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Company Announcements Office  
Australian Securities Exchange Limited  
20 Bridge Street  
Sydney, NSW 2000

25 May 2022

Dear Sir/Madam,

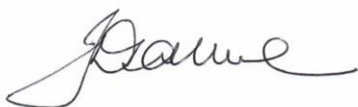
**Magontec Limited – 2022 Annual General Meeting Wednesday 25 May 2022 11:00am  
Executive Chairman's Address**

Attached is the address of Mr Nicholas Andrews, Executive Chairman of Magontec Limited, to be delivered at the Company's 2022 AGM today.

The slides referred to in the body of the address appear in this document at the foot of the Chairman's address.

Shareholders' attention is drawn to heading "Slide 10 – Capital management" and the commentary below. There, Mr Andrews references a Board determination to pay a dividend of 0.6 cents per ordinary share for the 6 months to 30 June 2022.

Yours sincerely



Mr John Talbot  
**Company Secretary**  
**Magontec Limited**

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***John Talbot, Company Secretary Magontec Limited, has authorised the release of this document to the market on 25 May 2022***

## **ADDRESS BY EXECUTIVE CHAIRMAN MAGONTEC LIMITED**

### **TO ANNUAL GENERAL MEETING 25 May 2022**

#### ***Slide 1 (Frontispiece)***

Ladies and Gentlemen, I would now like to move on to a discussion of our company and go through a few slides that explain the critical trends in our industries, a review of our business performance, some corporate issues and some financial commentary and outlook.

As many shareholders will have observed from comments in our 2021 Annual Report and in our more recent 2022 first quarter report, the global magnesium industry has experienced some challenging times over the last 9 months.

#### ***Slide 2 (Disclaimer)***

#### ***Slide 3: Mg price chart***

In 2021 the price of magnesium metal soared to nearly ¥63,000 per tonne, up 309% from 1 January to 26th September last year. While the price has now settled at a lower level, around ¥32,500 per tonne, this is still well ahead of its prior 10 year average price of a little over ¥16,000 per tonne. The rise in the price of our key raw material has had two countervailing effects; on the one hand it has raised the cost of inventories and debtors while, on the other, it has increased the selling price of our magnesium alloys and anodes.

The more important of these effects is the higher selling price. The profit that has flowed from higher magnesium prices has significantly reduced Magontec debt, a topic I shall return to later in the presentation.

The key questions for medium term profitability for Magontec are

- will prices remain at higher levels? and
- will high prices continue to generate higher profits?

So firstly, why is the price of magnesium so high and what is the likely trajectory?

Around 90% of all magnesium is made using the Pidgeon process. The inputs are dolomite (a low-cost magnesium host rock), ferro silicone (a high cost reducing agent that extracts Mg from dolomite), energy and labour.

Energy in the Chinese magnesium industry is almost entirely derived from coke gas, a by-product from coke made for use in the steel industry, that is diverted to fire Pidgeon magnesium retorts. The price of Pidgeon process magnesium is thus largely derived from the price of coal and labour.

In China imported coal volumes have been disrupted and a nation-wide restructuring of the coal industry has closed private coal mines, many of which were low cost and lightly regulated. The result has been a decline in available volumes and supply disruption leading to historic coal price volatility.

New emission controls imposed on coke makers and magnesium producers by Chinese environmental authorities have made matters more complicated. Many companies have been shuttered while they buy and install emission abatement equipment. And over the long-term Chinese labour prices have continued to rise and are now higher than in some European countries.

#### ***Slide 4: Mg & FeSi price chart***

As I said earlier, ferro silicon is a key input raw material for Pidgeon process magnesium, and it is currently in a sharp upswing, putting renewed upward pressure on magnesium prices.

For Chinese magnesium producers able to operate, profitability has been very high. But high raw material, emission remediation, energy and labour costs appear likely to ensure that the price of magnesium will continue to track above the long-run average.

While this has raised the cost of magnesium relative to other competitor metals, there have been price rises and disruption across the entire metals industry supply chain, particularly in the aluminium industry, which closely competes with magnesium.

#### ***Slide 5: Magontec alloy and anode profitability***

Over the last three quarters our metals and magnesium anode products, Magontec's principal operating activities, have enjoyed a boost in profitability that coincides with this rise in magnesium prices.

