

ASX release 26 August 2021

MAGONTEC LIMITED announces 2021 half year results FY2021 INTERIM RESULT

Magontec Limited (MGL) announces an Interim 2021 Net Profit After Tax (excluding unrealised FX gains and losses) of \$684,000. In the Prior Corresponding Period (PCP) the company reported a net loss after tax of \$0.044 million on an equivalent basis.

The first six months of 2021 was a strong period for the Group's Cathodic Corrosion Protection businesses (CCP, anodes for hot water appliance manufacturers). In all CCP jurisdictions, sales activity increased.

The metals businesses - the sale of primary and recycled magnesium alloys to die casters in the auto, power tool and electronics sectors - experienced a more difficult period; auto sector output was constrained, logistics costs rose sharply, magnesium prices were volatile and Magontec's key magnesium alloy cast house at Golmud, Qinghai province, PRC continued to source its raw material from regional Pidgeon producers pending resumption of supply from the Qinghai Salt lake Magnesium Co Ltd (QSLM).

Despite these limitations in the metals sector, the 2021 Interim result also reflects a recovery from the impacts of COVID in the PCP.

	6 months to 30-Jun-21 '\$000	6 months to 30-Jun-20 '\$000
Reported Net Profit Before Tax and Significant Items	2,238	(49)
Significant items before tax		
- Less non-cash equity expense	(150)	-
- Less MAQ [#] depreciation (non-cash)	(442)	(520)
- Less MAQ [#] Primary Mg Alloy EBITDA losses	(143)	(342)
- Add back writeback on Romania VAT legal win	226	-
- Add back COVID related govt subsidies	-	362
- Add back temporary COVID related salary reductions	-	552
Reported Net Profit/(Loss) Before Tax	1,730	4
- Less tax expense	(600)	(153)
- Add back unrealised FX losses	(446)	105
Net Profit/(Loss) After Tax excluding unrealised FX	684	(44)

[#]Magontec Qinghai magnesium alloy cast house

The table above displays reported Net Profit Before Tax and identifies significant items, largely non-cash, that the business provided for in the period under review. Notable among these are the effects of operating the Magontec Qinghai magnesium alloy cast house operations (MAQ) under the current third-party supply conditions. In the first six

months of 2021 MAQ lost \$143,000 at the EBITDA line and provided \$442,000 in depreciation.

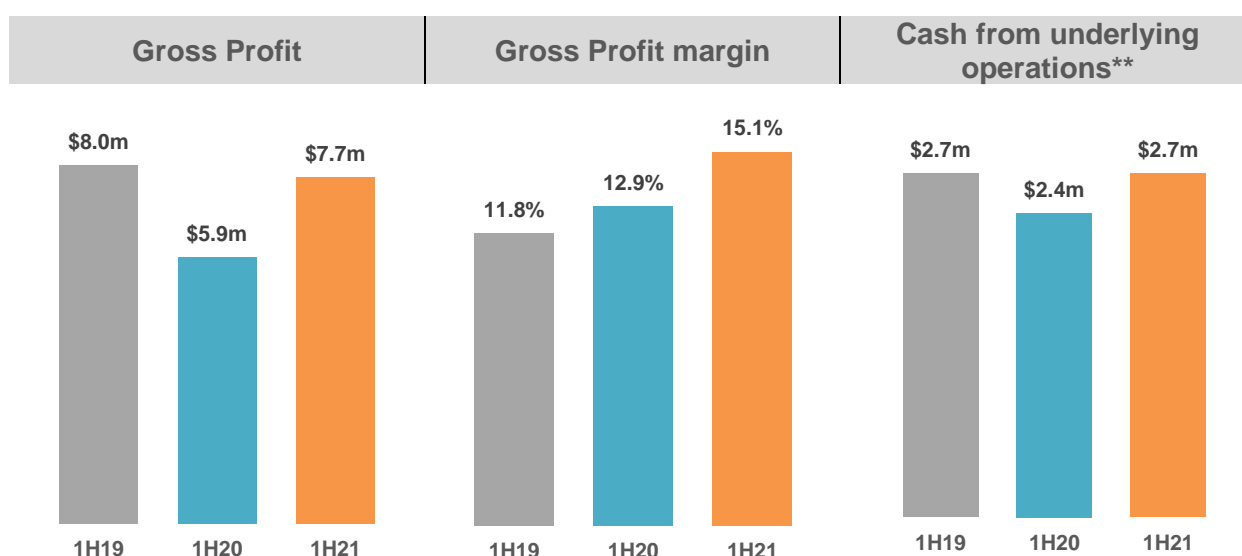
The Company continues to support MAQ and our customers in Asia, Europe and North America in the expectation that QSLM, Magontec's 29% shareholder and raw material supplier, will recommence supply to our cast house in early 2022 as they complete restructuring and remediation issues and move towards the re-start of the Qinghai magnesium smelter.

