



MAGONTEC Limited

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11 May 2023

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

Dear Sir/Madam,

**Magontec Limited – 2023 Annual General Meeting Wednesday 11 May 2022 10:00am  
Executive Chairman’s Address**

Attached is the address of Mr Nicholas Andrews, Executive Chairman of Magontec Limited, to be delivered at the Company’s 2023 AGM today.

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

Yours sincerely,

Dean Taylor  
Company Secretary  
Magontec Limited

**Dean Taylor, Company Secretary of Magontec Limited has authorised the release of this document to the market on 11 May 2023.**

**ADDRESS BY EXECUTIVE CHAIRMAN MAGONTEC LIMITED  
TO ANNUAL GENERAL MEETING 11 MAY 2023**

**SLIDE 1 & 2**

Good morning, ladies and gentlemen.

In my presentation to shareholders this morning I will address four issues:

1. The performance of Magontec in the financial year ended 31 December 2022.
2. The financial performance of Magontec's businesses as at the end of the first quarter of 2023.
3. The financial outlook for the balance of 2023, and
4. The operational status of the Qinghai project and the likely timeline to delivery of metal to Magontec's magnesium alloy cast house.

As usual, at the end of my presentation, I am happy to take questions from shareholders on my comments today and on other aspects of Magontec.

The returns the Company enjoyed in 2022 reflect a series of events that were unusual and collectively positive for Magontec's magnesium metal and magnesium anode businesses. The period presented an opportunity to capitalise on a unique set of circumstances and deliver superior returns to shareholders. I have discussed these events in the Annual Report and in investor briefings over recent months, but the key points bear repetition.

**SLIDE 3**

The coincidence of Chinese environmental authority actions to reduce CO<sub>2</sub> emissions in the coal and magnesium industries, and the declaration of 'force majeure' by US Magnesium in Utah in the USA, caused the price of magnesium to rise precipitously through the 3rd quarter of 2021.

For suppliers of magnesium and magnesium alloys, such as Magontec, our key challenges were to manage a very volatile market, to fund a rapid rise in working capital and to manage a series of sharp price changes in customer supply agreements.

Our sales and management teams in Europe and Asia were able to navigate this process as well as we could have hoped. But it is also the case that our key customer base is still absorbing the shock of a tripling of prices.

For Magontec the price change in the 12-month period, from the third quarter of 2021, changed the profitability of our business. In the ordinary course of our business, the cost of recycling magnesium scrap is governed by the quality and cost of input material and the sales price of the finished product. When magnesium prices rise to unusually high levels, the volume of accessible scrap material also rises.

This is because the rising price of the underlying raw material provides the opportunity for lower grade scrap to be accessed and recycled at what, in a normal market, would be an uneconomic processing cost.

Through the period of higher prices, Magontec's recycling businesses were able to access lower grade scrap material and generate higher than normal levels of cash, particularly in the US which also experienced a severe supply shortfall.

While the environmental constraints in China eased in early 2022, in April this year new Chinese environmental constraints have caused prices to rise again. Meanwhile US Magnesium has yet to re-commence supply and prices for magnesium alloys in the United States remained at high levels until very recently.

#### SLIDE 4

So, to recap on the highlights of the year to 31 December 2022, revenues rose to \$158.6 million, largely driven by a change in underlying raw material prices, while EBITDA, NPAT and Earnings Per Share were two to three times higher than in the previous corresponding period.

An important feature of the 2022 result was cash flow of \$28 million from underlying operations\*.

*\*Cashflow from underlying operations is defined as Reported Operating Cashflow Excluding Working Capital Movements, Interest and Tax Paid*

Of this \$28 million, around \$14 million was used to fund higher working capital and \$3 million was used to fund tax and interest payments, leaving almost \$11 million to be applied to the Company's capital expenditure, debt and other funding commitments.

