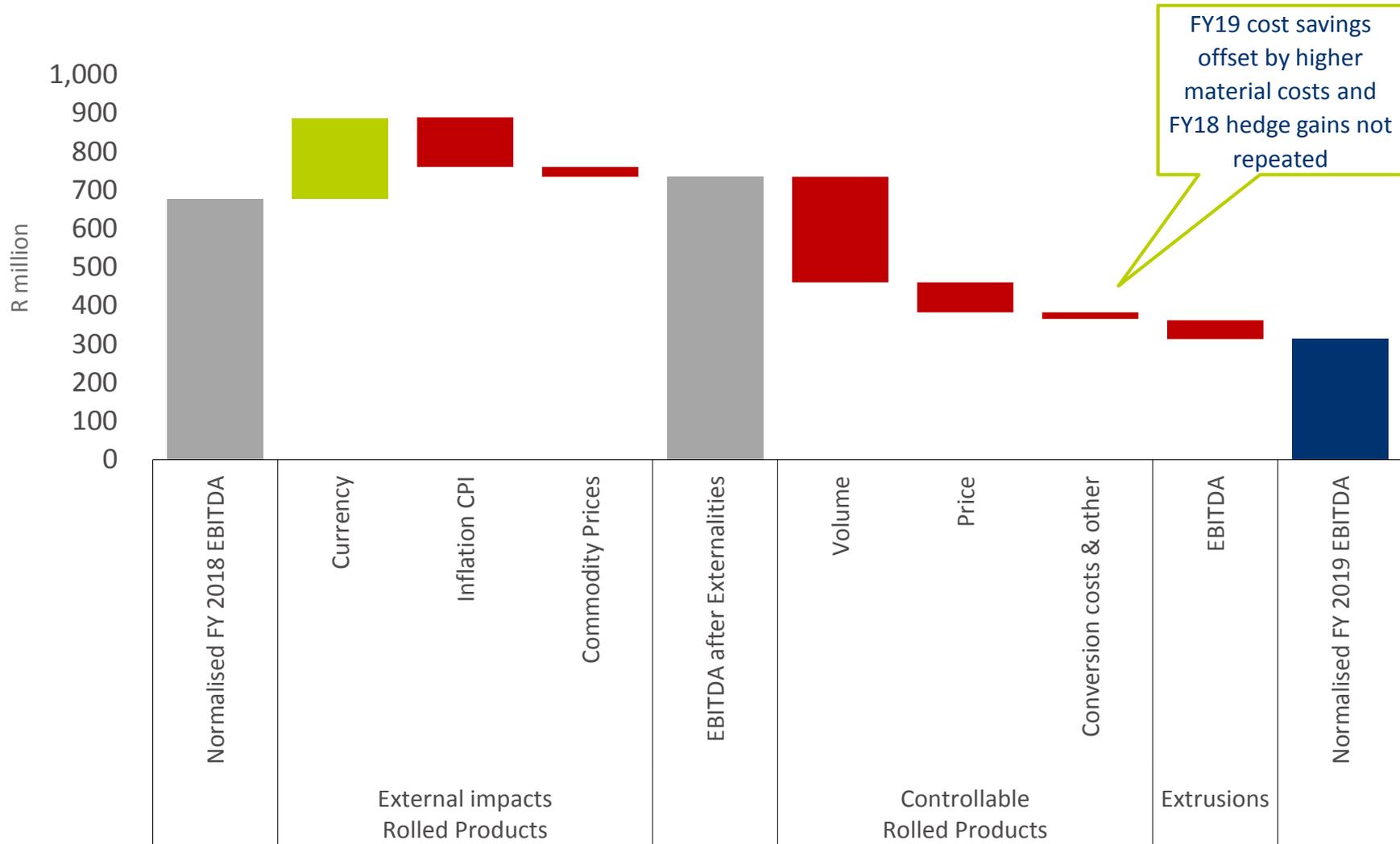
- Large fixed-cost business

## Aluminium is a pass-through

- Creates "noise" in P&L / cash flows
- 50% hedge of metal price lag in place

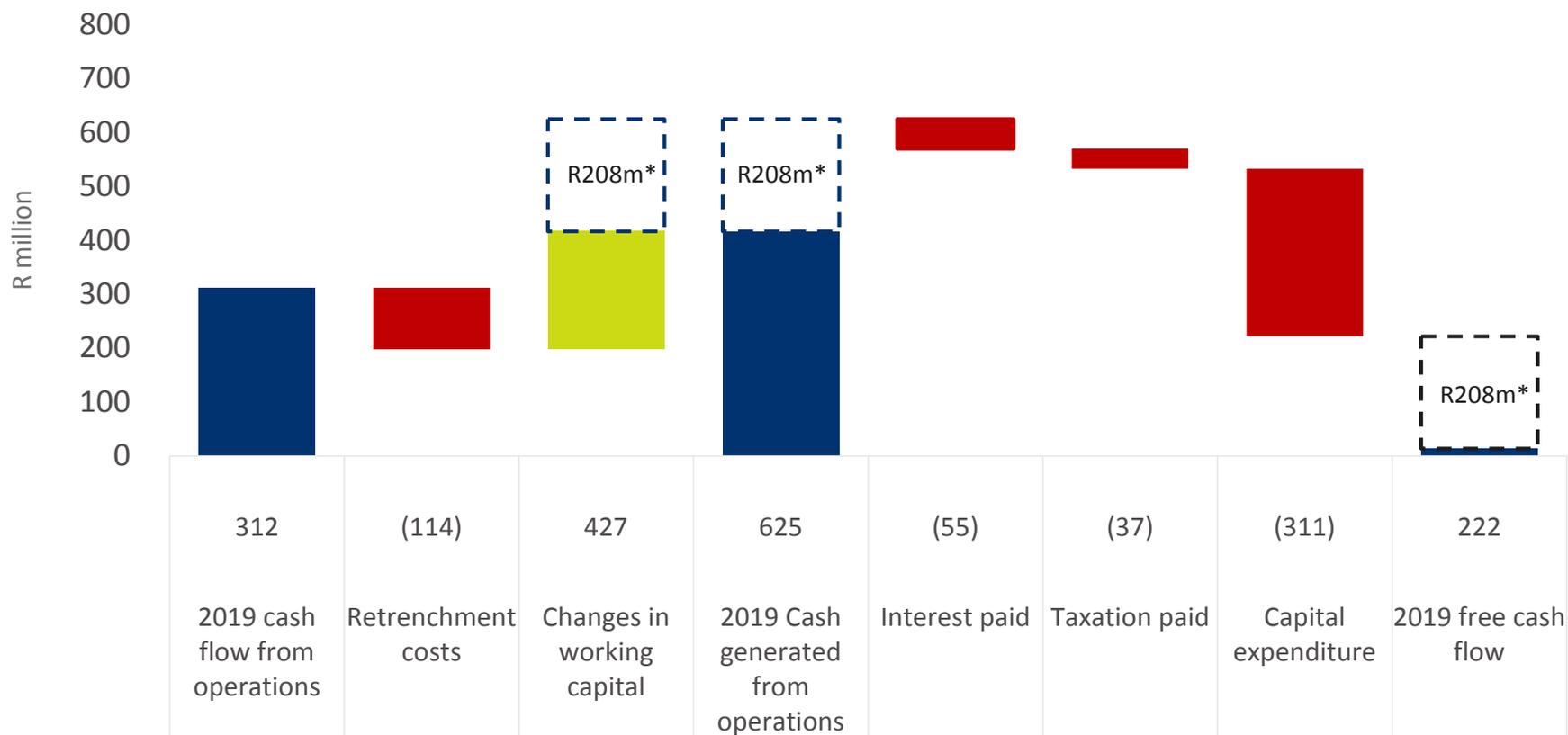
# NORMALISED EBITDA

FY2019 VERSUS FY2018 SEVERELY IMPACTED BY LOWER SALES VOLUMES AND PRICES