The absence of COVID support or extraordinary cost constraints in the period under review, by comparison with the PCP, further underlines the strength of the 2021 Interim result.

In the six months to 30 June 2021 Magontec generated \$2.66 million of cash from underlying business operations, up from \$2.35 million in the PCP. This is operating cash generation net of changes in working capital, interest and tax paid.

Excess cash has been applied to debt and working capital pushing net debt down to \$10.2 million from \$12.2 million in the PCP.

FY2021 Half year Financial & Operational Highlights



COVID

While there are lingering effects from the COVID pandemic, the direct impact on operations has been low in the first six months of 2021. From time to time there have been local outbreaks that have caused employees to quarantine. This has led to periods of labour shortage in some factories, although there has been no such event since April.

In Germany vaccination rates are high and constraints on movement and general economic activity are largely removed. The incidence of COVID continues at a modest level, well below the average for the EU. Further lockdowns in Germany are considered

unlikely. In Romania vaccination rates are around half of the EU average while infection rates are also low.

In China low levels of infection in the first six months of 2021 had little impact on economic activity. In July there was a more severe outbreak that now appears to be under control. More than 90% of Magontec's Chinese employees have been vaccinated.

An ongoing operational deficit is the inability of sales staff and management to visit customers and operating units with the same frequency as prior to the pandemic. Staff have become more adept at virtual communications, but this is a deeply inferior method.

Outlook

In the second half of 2021 we expect CCP markets to continue along similar lines to the first six months. Global demand for hot water appliances is generally consistent, driven by new home formation and appliance replacement. We expect to see slightly weaker markets in China, where apartment construction numbers are slowing, while in Europe and North America home building and appliance replacement rates are likely to maintain higher levels of demand. This is in part driven by government-funded climate abatement programs to replace fossil fuel powered home heating with modern heat pump devices. There is also a seasonal tilt to the CCP business as replacement market activity rises in the period prior to the Northern Hemisphere winter.

In metals markets things are a little more mixed. The principal constraint on Magontec's metals business is the absence of raw material supply from QSLM. The Magontec Qinghai plant was constructed at Golmud with the specific intention of taking QSLM's liquid pure magnesium supply directly into Magontec's adjacent cast house furnaces. Until this supply re-commences the MAQ business will continue to be unprofitable at the EBITDA line and, with depreciation charged on this currently non-performing asset, will continue to negatively impact reported profit.

Our partners at QSLM are working their way through a corporate re-structure that appears to be nearing an end. QSLM management have informed Magontec that it is their current expectation that one dehydration unit may be commissioned in the first quarter of 2022. One line would be able to supply dehydrated $MgCl_2$ sufficient to manufacture up to 16,000 metric tonnes a year of pure magnesium and available to Magontec for conversion into magnesium alloy. This compares with 6,654 metric tonnes produced at Magontec Qinghai during the 12 months to 30 June 2021.

The restart of supply of liquid pure magnesium to MAQ would rapidly transform the economics of that facility and the wider group. In the meantime, we are focused on assisting QSLM in any way that we can to ensure that the restart takes place as quickly as possible. Magontec remains committed to its primary magnesium alloy customers and to production of alloys from this facility. The Qinghai Salt Lake Magnesium plant is an environmentally advanced facility, sourcing more than 85% of its energy from renewable generation. Production from Magontec's Qinghai cast house will be widely welcomed by

die cast manufacturers the world over, looking to reduce emissions embedded in the products that they purchase as well as in their own facilities.

In the meantime, Magontec's other metals businesses, recycling of magnesium alloy scrap at Bottrop in Germany and Santana in Romania, and production of specialist metals, face a more challenging immediate period. A slowdown in the automotive sector due to chip shortages, among other issues, has reduced volume throughput for the European recycling facilities over the last 12 months and we don't expect a recovery in the short-term. Our near-term focus is to reduce production and processing costs so that these businesses are more profitable at lower volumes, and more competitive. Some of these initiatives will be introduced through the period to 31 December 2021. Later this year we will also seek to regain business that was lost in late 2020, a task that would be considerably lightened by the prospect of QSLM's magnesium smelter restarting in the first quarter of next year.

On balance the outlook for the second half of 2021 is cautiously positive, despite the growing issues around magnesium price volatility and global logistics costs.

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Executive Chairman

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Nicholas Andrews, Executive Chairman of Magontec Limited has authorised the release of this document to the market on 26 August 2021

To view the 2021 Magontec Limited Half Year Report and for more information on Magontec Limited please visit our website at www.magontec.com



Picture: Qinghai Salt Lake Magnesium Co. Ltd electrolytic magnesium project at Golmud in Qinghai Province PRC.
The Magontec Qinghai magnesium alloy cast house is part of this complex.