The strength of the result and the positive impact on Magontec's balance sheet meant that the company was able to pay a dividend for both the Interim and Full Year periods of a cumulative 1.2 cents per share (unfranked) for 2022.

Well, so much for 2022. As interest rates rose sharply, consumer confidence began to wane, and the global economy entered less certain times, Magontec finds itself in a strong position after a year of exceptional earnings growth and able to consider opportunities for expansion should they arise.

#### SLIDE 5

In the first quarter of 2023 some of the momentum of 2022 has continued. Earnings in the magnesium alloys and magnesium anodes businesses in Europe and China have performed well, although not at the same level as in the prior corresponding period. Please note that all numbers presented with respect to the first quarter of 2023 are unaudited.

Underlying Operating Cash\* generation from the business has been strong, particularly compared with the last two quarters of 2022, increasing cash reserves and reducing gearing to negative 16.7%.

A salient feature of the period has been the return to the company of some of the cashflow that was diverted into working capital in 2022. In the first quarter of 2023, a net \$2.0 million of additional cash has come back from working capital as contracts roll over, reflecting lower average magnesium prices, and this trend is expected to continue through 2023. The company now has net cash of \$8.5 million as at the end of 1Q23, another positive echo from 2022.

It seems likely that this first quarter will be the strongest trading period in the 2023 financial year. A rapid rise in interest rates in all key economies has brought tighter markets, particularly to our magnesium alloys businesses where volumes in the current period are lower and pricing more competitive. High inventories and uncertain consumer demand is having a dampening effect in the early part of this second quarter.

## SLIDE 6

Two more charts that I think underline the strength of the first quarter of 2023 and reflect the improvement in the underlying value of the company.

On the left is quarterly Gross Profit over the period from the first quarter of 2021. It shows the metals profit in light blue and the anodes profit in dark blue.

The first observation is that the anodes businesses have steadily grown their contribution to profitability over a long period of time and we expect that to continue. It is a very valuable and consistent business that is often overlooked in our Company.

The second observation is that earnings from the metals businesses were exceptional in the first two quarters of 2022 but have been less so in the period since. As I shall discuss in a later slide, for metals business profitability to achieve a higher level of consistency we need supply of primary metal from our Qinghai factory.

The slide on the right shows the steady rise in Net Tangible Assets per share reflecting a measurable uplift in the underlying value of the company.

## SLIDE 7

As longer-term shareholders will know, Magontec's principal customer group is the automotive industry. While industry forecasters expect automotive sales to stage a steady recovery through the coming three years, 2023 volumes are expected to be flat to slightly up on 2022, mostly driven by a post COVID recovery in Chinese demand.

The automotive industry is highly sensitive to changes in interest rates and consumer confidence. I think it's fair to say that the direction of travel for this sector is extremely difficult to forecast at this point in time

## SLIDE 8

We see a similar picture in the hot water industry where interest rates are depressing home construction in Europe, the US and more particularly in China. Although up to 80% of anode

demand from the hot water appliance industry comes from the replacement cycle, the drop in new homes is likely to see global volumes remain flat or decline in 2023.

A bright spot for Magontec in this market is the switch to heat pumps, particularly in developed markets. This is, in part, being driven by government subsidies in many countries to meet national climate change abatement targets.

A 'heat pump' device has a lower environmental footprint than gas, oil, or older technology mains electric home heating systems. A 'heat pump' is an expensive appliance and manufacturers are reluctant to install a magnesium anode, despite its price advantage, when a more intelligent and longer lasting powered anode system is available.

Magontec is the global leader in the manufacture of powered anodes. Our German engineering team developed a market-leading device some 30 years ago and throughout the intervening years have consistently upgraded the product to incorporate additional functions. The latest iteration for our European and US OEM customers was released earlier this year.

Magontec's powered anode products go directly to manufacturers for incorporation into their new hot water systems and are widely sold to plumbers as replacement devices for magnesium anodes in systems that are already installed.