# FY2019 FREE CASH FLOW

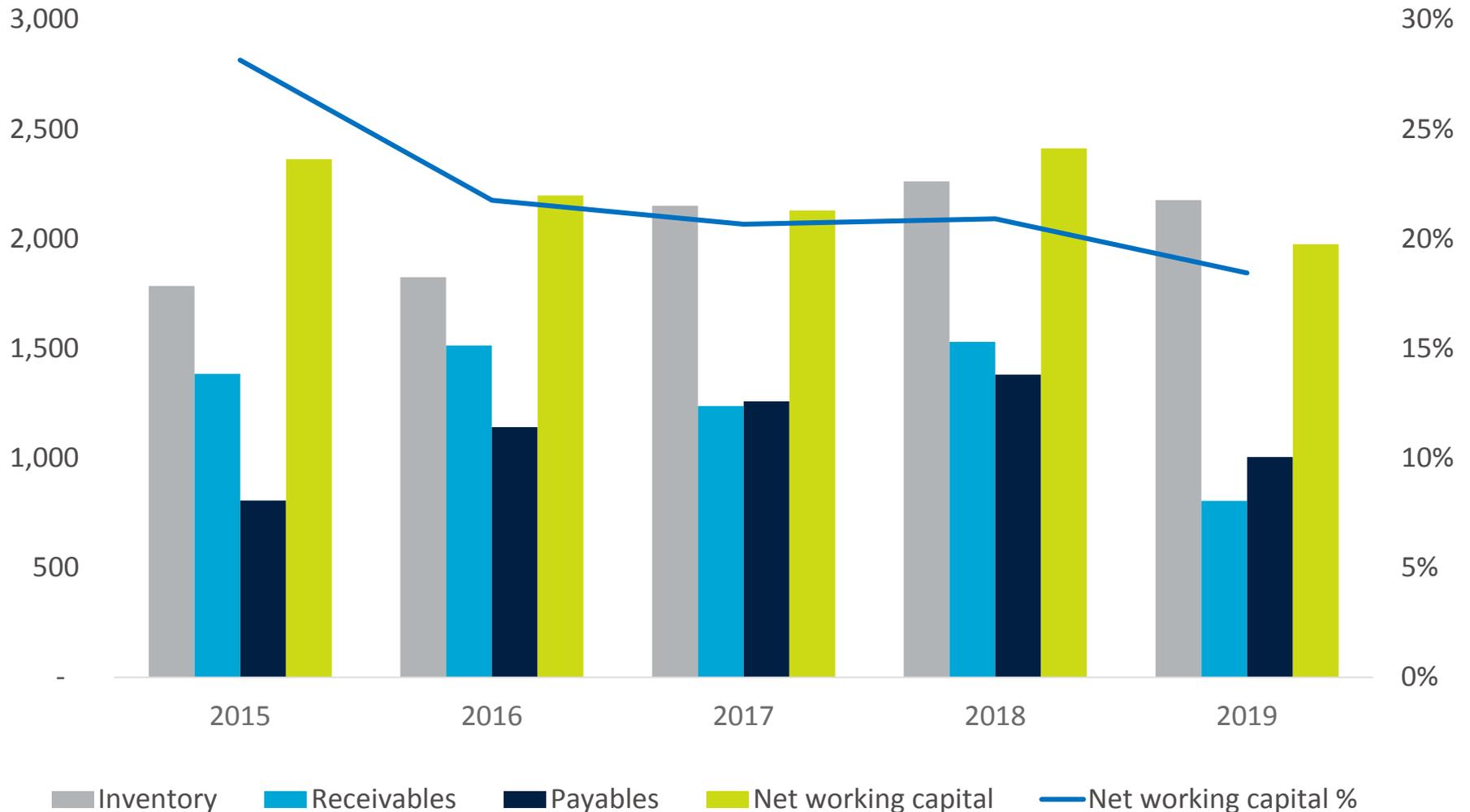
IMPACTED BY LOWER NORMALISED EBITDA AND RETRENCHMENT COSTS,  
OFFSET BY WORKING CAPITAL EFFICIENCIES AND LOWER INTEREST PAID



\* FY2019 free cash flow includes receipt in transit at Dec 2018 of R208 million received in Jan 2019

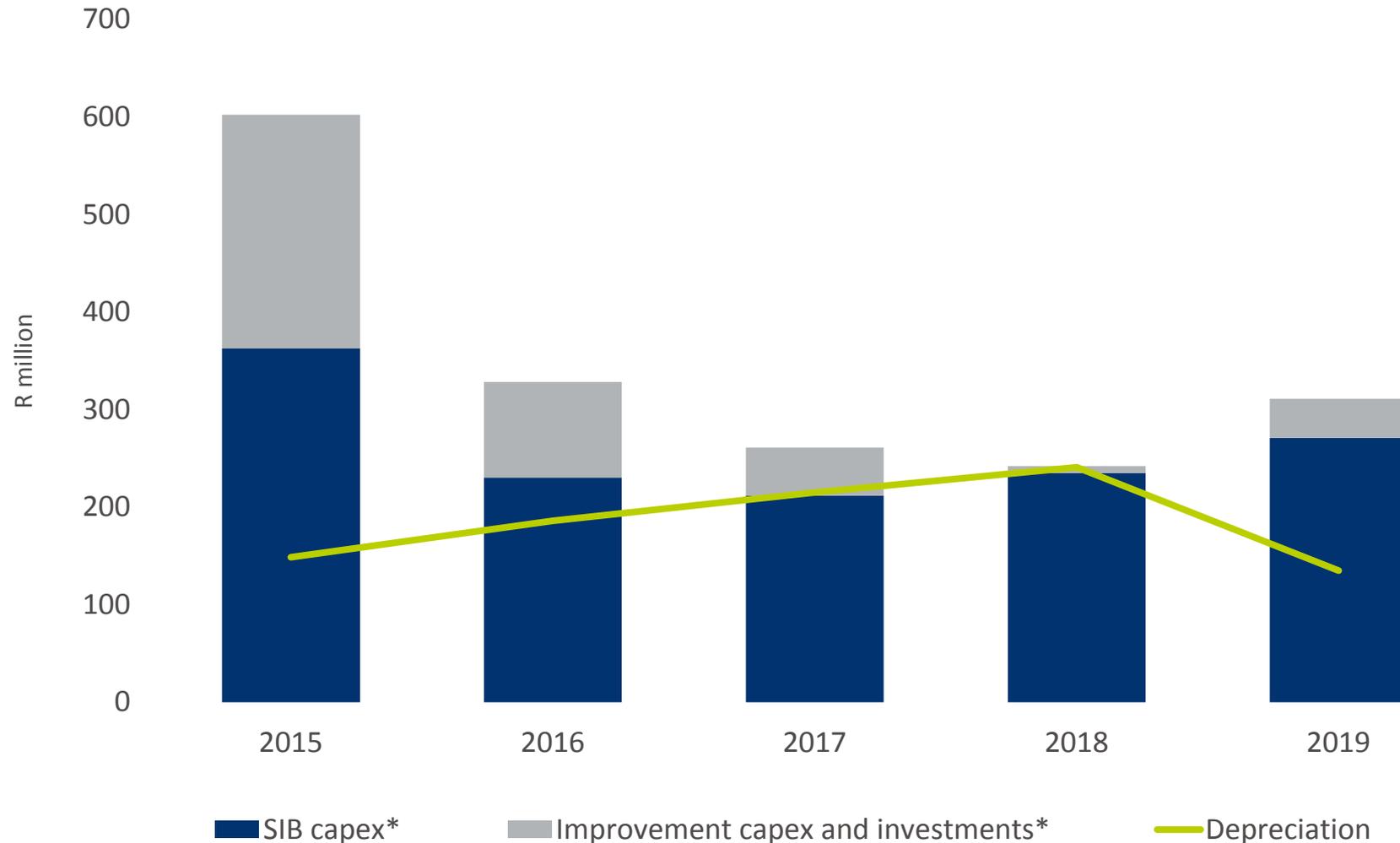
# 5-YEAR NET WORKING CAPITAL PERFORMANCE

