

Magontec Limited (ASX Code MGL)

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Quarterly Update
1 January – 31 March 2014

23 April 2014

Comment

In the first quarter of 2014 the Group has recorded higher average monthly sales and a higher overall gross profit margin on sales compared with the previous corresponding period (the first quarter of 2013). The Group also continues to generate net positive cash flow.

While there has been an improvement in overall performance the Group continues to face challenges in maintaining profitability in Chinese primary alloy production prior to the relocation of that activity to a new facility in Qinghai Province.

The European recycling business has commenced the year strongly with volumes up over 30% on the previous corresponding period. The division reported a profitable result at the EBITDA level compared with a small loss over the same period last year.

The European anode business, which was relocated to a new factory in Romania through the second half of 2013, recorded a volume increase of over 50% and strongly increased contribution to Group profitability in the period.

Chinese magnesium alloy prices in both the export and domestic markets remain extremely challenging compounded by a sharp decline in pure magnesium raw material prices in the quarter. Magontec's primary magnesium alloy production volumes were down by more than 10% compared with the previous corresponding quarter, and divisional EBITDA, while still positive, was significantly reduced.

A sharp decline in raw material (pure magnesium) prices negatively impacts inventory values. In the first quarter of 2014 the price of pure magnesium fell ¥625 or 4.1% to ¥14,550, its lowest point since 2009, and down nearly 14% since 1 January 2013. In April 2014 it has recovered to ¥14,900 and a continued rise through the second quarter should see some reversal of these pressures. Generally pure magnesium prices appear to be driven by growing capacity in an already oversupplied market. There are some indications that this is belatedly having an impact on higher cost producers.

Chinese anode markets have also been extremely competitive and Magontec's Chinese anode division recorded another loss in the first quarter of 2014. There are remedial actions being taken in this division including investment in automation and other measures to reduce costs and improve competitiveness.

As a company that conducts all of its operations in offshore locations Magontec is particularly exposed to fluctuations in foreign exchange rates. The Australian dollar has been extremely volatile in recent months generating unrealised gains of over \$2.2 million through 2013 and a loss of \$0.4 million in the first quarter of 2014. In commenting upon the EBITDA results of operating divisions we have continued the practice of excluding the impact of unrealised FX movements.

Construction on the magnesium alloy cast house in Qinghai Province has re-commenced after the winter period. While the cast house will be able to operate year round, construction is constrained by very low winter temperatures. The magnesium cast house is expected to be completed by the fourth quarter of 2014 and our partners at Qinghai Salt Lake Magnesium Co Ltd have scheduled delivery of liquid pure magnesium in late 2014 or early 2015.

Nicholas Andrews
Executive Chairman
23 April 2014

Summarised financial results at a glance

1. Divisional NPAT (Refer unaudited Comprehensive Income Statement for the quarter ended 31 March 2014 below.)

Head Office ⁽¹⁾	Europe	Asia	Group
(\$889,856)	\$386,235	(\$114,969)	(\$618,589)
1. Includes unrealised foreign exchange losses of \$447,000			

2. Underlying Operating Profit/(Loss)

Net loss before income tax	(\$590,000)
Add back net unrealised foreign exchange losses	<u>\$411,000</u>
Underlying operating loss before tax	(\$179,000)

3. Approximate Cash From Operations

Earnings before tax and depreciation	(\$147,000)
Add back net unrealised foreign exchange losses	<u>\$411,000</u>
Approximate cash generated from operations ⁽²⁾	\$264,000
2. Ignores the cash flow effects of trade debtors and trade creditors	

4. Sales & Gross Profit Performance

	3 months to	12 months to
	31 Mar 2014	31 Dec 2013
Average monthly sales	\$11,829,333	\$10,719,250
Gross profit margin for period	8.10%	7.66%

UNAUDITED ACCOUNTS
FOR THE PERIOD 1 JANUARY TO 31 MARCH 2014

Attachment A

**CONSOLIDATED STATEMENT OF PROFIT & LOSS and OTHER
COMPREHENSIVE INCOME**

	3 months to 31 Mar 2014	12 months to 31 Dec 2013
	\$'000	\$'000
Sale of goods	35,488	128,631
Cost of sales	(32,613)	(118,773)
Gross profit	2,875	9,858
Other income	205	1,086
Interest expense	(317)	(973)
Impairment of inventory, receivables & other financial assets	-	(459)
Travel accommodation and meals	(143)	(645)
Research, development, licensing and patent costs	(89)	(551)
Promotional activity	(11)	(62)
Information technology	(107)	(395)
Personnel	(1,533)	(4,732)
Depreciation & amortisation	(443)	(1,717)
Office expenses	(107)	(249)
Corporate	(509)	(2,622)
Foreign exchange gain/(loss)	(411)	2,252
Profit/(Loss) before income tax expense/benefit from continuing operations	(590)	792
Income tax (expense)/benefit	(29)	(25)
Profit/(Loss) after income tax expense/benefit from continuing operations	(619)	767
Loss after income tax expense from discontinued operations	0	(10)
Profit/(Loss) after income tax expense/benefit including discontinued operations	(619)	756
Exchange differences taken to reserves in equity – translation of overseas entities	(1,279)	2,652
Other Comprehensive Income - that will not emerge in the Profit and Loss Statement		
Movement in various actuarial assessments	0	219
Total Comprehensive Income for the year	(1,897)	3,627
Profit/(Loss) after income tax (incl discontinued operations) attributable to:		
Minority interests	-	-
Members of the parent entity	(619)	756
Total	(619)	756
Comprehensive Income for the year attributable to		
Minority interest	-	-
Members of the parent entity	(1,897)	3,627
Total Comprehensive Income for the year	(1,897)	3,627

**Attachment B
BALANCE SHEET**

	31-Mar 2014 \$'000	31-Dec 2013 \$'000
Current assets		
Cash and cash equivalents	10,132	7,375
Trade & other receivables	23,858	28,402
Inventory	29,877	24,466
Other	412	773
Total current assets	64,279	61,017
Non-current assets		
Other receivables	428	444
Property, plant & equipment	15,583	16,479
Future income tax benefit	1,521	1,586
Intangibles	3,206	3,255
Total non-current assets	20,737	21,763
TOTAL ASSETS	85,017	82,781
Current liabilities		
Trade & other payables	18,697	17,358
Borrowings	21,400	21,225
Provisions	1,390	1,692
Total current liabilities	41,487	40,275
Non-current liabilities		
Provisions	8,135	8,315
Total non-current liabilities	8,135	8,315
TOTAL LIABILITIES	49,622	48,590
NET ASSETS	35,395	34,191
Equity attributable to members of MGL		
Share capital	58,246	55,145
Reserves	4,574	5,853
Accumulated (losses)/profits	(27,888)	(27,268)
Equity attributable to minority interests		
Share capital	463	463
Reserves	-	-
Accumulated (losses)/profits	-	(2)
Total equity	35,395	34,191