Sales have grown steadily over recent years and 2023 will likely see a stronger performance from this product driven by a secular change in underlying industry dynamics that is relatively immune to the economic cycle.

We also see plenty of opportunity for our magnesium anodes. Last month I made my first visit to our Chinese factories since the end of COVID restrictions. In Xi'an our anode factory has been completely remodelled and has grown capacity for magnesium and aluminium anodes to 4,500 metric tonnes per annum. This is close to 30% of global demand and makes Magontec Xi'an the world's largest and likely most efficient magnesium anode manufacturer. This expansion is targeted at new opportunities in the US as well as China and other Asia Pacific markets where we continue to win and grow our market shares.

## SLIDE 9

Before I make some concluding remarks, I want to address the issue that has caused such a long delay to Magontec's central magnesium alloys strategy, the supply of liquid pure magnesium to our Qinghai magnesium alloy cast house.

Qinghai is a key element of our global metals strategy. Without a high-volume primary magnesium alloy production unit, our ability to supply our customers all over the world, is heavily constrained.

A temporary constraining issue is that the economics of our Qinghai cast house facility were not designed to rely on solid ingot raw material sourced from Chinese Pidgeon magnesium producers. So we currently run that facility at low volumes and at low levels of profitability.

More impactfully, the absence of primary magnesium alloys from China constrains our recycling volumes in Europe and our ability to grow that product into other markets.

I won't address all the history of the Qinghai project here; suffice to say we have not received any magnesium raw material from our Qinghai partner, Qinghai Salt Lake Magnesium Co Ltd (QSLM) since the first quarter of 2019.

I am pleased to say that, under new direction, our Qinghai partner, Qinghai Salt Lake Magnesium Co Ltd (QSLM) is moving towards a recommencement of production of pure magnesium. Mr Xing Cai Li, the General Manager of QSLM's parent company, was appointed to take charge of this project in early 2022 and in September last year he joined the Board of Magontec.

Mr Li tells me that the critical issues regarding the dehydration facility have been resolved while issues concerning the efficiency of the electrolysis process and the production of chlorine gas are being addressed. I understand that they have identified a resolution for the key issue of chlorine production efficiency that requires a change to the electrolysis process in each cell. This is expected to be completed for a small number of cells by the end of this year with a production commencement date in the first quarter of 2024, starting at lower volumes and building through the year as more remediated cells come on-line.

This is not a date set in concrete and Mr Li's team have cautioned that other issues may arise as the remediation process progresses.

I am very hopeful that 2024 will be the year when our investment in primary magnesium alloy production at Qinghai will start to deliver returns to shareholders.

## SLIDE 10

In closing I want to make the following points

- Magontec is well placed to weather the economic uncertainties and high interest rates of the current period. We have no net debt and a net cash position of more than \$8 million.
- The first quarter has delivered a solid start to 2023 but conditions are soft or deteriorating in all markets and we are likely to see negative comparisons with prior year corresponding periods in the months ahead.
- When it comes on stream, the Qinghai project is expected to deliver a very strong boost to our primary magnesium alloy production volumes and Group profitability. The benefits of the Qinghai project will also meaningfully impact our recycling activities in Europe and our magnesium anode manufacturing businesses in Europe and China that currently supply around 25% of global CCP markets.

- Over the last 18 months we have sought new opportunities for the company in the magnesium and the hot water appliance markets that we know well. We are considering a small number of opportunities that either mirror or are adjacent to the operations that we currently manage in terms of process, material and manufacturing complexity.
- In each of our businesses we continue to pursue incremental improvement projects that lower costs, increase profitability, and widen the scope of our businesses. These include a near doubling of the size of our Chinese anode manufacturing facility in Xi'an, the launch of a new powered anode systems for European and US OEMs and the development of a reprocessing technology that now recovers around 60% of the material that we previously sent to landfill sites.