## CONTINUED IMPROVEMENTS IN WORKING CAPITAL EFFICIENCIES



# CAPITAL EXPENDITURE

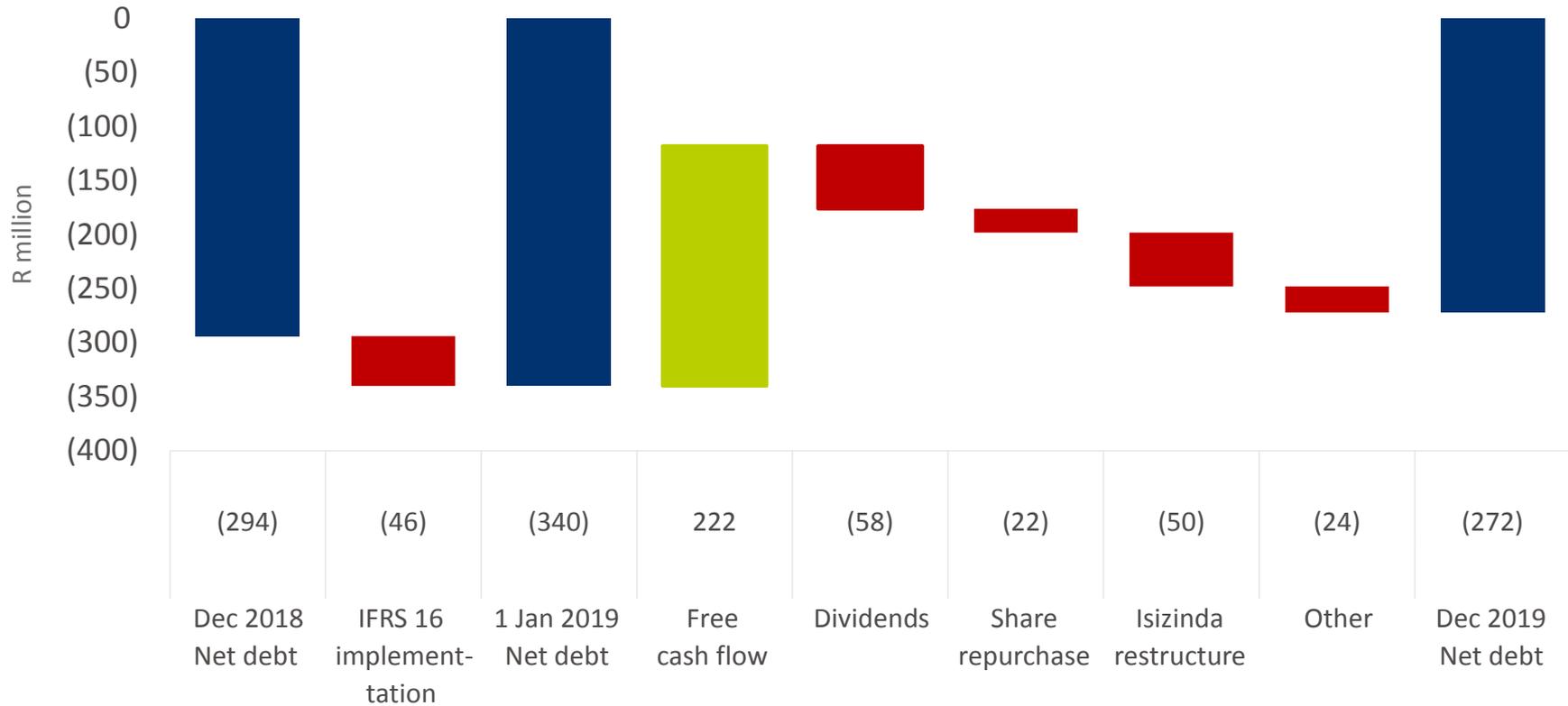
## CAPEX HIGHER DUE TO WEAKER CURRENCY AND INVESTMENT IN MIX IMPROVEMENTS



\* Excludes capitalised borrowing costs

# FY2019 NET DEBT

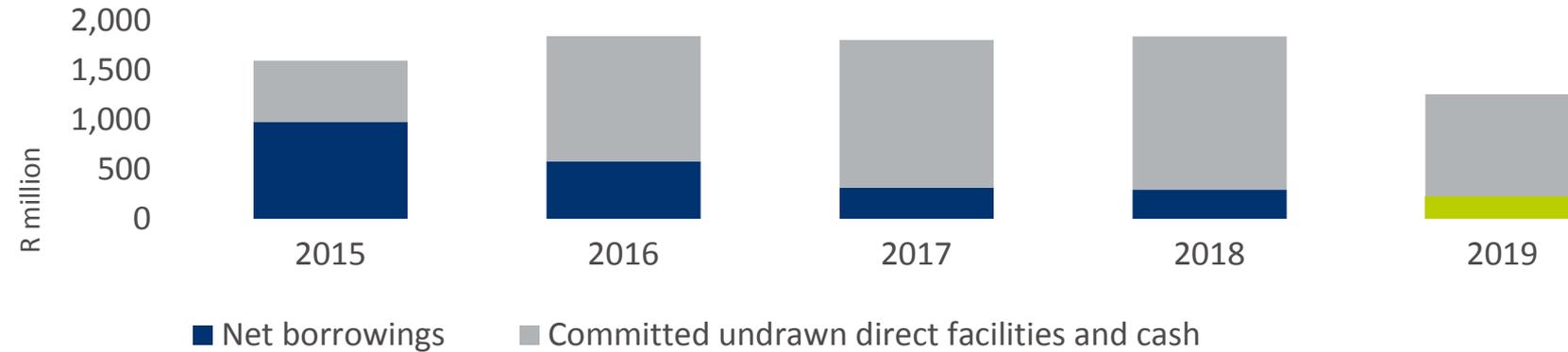
## NET DEBT STABLE AFTER IFRS16 LEASES, RETURN TO SHAREHOLDERS & ISIZINDA UNBUNDLING