At the beginning of this period there was an inventory effect where material acquired at a lower cost was sold into a higher priced market.

More recently profitability has been sustained in all key magnesium metals products. In part this reflects a greater scope to arbitrage a higher commodity price relative to its cost of processing and in part a change in non-class 1 scrap values - material that was previously uneconomic to process, can now be profitably used as cast house feedstock. So higher selling prices have sustained higher levels of profitability through the first 4 months of 2022, and we think these

conditions are likely to persist while magnesium prices remain at elevated levels.

***Slide 6: Qinghai – dates and QSLM commentary***

Moving on to our Qinghai business, we have continued to operate our cast house on reduced volumes, and in each period since the end of March 2019 this business has been unprofitable awaiting the recommencement of supply from QSLM.

We have persisted at Qinghai because to seek a temporary cessation of operations would likely become an effective withdrawal and would be difficult to reverse. At the Qinghai cast house we have an experienced team of 70 including managers, engineers, cast house operators and a settled administration team.

We have been able to contain losses at relatively low levels and we have retained important customers in China, Japan and North America. Effectively, our average EBITDA loss of \$0.35 million at Qinghai for each of the five half year periods since 1 July 2019, has been an option on the QSLM plant restarting and the original production plan being achieved. Looking forward, we now expect a resumption of liquid pure magnesium supply within a few weeks. In my most recent communication with the leadership at Qinghai we have been told that remediation work in the dehydration plant has progressed and that commissioning will commence this month. I do caution that commissioning rarely goes to plan and there may still be further delay.

If the commissioning process is successfully completed on the foreshadowed timetable, we can expect limited volumes of magnesium

in the second or third quarter of this year. Remediation work has focussed on only one out of 6 dehydration lines so output will likely be just 1/6<sup>th</sup> of the total plant annual production capacity of 100,000 tonnes.

As shown on this slide, at full production Magontec expects to receive 56% or a maximum 56,000 metric tonnes per annum of QSLM production volumes, which would markedly increase revenues and profitability. At the more limited flows anticipated over the coming months we expect a reversal of the current loss position for this asset.

The wait for a return to normal operations at Magontec Qinghai has been a frustrating experience for all shareholders, as it has for management. At this stage I can add little more other than to say that I communicate regularly with the QSLM management who are responsive and engaged. Our excellent President of Magontec Asia, Tong Xunyou, has visited regularly to inspect the factory and speak with the local management. If the Board did not believe that the metal would flow again, it would move quickly to close this operation.

### ***Slide 7: Cathodic Corrosion Protection***

I want to focus a little on the CCP business in this presentation. People often assume that Magontec is just a materials company and forget that we have a significant presence as a very successful manufacturing business.

Our most successful enterprise in terms of market share, innovation and contribution to profit is the manufacture and sale of magnesium and electronic anodes. These products are installed directly into hot water tanks on the production lines of our customers; companies such as

Bosch in Europe, Haier in China, Bradford White in the USA and more recently, DUX here in Australia.

The magnesium anodes business has benefitted from the rising price of magnesium metal, as we saw in an earlier slide, but our real achievement has been in growing our global sales volumes.

We have won large market shares by being a highly efficient manufacturer and through our global distribution platform, with representatives located in and focussed on every regional market. While innovation is important, profitability in the CCP business is also driven by volume throughput. As one of the largest manufacturers of these products we have developed a low-cost manufacturing process resulting in a very profitable business.

As a competitive and diverse CCP manufacturer, we plan to continue to grow our customer base through service and innovation. In Germany and China, we have chemical and electrical engineering teams developing new products and refining existing products. This provides a competitive edge in a market that is undergoing rapid change as consumers shift from carbon energy heating devices to higher technology heat pump devices that can use renewable energy. Emerging global demand for zero emission and energy efficient hot water systems is a very positive trend for our electronic anode systems where revenues have grown by 80% over the last five years with the sharpest increase occurring in 2021 and continuing into 2022.

### ***Slide 8 – 1<sup>st</sup> Quarter 2022 results review***

The broader picture over the last few months shows that Magontec has been a beneficiary of the rise in magnesium prices and strong markets for its CCP products.