While the economic cycle will test every business in 2023, Magontec has the benefit of a strong balance sheet and a team of experienced and motivated employees in four factories and other sales offices around the world. Throughout the COVID lockdown period, and now through an economic downswing, I remain confident that we can address each new challenge with the same enthusiasm and experience.

That concludes my presentation and I am now happy to answer shareholder questions on operational and strategy matters.

# Magontec Limited

ASX:MGL

**2023 Annual General  
Meeting**  
Executive Chairman's  
Address

11 May 2023





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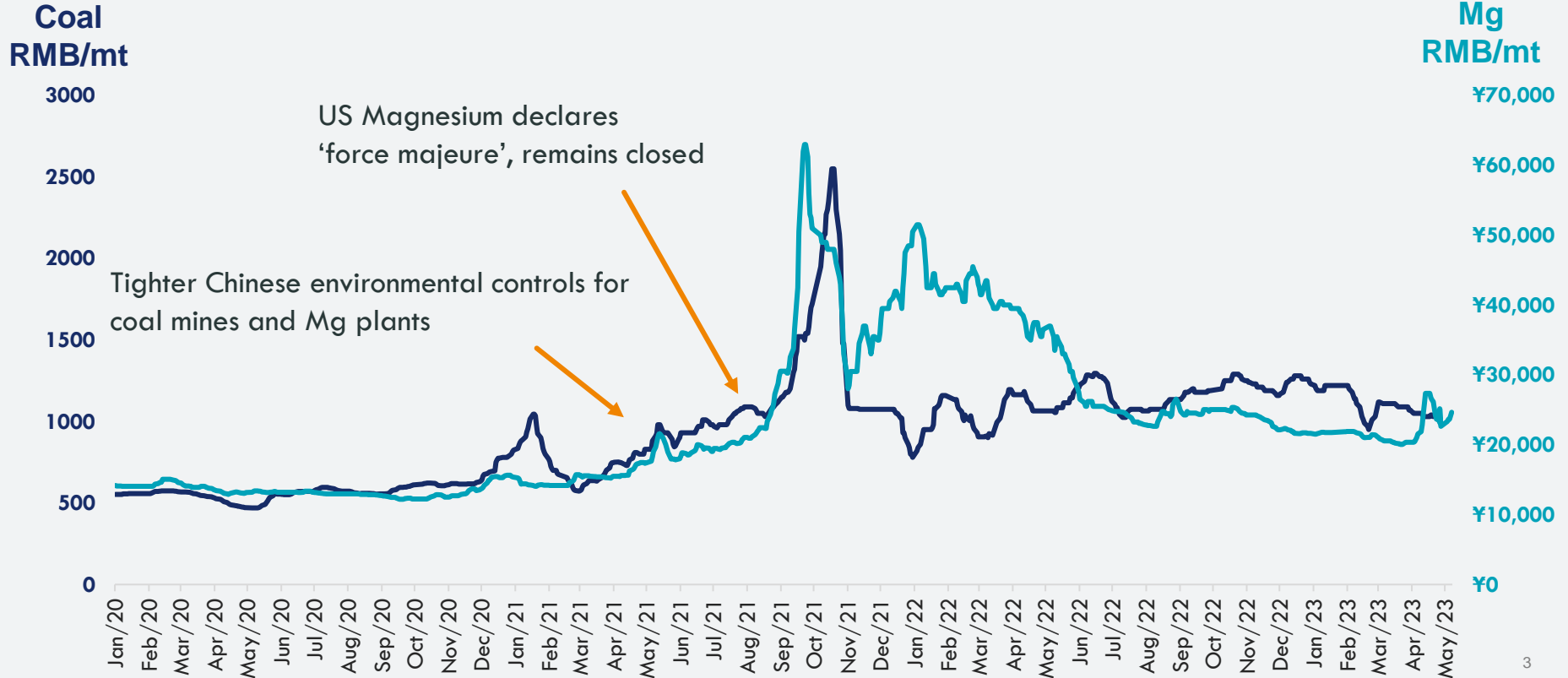
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# PRC coal price / environmental initiatives driving Mg price