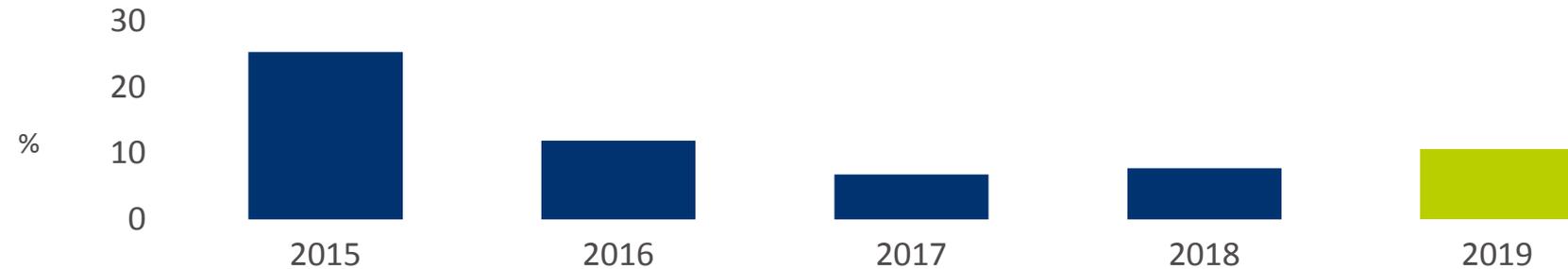
# LIQUIDITY AND CAPITAL STRUCTURE

## 3-YEAR WORKING CAPITAL FACILITY PLUS GBF IN FY2019 D/E IMPACTED BY IMPAIRMENT

### Net borrowings and headroom



### Net debt to equity

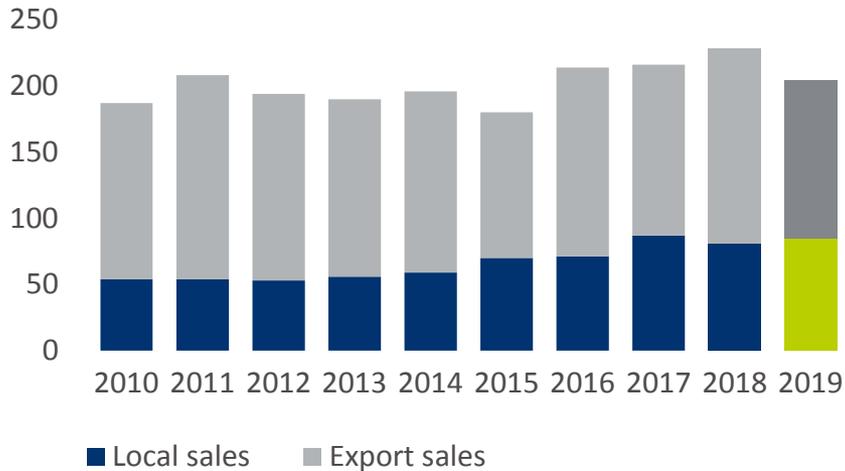


# 3 2019 OPERATIONAL REVIEW

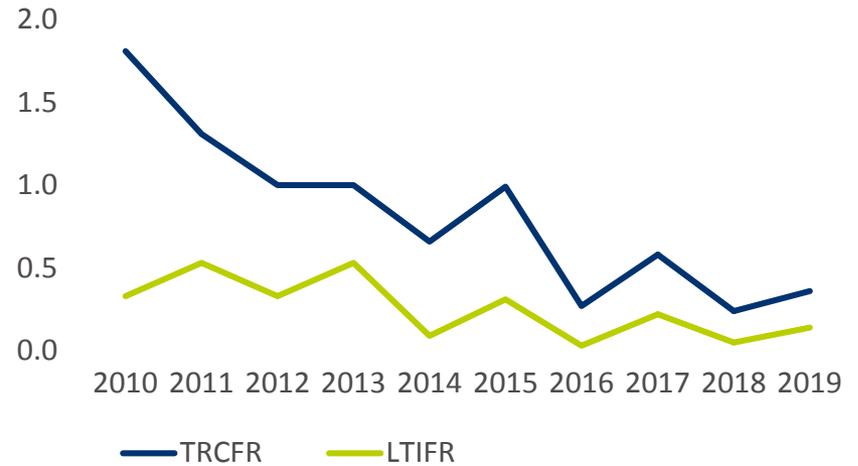


# ROLLED PRODUCTS – KEY FEATURES

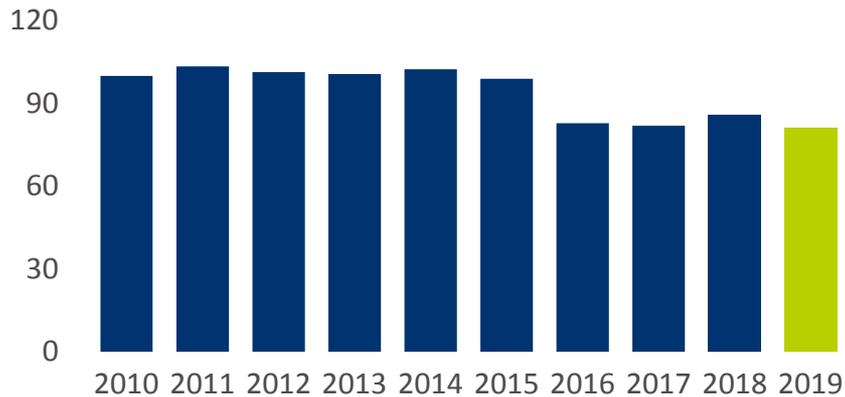
**Rolled Products sales volumes (Tons (000's))**