These charts show the Gross Profit, Gross Profit Margin and Underlying Operating Cashflow over the last 5 quarters – data that we released in Magontec's most recent financial results announcement last month. While Magontec has enjoyed a period of particularly strong earnings growth, as I said in my 1Q 2022 commentary, this is unlikely to be sustained, at least at this level, for each subsequent quarter.

Forecasting earnings and demand in each of our industry segments is difficult in normal times. With the world in its current state of turmoil it is foolhardy to try to look too far forward.

My observation to you is that the CCP industry (around 52% of our profits in 2022 YTD) generally experiences low volatility, as such a large proportion of hot water appliances go to the replacement market.

The automotive market is considerably more volatile. While we have learned to live and prosper with lower levels of throughput in our European and Chinese magnesium alloy factories, it is not difficult to see that there may be bumps in the road ahead for this key customer base. Future year profits and earnings consistency would certainly be greatly enhanced by the recommencement of supply of pure magnesium raw material from Qinghai. Low emission QSLM-sourced metal will likely be highly prized and prioritised by all global automotive manufacturers and their Tier 1 suppliers under all economic circumstances. The



recommencement of supply from our Qinghai cast house will also enhance the earnings power of the wider Magontec metal business in China and Europe.

The other enduring feature of this period of strong earnings growth is its impact on the group's balance sheet. Debt has fallen to low levels and Magontec is now well positioned to grow its sales in both its main businesses and look at new endeavours.

### ***Slide 9: Working Capital and Net Debt***

Magontec's balance sheet has been measurably changed by higher levels of profitability over recent months.

The chart on the left shows the decline in net debt from \$11.9 million at the end of the first quarter of 2021 to \$5 million at the end of the March quarter in 2022.

The chart on the right shows the group's working capital and how much of that is funded by banking lines, now just 12%, and how much is funded by shareholders equity, now 88%.

At a time of rising inflation Magontec has a low exposure to rising interest rates. The company also has access to some of the necessary funds and banking lines to grow the business as opportunities present. When material flows again from our Qinghai plant, we will have additional funding lines, not shown in our finance reports, that are available to that business under our agreements with QSLM.

## ***Slide 10 – Capital management***

Over the last 18 months the Board has paid close attention to capital management.

In 2020 a buyback of un-marketable share parcels was approved and followed in 2021 by a 1-for-15 stock consolidation. These actions were designed to tidy up the company's register, make our company more attractive to a wider group of shareholders and to position the company for the future. In 2022 we have been pleased to see several new institutional shareholders join the Magontec register together with some new high-net-worth investors.

As our businesses have moved into a more profitable stage the Board has now been able to discuss the merits of a dividend. Given the cash generation of the last few months, there is a small surplus of funds that could be used for this purpose.

The Board, by formal decision, has determined that a dividend of 0.6 cents per ordinary share for the 6 months to 30 June 2022 be paid. The dividend will be unfranked, and shareholders will be offered an opportunity to participate in a Dividend Reinvestment Plan. Full details of the dividend will be decided by the Board in the legal formality of declaring the dividend upon release of the 2022 half year accounts at the end of August 2022. That formality will include setting the Record and Payment dates.

I am very pleased to be able to convey this development to shareholders. The 2021 financial results, the financial results to 31 March 2022 and the continued strong performance described in my

earlier comments, all point to the likelihood of a 2022 result at least on a par with that of 2021.

While the outlook from today appears to be riddled with more than the usual level of uncertainties, if -

- Magontec's strong performance to date is not significantly eroded in the balance of the current financial year; and
- general economic circumstances and the Company's specific economic circumstances at the end of the current financial year are relatively benign (at least as far as Magontec is concerned),

I will have a confidence to advance a case to the Board towards year's end, for the determination of a further dividend in relation to end 2022 in the order of that currently determined. Of course, that will be a collective decision for the Board having regard to the then prevailing circumstances

### ***Slide 11 – conclusion***

Before I close and answer your questions, I want to make a short comment on our Board.

As Chairman of Magontec Limited I am very grateful for the support of the Directors who serve our company. Our Board includes specific and relevant skills.

Our China-based Director, Zhong Jun Li, is a magnesium industry veteran and plays an important and active role in assisting Magontec's efforts in China.