Chinese Coal and Magnesium prices (1 Jan 2020 – 6 May 2023)



# 2022 financial year overview

## Dashboard

	<b>REVENUE</b> <b>\$158.6 mil</b> ↑ 37.7%	<b>EBITDA</b> <b>\$27.3 mil</b> ↑ 170.5%	<b>NPAT</b> <b>\$16.5 mil</b> ↑ 229.8%	<b>EPS</b> <b>21.5 cents</b> ↑ 230%	
	<b>GROSS PROFIT MARGIN</b> <b>24.3%</b> CY21 16.7%	<b>CASH FLOW FROM UNDERLYING OPERATIONS*</b> <b>\$28 mil</b> ↑ 167%	<b>NET DEBT</b> <b>-\$2 m</b> <b>CASH ON HAND</b> <b>\$11.3m</b>	<b>FULL YEAR DIVIDEND / SHARE (UNFRANKED)</b> <b>1.2 cents</b> CY21 0 cents	

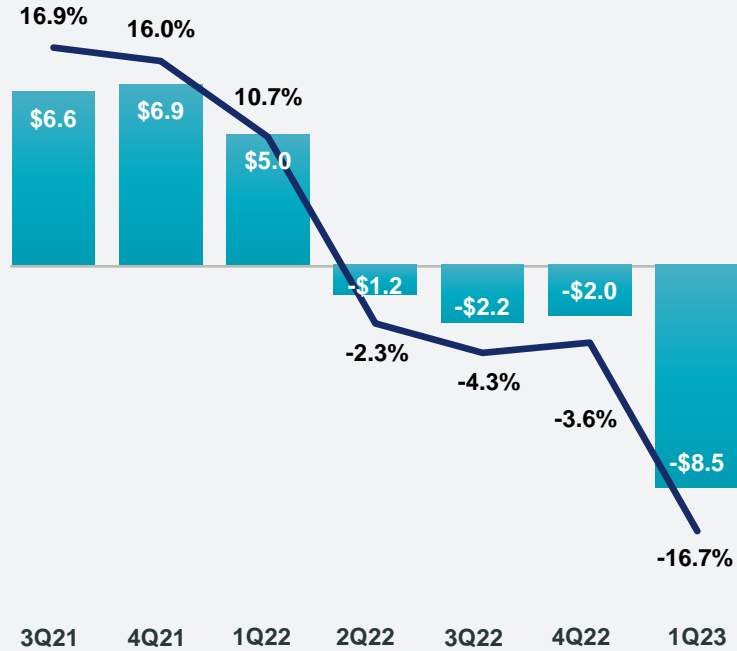
## 2022 Result Highlights

- \$28 million of underlying cash\* generation
  - repays debt
  - funds higher working capital
- Full Year Dividend of 1.2 cents per share (unfranked)

# 1Q 2023 (unaudited)

A strong start to the current financial year.

## Falling Net Debt (\$M) and Gearing\*\* (%)

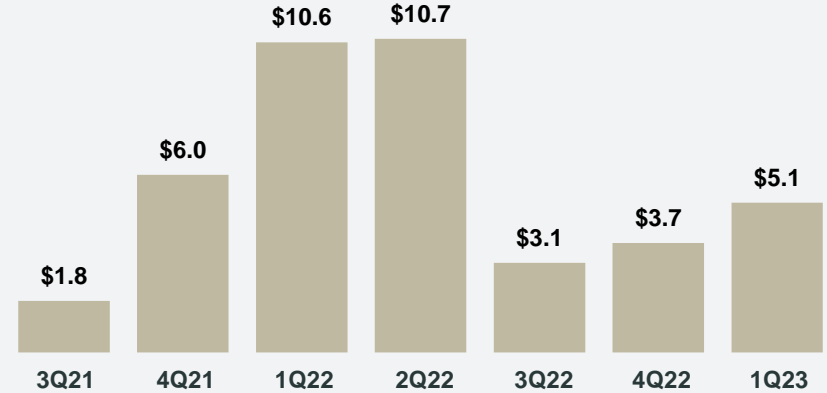


\* Operating cashflow excluding working capital movements, interest and tax payments