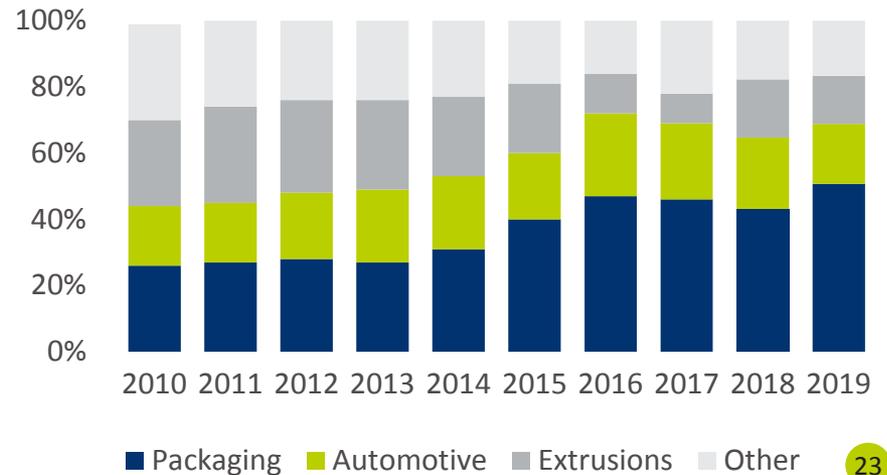
**Safety performance**



**US\$ margin index**

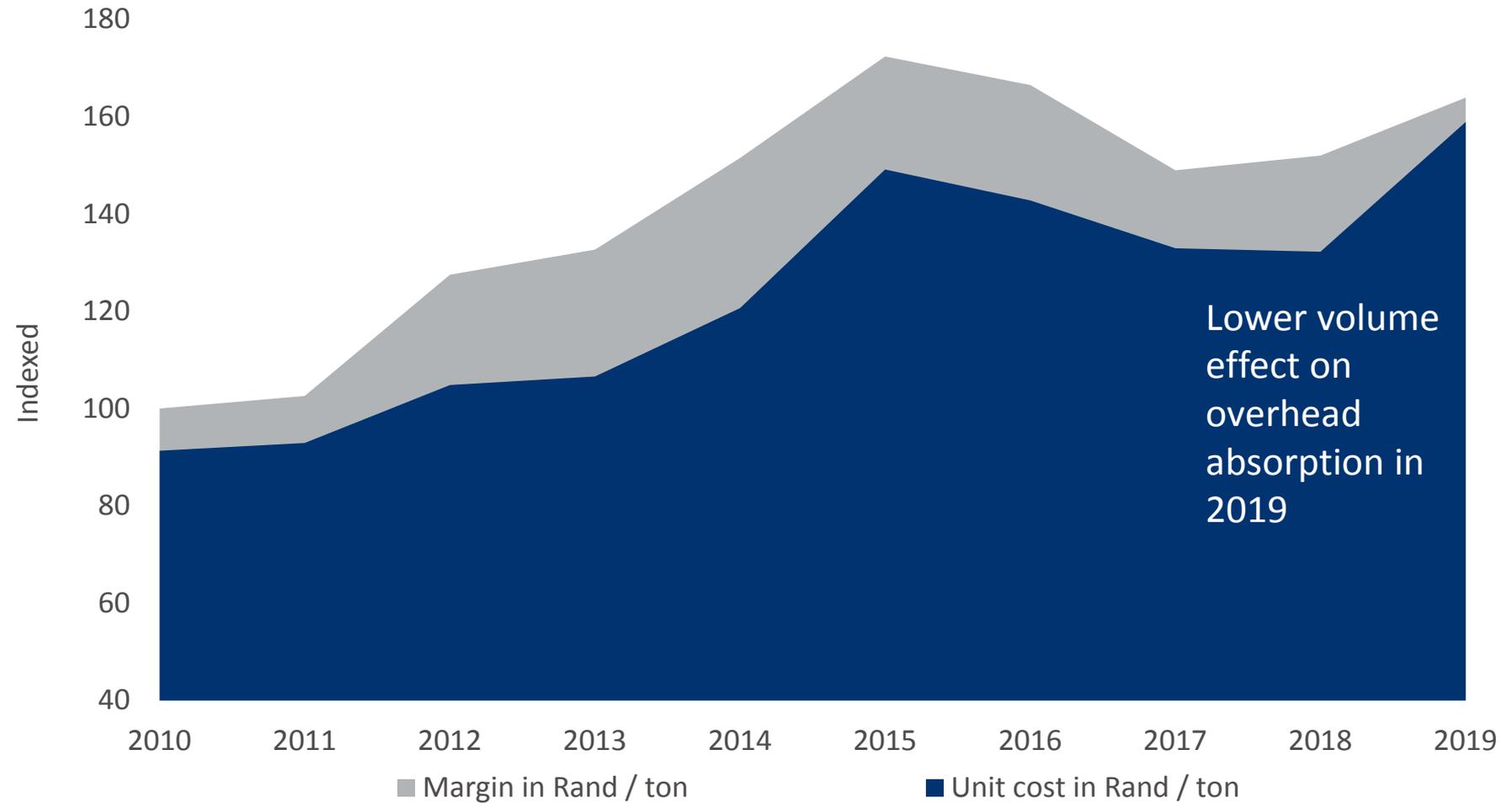


**Group local sales mix (%)**

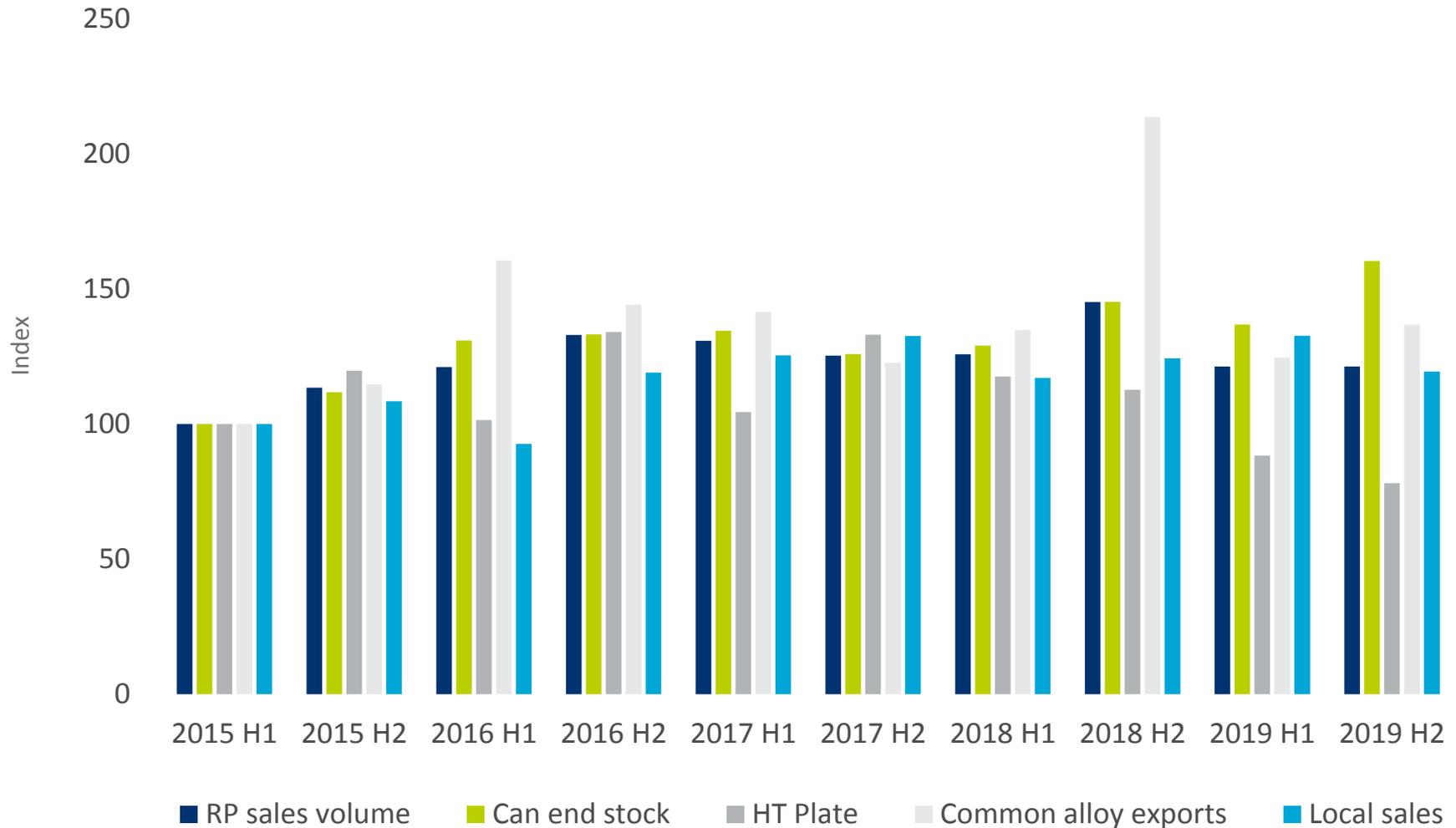


# ROLLED PRODUCTS OPERATING MARGIN

(UNIT COST IN RAND)