Atul Malhotra has had a long career in the European manufacturing industry, was a senior executive at one of Europe's leading magnesium die casting companies and has close connections with European and North American automotive companies, a key customer base for our metals business.

Robert Kaye is a highly experienced Sydney-based company director and a senior counsel. Robert offers the Magontec Board a comprehensive legal overview.

Andre Labuschagne has also been a longstanding Director. He originally joined the Magontec Board as a representative of a substantial shareholder, Straits Mine Management. In February this year Straits sold their shares to a small group of new and existing shareholders. Andre's experience in the Australian listed sector as a mining company CEO and Director, and his understanding of Magontec's business make him a valuable contributor and I am very pleased that he has agreed to remain as a director of our company.

Our Board now comprises a majority of Independent Directors and moves to compliance with this aspect of the ASX Corporate Governance Principles and Recommendations (4th Edition).

Due to COVID restrictions in China and other travel issues, not all of your Directors could attend today's meeting. However, I am sure you will agree with me that having Directors located in, and with a detailed knowledge of, our key operating and selling regions around the world, is important for a company as geographically diverse as Magontec.

Thank you for your time. I am now happy to take your questions.

2022

Annual General Meeting

# Magontec Limited

ASX:MGL

**Nicholas Andrews**

Executive Chairman  
& CEO

25 May 2022

**MAG**ONTEC



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# Magnesium price volatility (RMB/tonne)