\*\*Gearing = net debt / (net debt + equity)

\*\*\* Net working capital = receivables + inventory + prepayments - payables

## Strong quarter for Underlying Operating Cashflow(\$M)\*



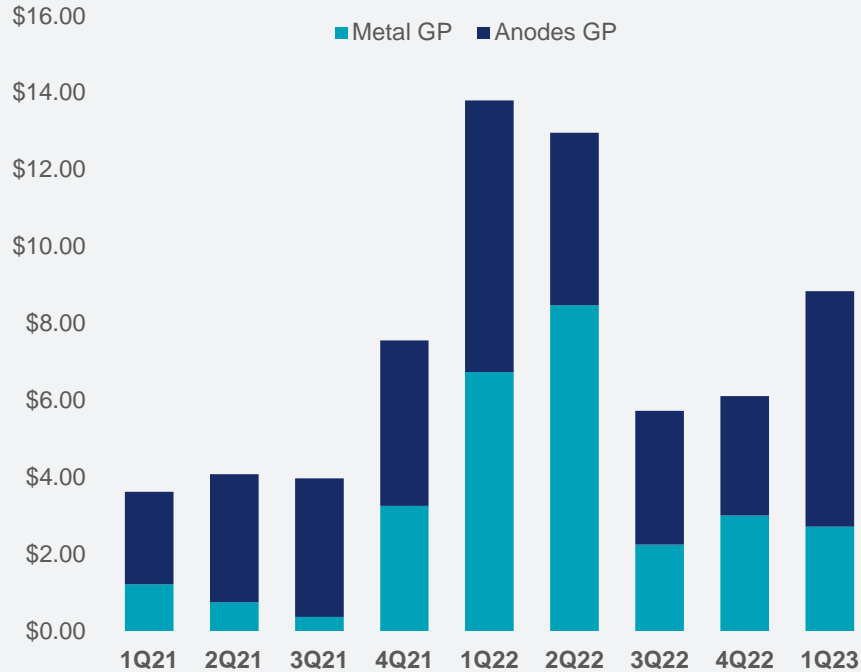
## Total Net Working Capital (\$M)\*\*\* to decline as prices fall



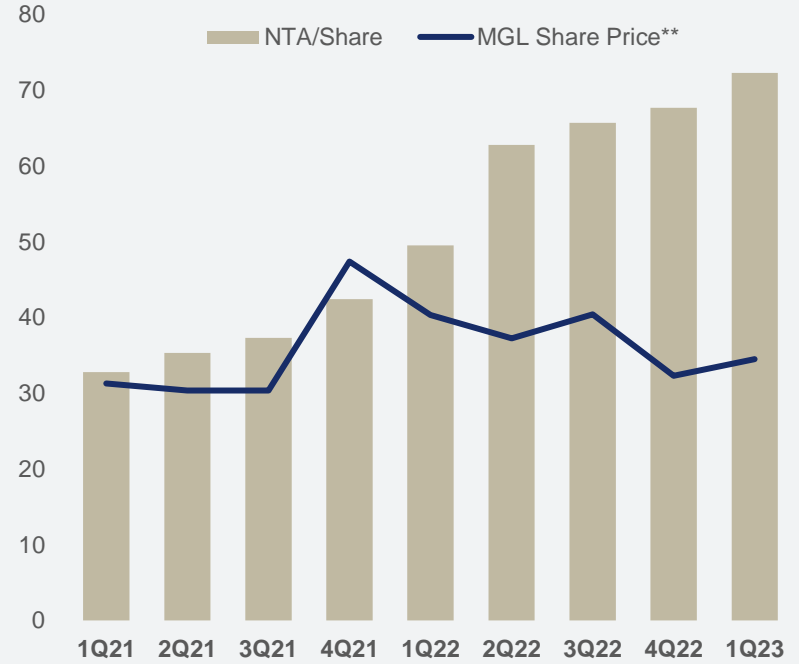
# 1Q 2023 (unaudited)