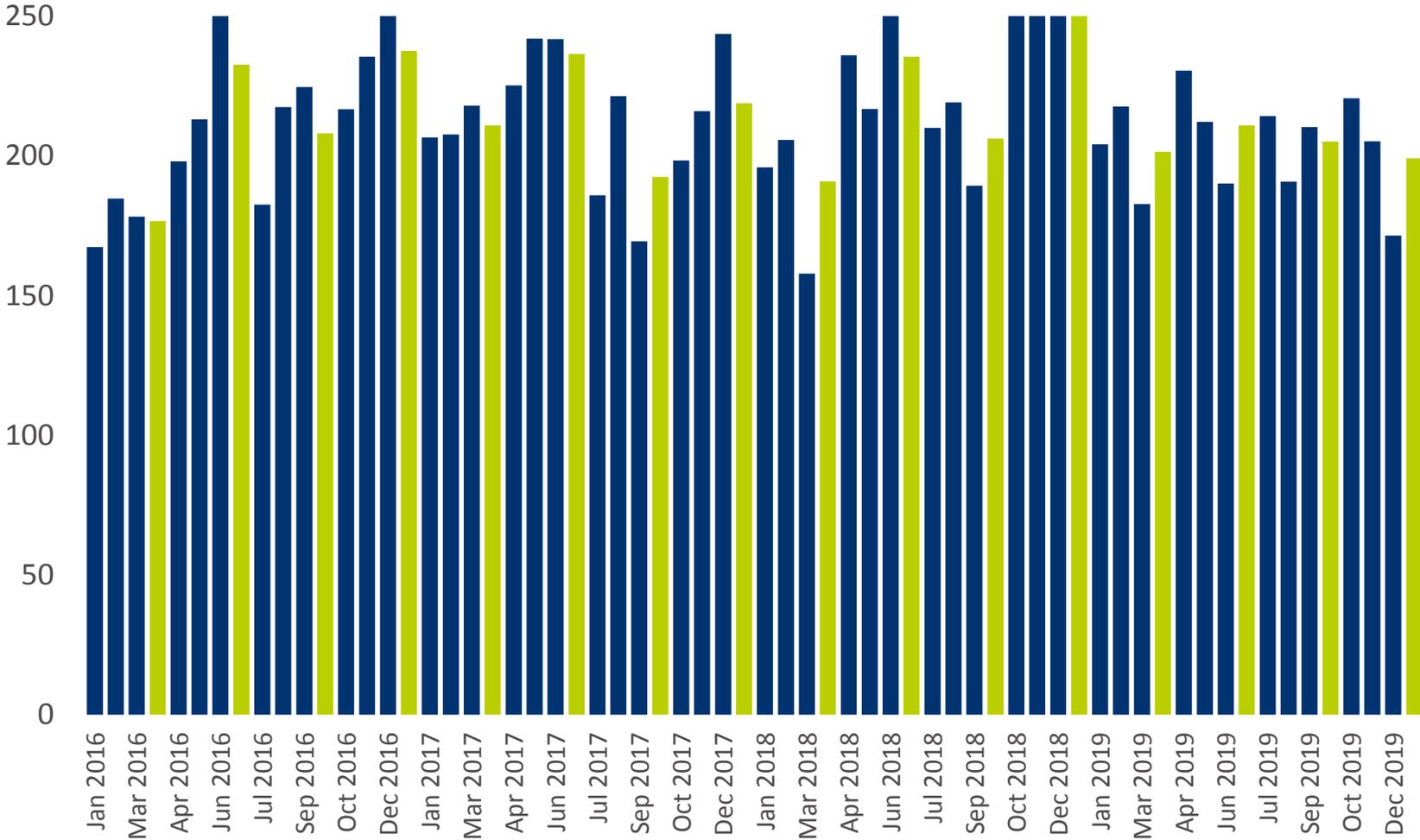


# ROLLED PRODUCTS HALF ON HALF SALES AND PRODUCT MIX



# ROLLED PRODUCTS SALES (ANNUALISED)

Tons (000's)



# STRONG CAN STOCK SALES AS MARKETS TIGHTEN

## Record can end stock sales in H2

- Strong second half production performance, successful debottlenecking (+22% in H2)
- Firm market demand in all regions
- Hualamin to maximise can stock sales

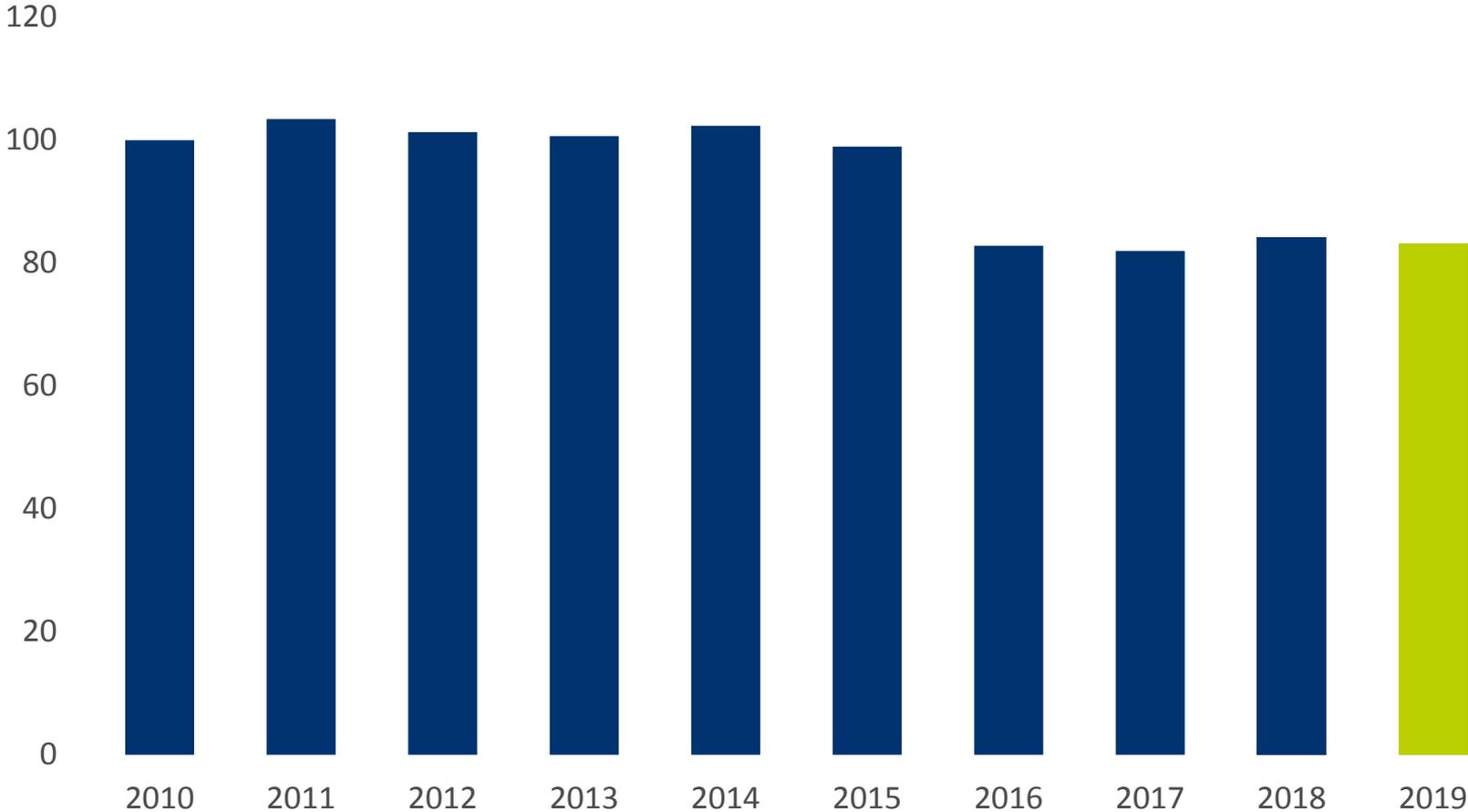
## Weak global non-packaging demand

- USA over-stocked
- Europe flat pre-Covid 19
- Local economy struggling (GDP 0.2%)

## Blockages on USA distribution channel highlight single channel risks

- Relationship strained due to over-stocking
- Partner diversifying into production of FRPs

# ROLLING MARGIN IN US DOLLARS INDEX



# 4 2019 TURNAROUND PLAN DELIVERY



# TURNAROUND ACTIONS IN 2019

## Cost reductions

- Rolled and Extruded products
- Olifantsfontein site closed, property sale agreement
- Costs reduced by R400 million p.a.