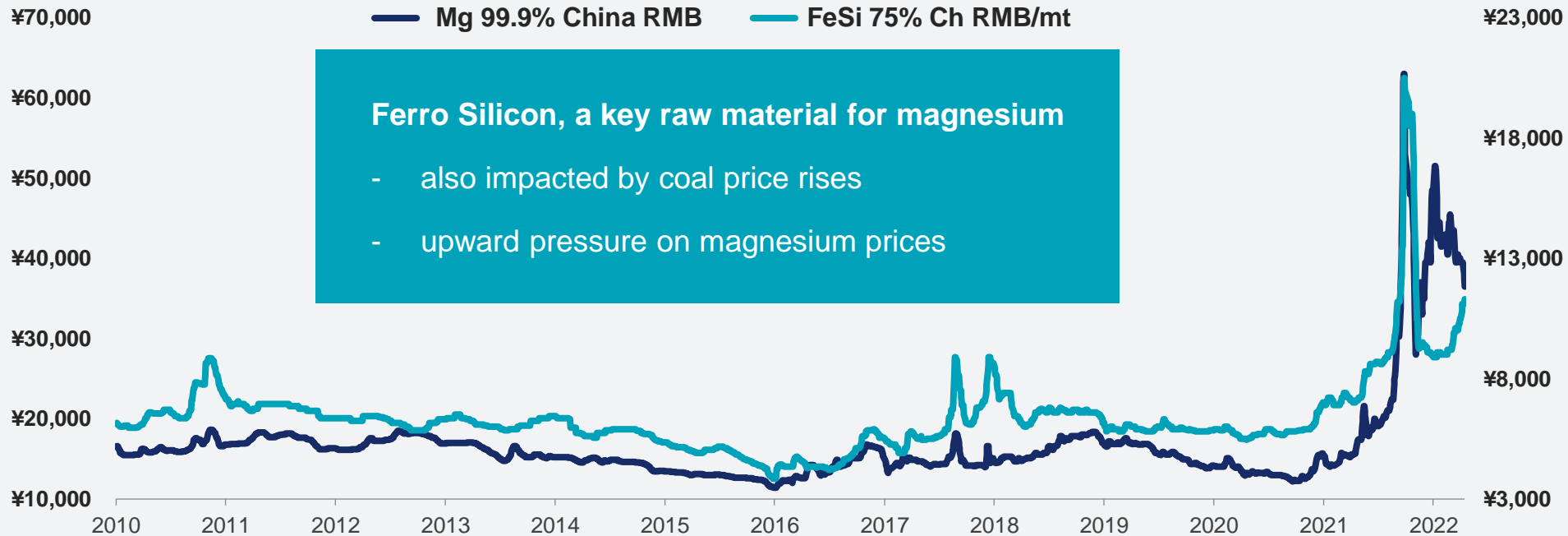
Volatility drivers

Coal price /  
energy costs

Labour prices

Emission abatement costs

# Ferro Silicon & Magnesium price volatility (RMB/tonne)



Volatility drivers

Coal price /  
energy costs

Labour prices

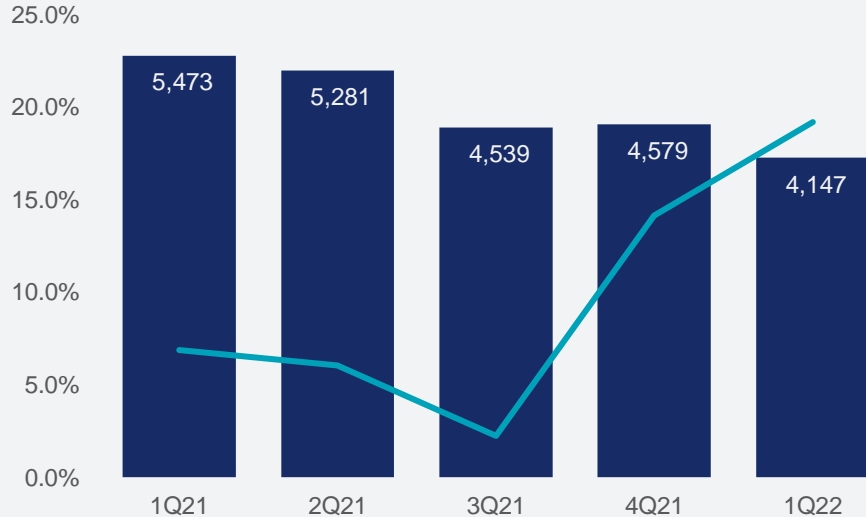
Emission abatement costs



# Magnesium alloy and Cathodic Corrosion Protection - profitability

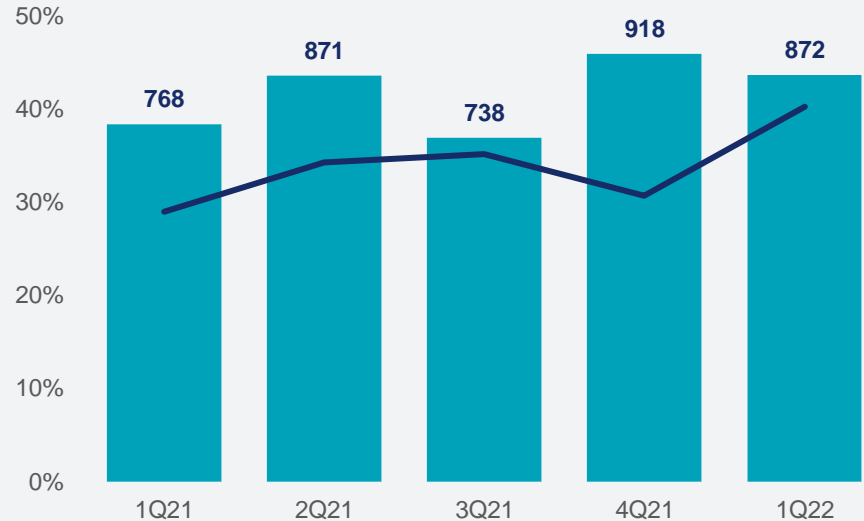
## Global Magnesium Alloy Metals

■ Volumes (mt)    — GP Margin (%)



## Global CCP (Anodes)

■ Volumes (mt)    — GP Margin (%)