A strong start to the current financial year.

## Higher Gross Profit in Q123, consistent anodes



## Net Tangible Assets per Share\* rises to 72.3 cents

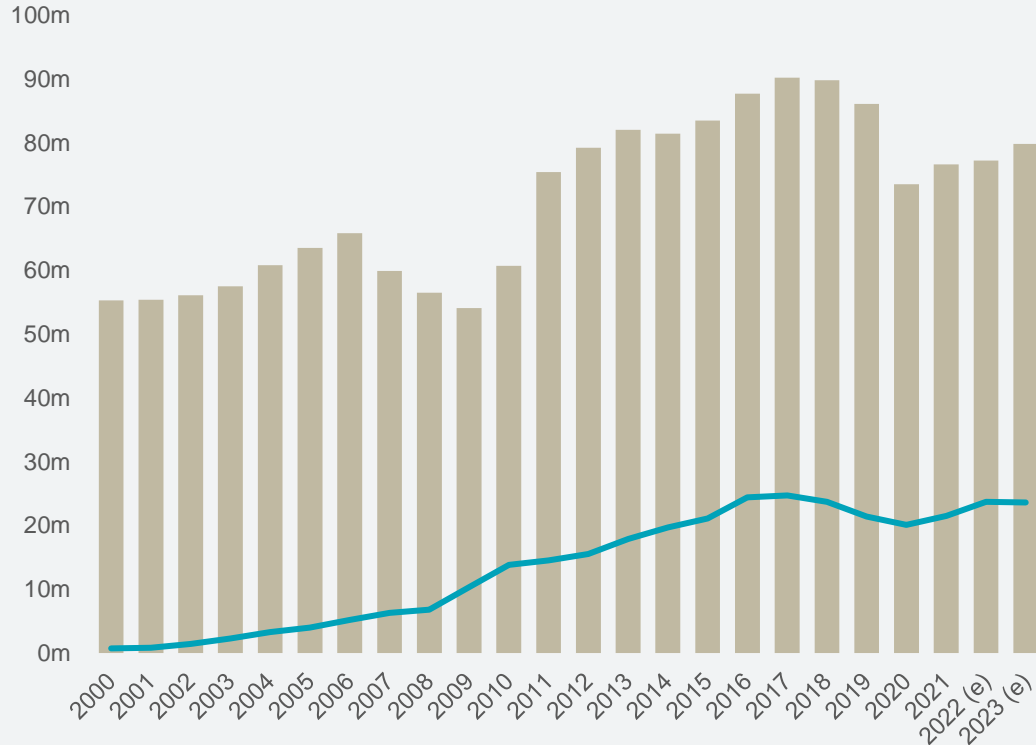


\* Net tangible assets excludes Right of Use Assets arising from AASB 16 Leases

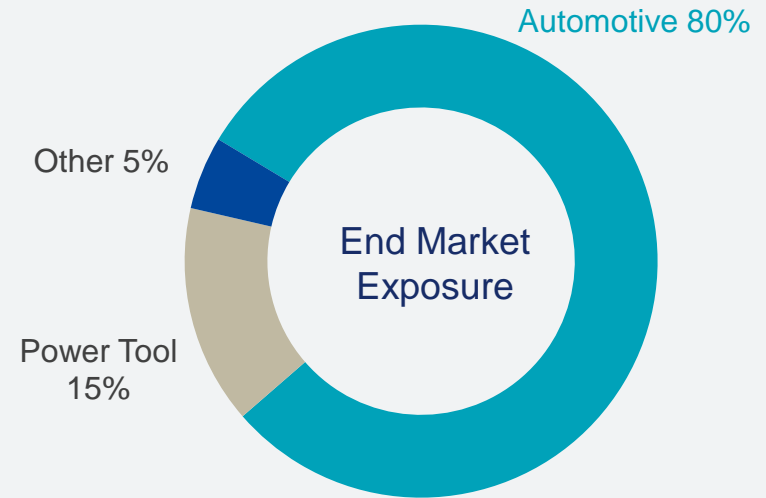
\*\*Average Quarterly Price

# Global automotive trends

GLOBAL LIGHT VEHICLE SALES (2000 to 2023e)  
Chinese growth underpins global expansion



Magnesium alloys  
Automotive = key customer



# Global anode markets (cathodic corrosion protection)



# Qinghai electrolytic magnesium smelter complex

100,000 tonnes per annum > ~ 10% of global production

Revenue and profit opportunity

Delayed SOP

Currently operating at low levels