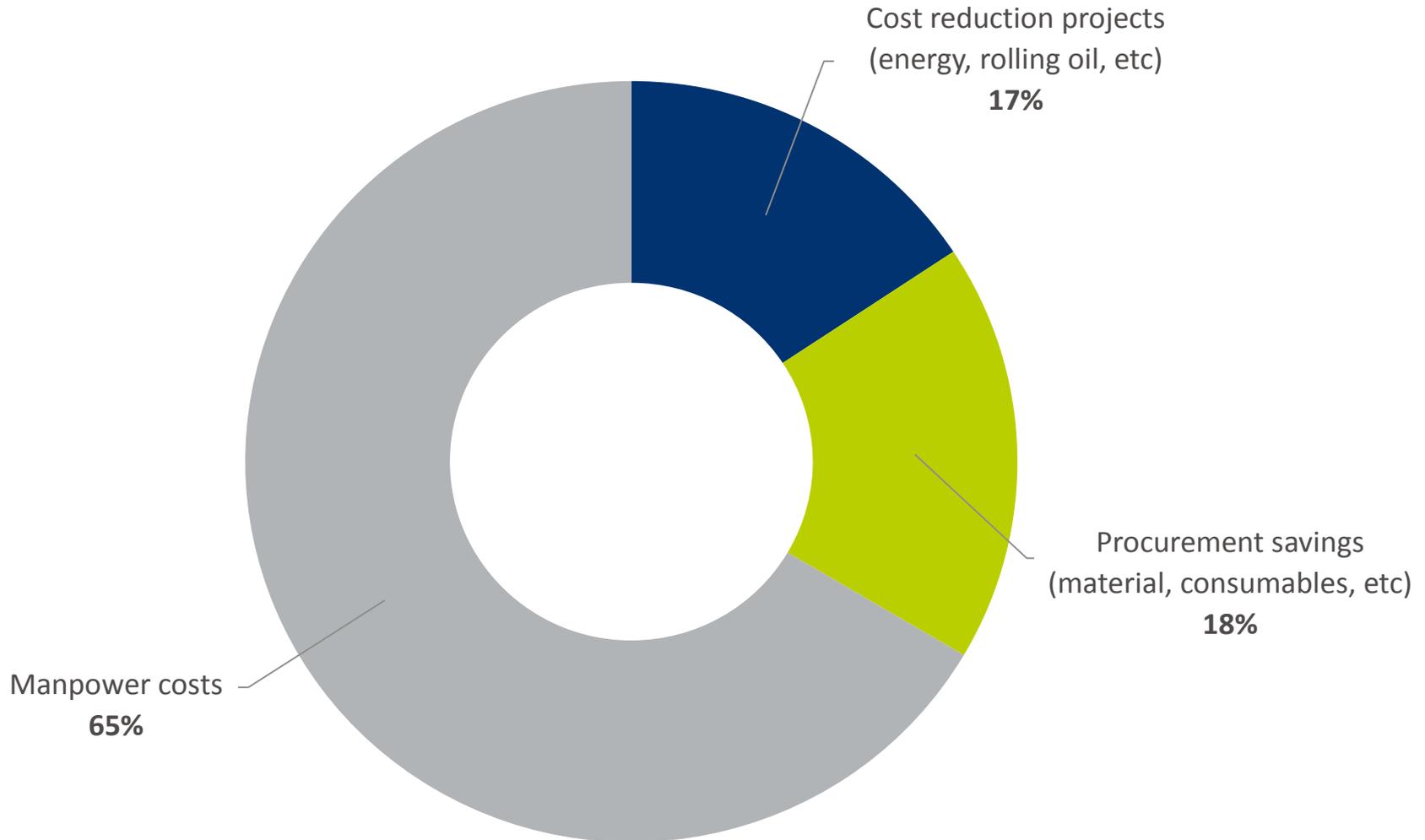
## Re-engineering USA distribution channel

- Direct sales to US customers
- HT plate and other standard products re-established
- Two new sales resources appointed in USA

## Inventory, working capital reduction

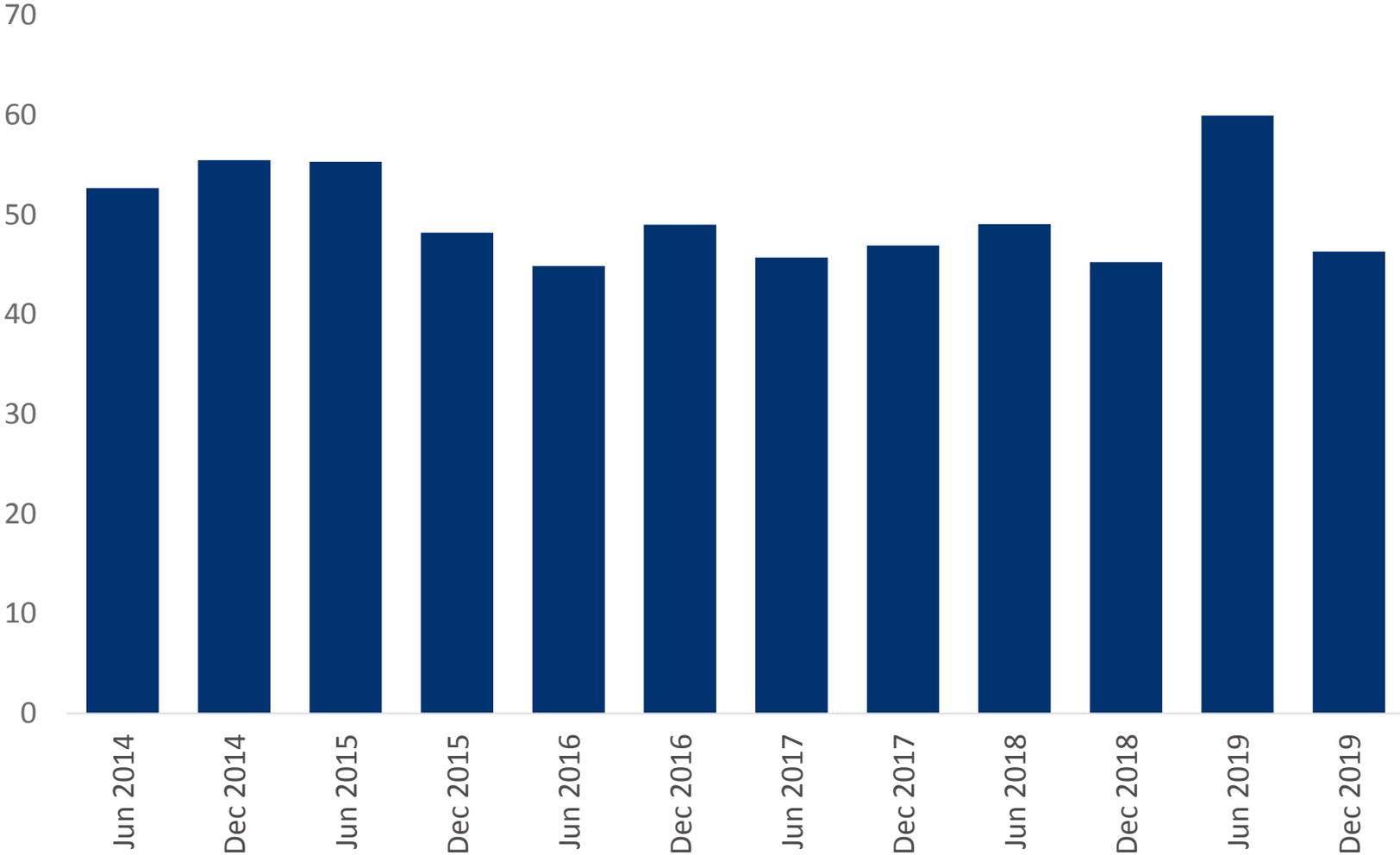
- Rolled products inventory down 14 000 tons (23%)
- Total WC Release R500 million from June to December 2019

# 2019 ROLLED PRODUCTS COST SAVINGS



# HALF YEAR TOTAL RP INVENTORY 2014 TO 2019

Stock kilotons



## 2019 Results

- FY losses following manufacturing disruption in Q1 (reduced sales volumes)
- Once-off closure costs
- Rightsizing year following H1 losses