Metals: Strong margin growth reflecting underlying price rise

CCP: Volume growth and margin growth in all regions

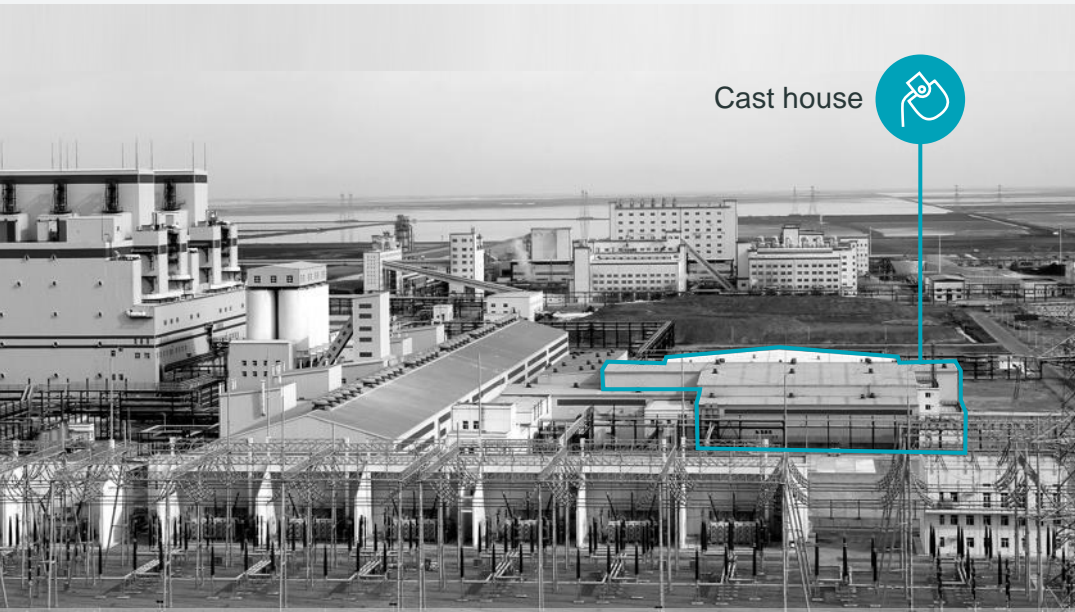
Outlook: Qinghai volumes expected to boost global metals

# Magontec Qinghai magnesium alloy cast house

Revenue and profit opportunity

Delayed SOP

Currently operating at low levels



## Cast house impact

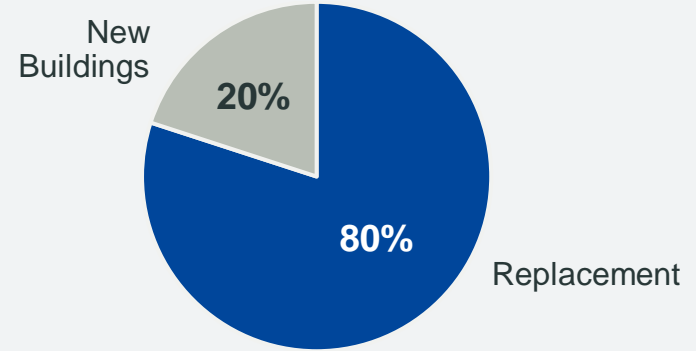
	2021		Target
Mg production tons/year	7k	>	56k
Revenue A\$	\$30m	>	\$400m+ est*
Contribution	Loss	>	Profit

## SOP Timetable

Production restart	>	2/3Q 2022
Initial volumes	>	~1k mt/month
Full production	>	2 years ?