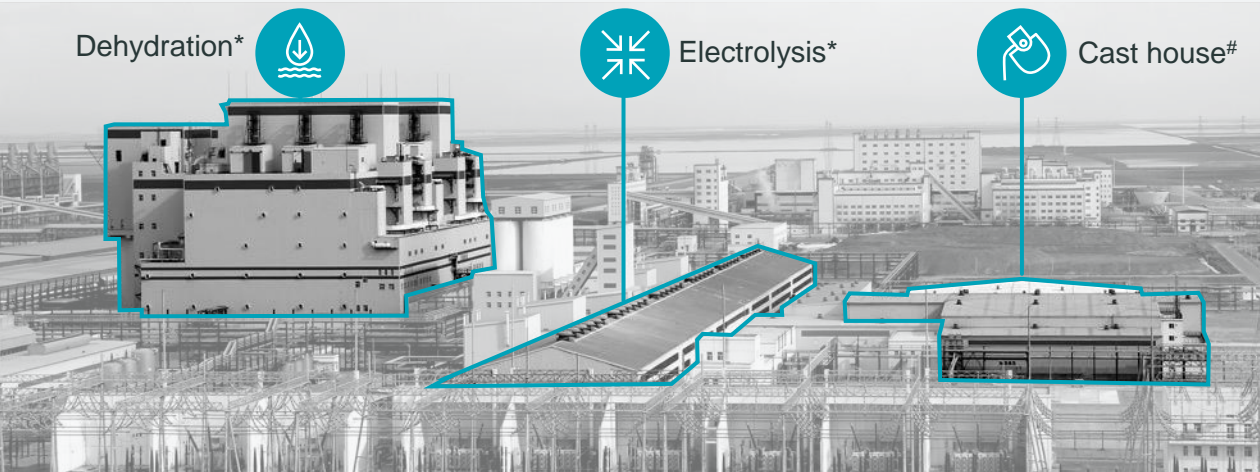
Dehydration\*



Electrolysis\*



Cast house#



## Cast house impact

	2022	Target
Mg production mtpa	5k	56k
Revenue A\$	\$37m	\$200m+**
Contribution	Loss	Profit
Industry CO <sup>2</sup> output	High	Low

## SOP Timetable

Production restart	2023/24
Initial volumes	~1k mt/month
Full production	2+ years

\*QSLM assets | # Cast House shared by QSLM & Magontec

\*\* Assumes pure Magnesium price of A\$4,000



# Summary

- Strong financial position
- No net debt. Net cash >\$8m
- Solid start to 2023, uncertain outlook
- Qinghai in the next 12 months
- Qinghai positive for all Mg activities
- Advisory group engaged
- Growing market shares and efficiency



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