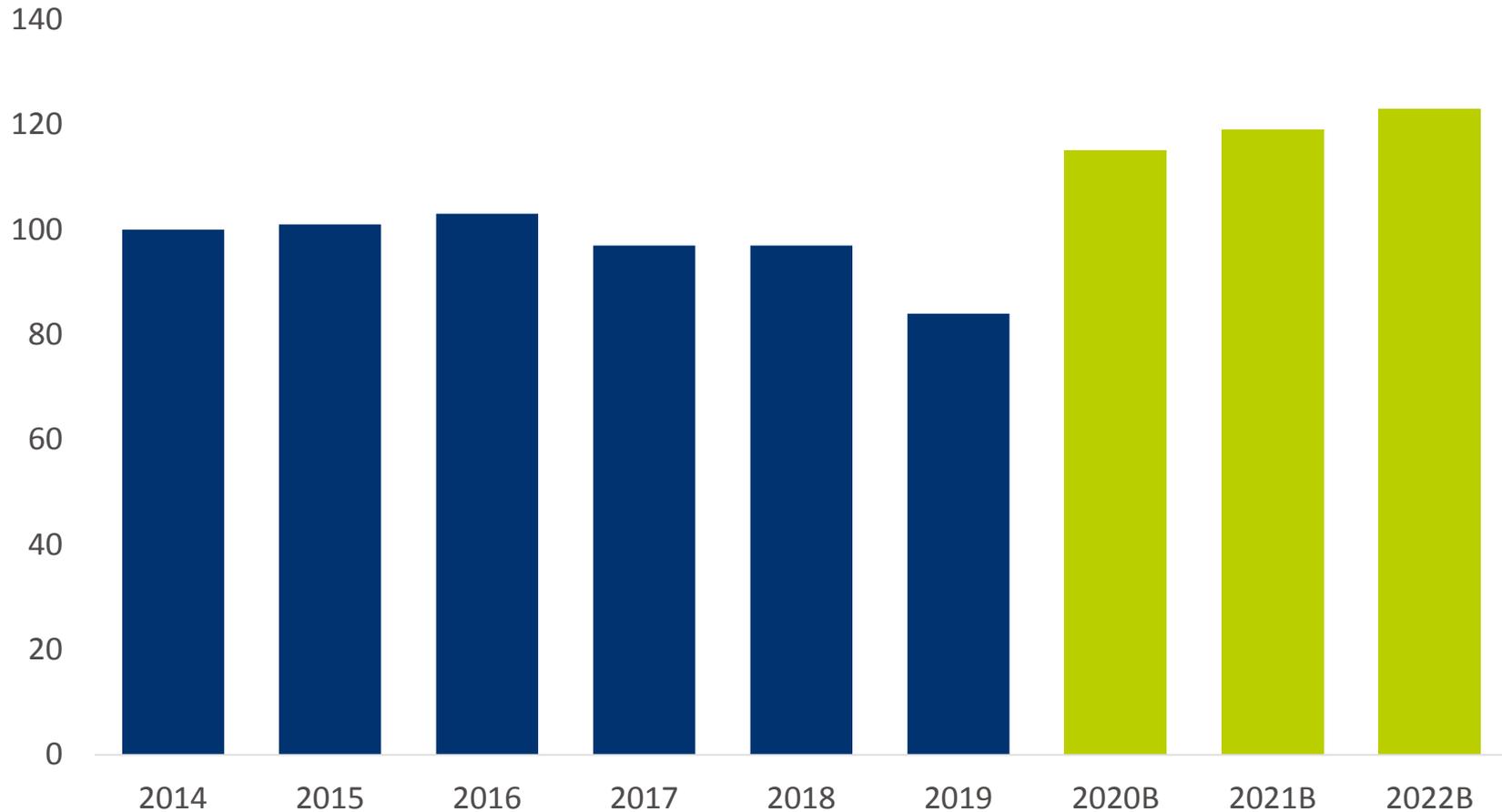
## 2019 Turnaround actions

- Olifantsfontein plant closure and property sale agreement
- New management team
- Cost reductions R150 million p.a. – in excess of volume reduction
- Throughput productivity (increased volume through fewer assets)

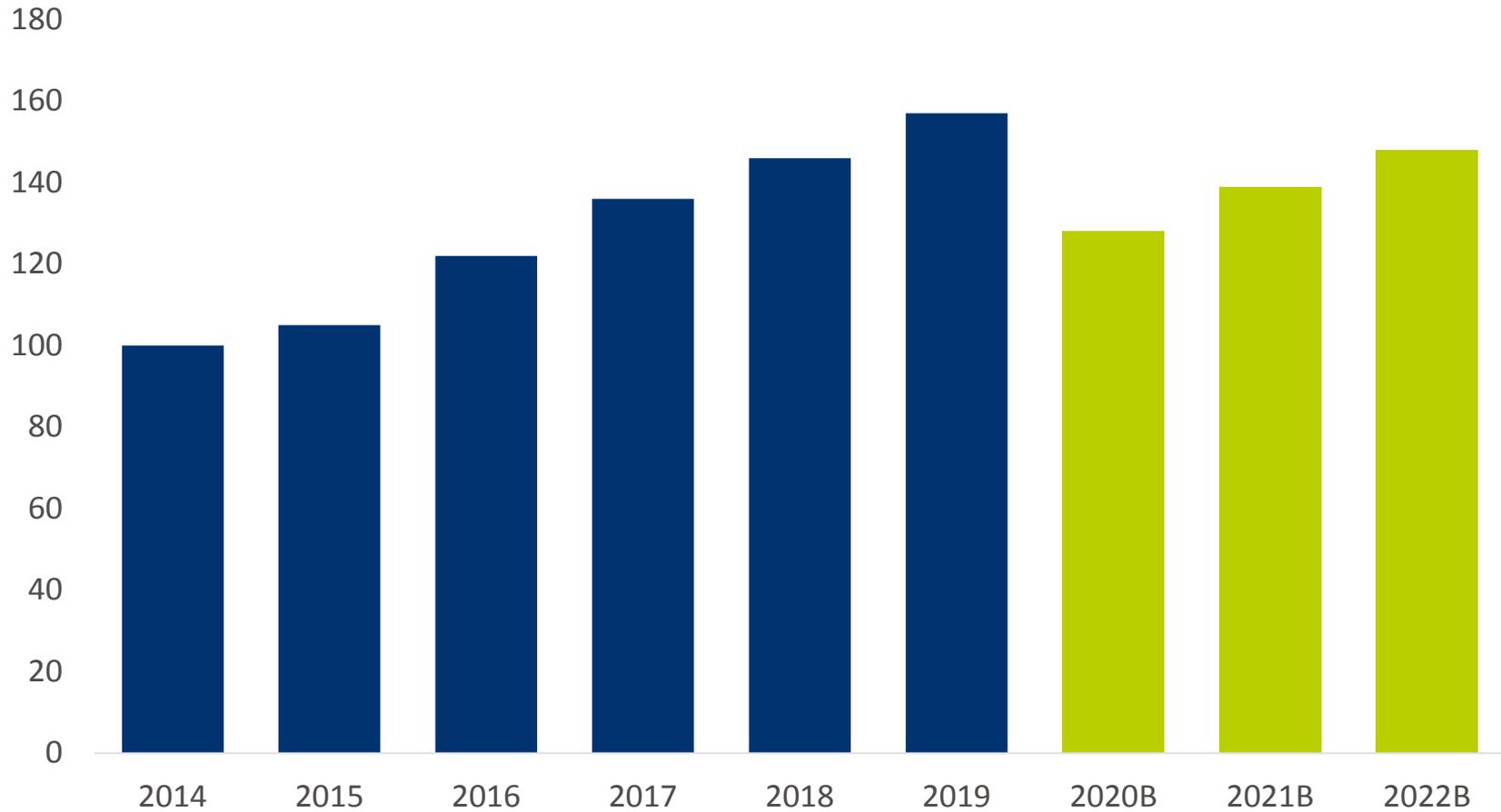
## 2020 Actions

- Stabilize the business –return to profitability and positive cash flow
- Focus on rebuilding market position – incl. automotive contracts
- Further cost savings and rationalizations

# HULAMIN EXTRUSIONS INDEX MANNING PRODUCTIVITY 2014 – 2022 (PER MANPOWER UNIT)



# HULAMIN EXTRUSIONS INDEX MANUFACTURING UNIT COST 2014 - 2022



# 5 PROSPECTS FOR 2020



# USA ANTI-DUMPING ACTIONS

## Suit filed by US Aluminium Association

- 23 March 2020
- Against 19 countries importing into USA
- Common alloy products only (excludes can stock and HT plate)

## Potential impact on up to 22 000 tons (10% in 2019) on Hualamin

- Typically low margin standard products

## Mitigating actions focused on:

- EU and other region sales
- Products not affected by AD / CVD

# RETURN TO PROFITABILITY, FOLLOWING 2019 SHOCKS AND COVID-19

## Defend USA market

- Fight Anti-Dumping
- Rebuild direct distribution channels
- New channel partner

## Risks associated with Hillside Aluminium electricity supply

### Local import duty announcement

### Local market to remain soft

### Packaging (can stock) demand

- Slowly returning to normal (following Covid-19)
- Firm demand growth globally
- Local market to remain subdued