# Cathodic Corrosion Protection (CCP)

Every water tank in every house requires corrosion protection



## Industry drivers

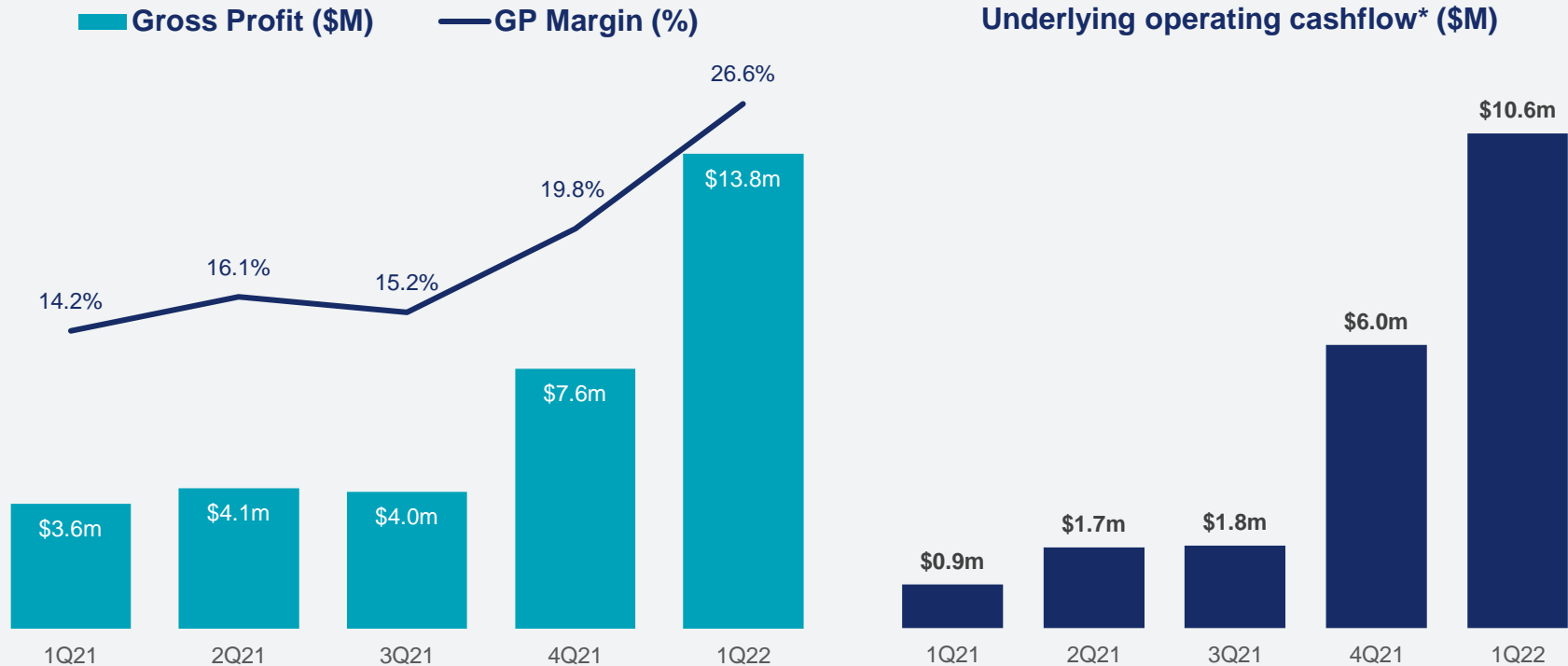
Urbanisation (water heater installation)  
80% replacement (5 to 10 year cycle)



## Climate change

Switch from oil/gas to electric heat pump  
Accelerated replacement of installed appliances

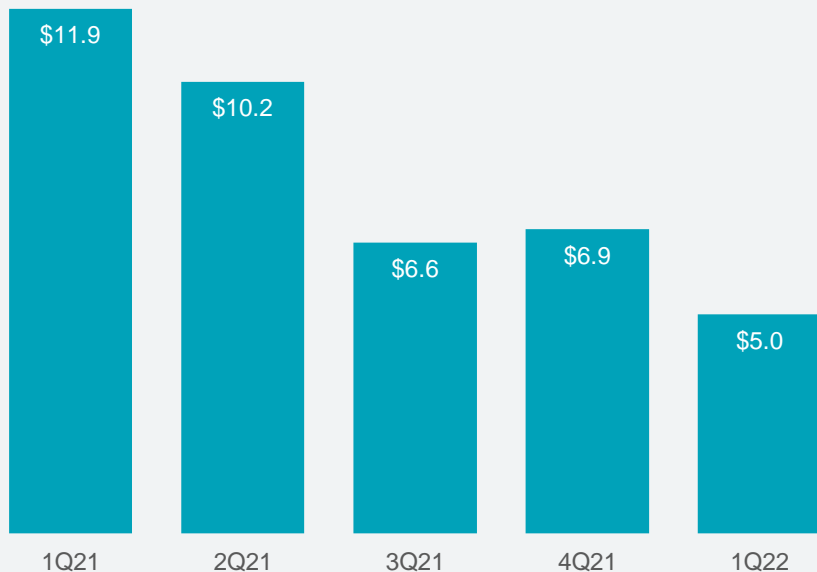
# Gross Profit and Cash Flow – 5 quarters to 1Q 2022



\* Underlying Operating Cashflow = Operating cashflow excluding working capital movements, interest and tax paid

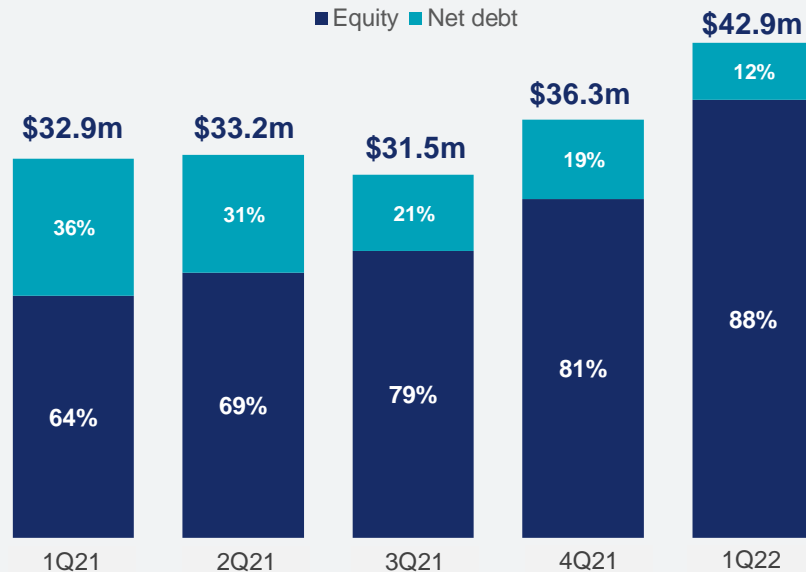
## Net Debt reflects higher profits

Net debt (\$M)



## Working Capital reflects higher prices

Working Capital



Net Debt down to \$5m

Shareholders equity funds 88% of working capital

Debt reduces as Mg prices decline

# Capital Management

## ➤ 2020

Buy back of un-marketable share parcels

- Reduce legacy shareholdings
- Small parcels quit register at no cost

## ➤ 2021

Consolidation of shares in the ratio 1 for 15

- Reduce volatility

## ➤ 2022

Determination to pay a dividend

- 0.6 cents per share expected to be declared upon release of 2022 Interim Result
- Dividend Reinvestment Plan (DRP) at a discount to be announced

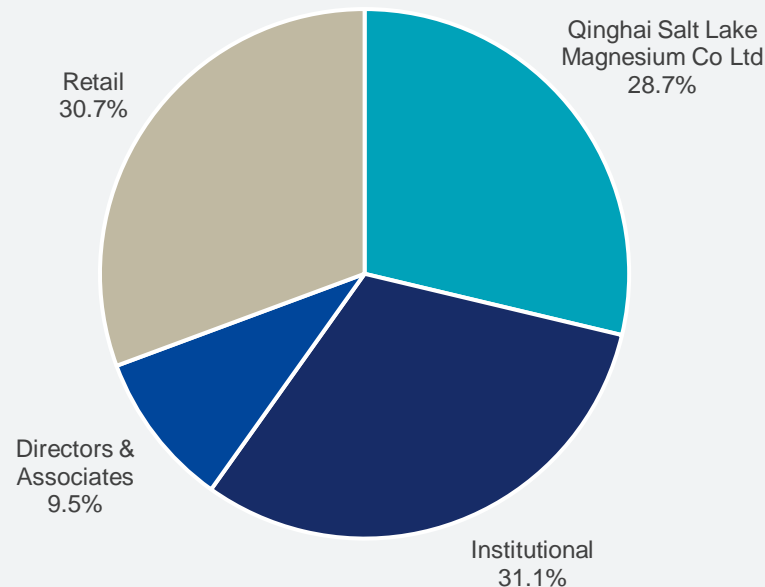
Further 0.6 cents per share dividend to be considered by the Board with respect to the 2022 Full Year Result

# Magontec Limited - ASX Code: MGL

ASX Code: MGL	Total	Per Share
Ordinary shares on issue following consolidation	76,729,210	
<b>Market capitalisation*</b>	<b>\$29.2 million</b>	<b>38.0 cents/share</b>
<b>Book value of net assets – 31 March 2022</b>	<b>\$41.5 million</b>	<b>54.0 cents/share</b>
Net debt – 31 March 2022	\$4.9 million	
Enterprise value	\$46.4 million	

\* Based on share price of \$0.38 as of 23 May 2022

## Shareholder Structure 31 March 2022



2022

Annual General Meeting

**Magontec  
Limited**

ASX:MGL

**Nicholas Andrews**

Executive Chairman  
& CEO

25 May 2022

**MAG**ONTEC

# QUESTIONS

