



28 February 2014

Penrice Soda 2014 Half Year Results

Penrice Soda Financial Results

- Reduced statutory net loss after tax of \$12.2 million (including restructuring charges of \$1.3 million) (FY2013: \$28.2 million, including impairment and restructuring charges of \$19.8 million), following closure of loss making soda ash business
- Underlying net loss after tax of \$11.0 million (FY2013: \$8.3 million), reduced on H2 FY2013: \$13.1 million and includes one-off business restructure and transformation costs
- Net debt increased to \$117.2 million from \$106.3 million, mostly to fund one-off business restructure and transformation costs

Penrice Soda Business Highlights

- Business restructure completed at end of FY2013
- Transformation project to new business model of integrated limestone, lime and bicarbonate producer continues apace and is mostly complete
- EBIT loss of \$6.2 million reduces compared to H2 FY2013 of \$8.2 million
- Further funding of \$2.0 million from TMPA to fund business transformation costs, plus an additional \$3.0 million since balance date
- Major debt restructure and refinancing proposal announced to place company on more sustainable footing – improving liquidity and reducing senior debt

Penrice Chemicals

- Underlying EBIT loss of \$3.7 million (FY2013 loss: \$0.5 million), when compared to H2 FY2013 EBIT loss of \$6.8 million, is a material improvement on previous half year, when soda ash losses arose
- New lime plant commissioned with strong customer interest and sales uptake
- Bicarbonate plant commissioned on new imported soda ash as the raw material with continuing strong demand in Asia
- Joint study commenced with Novacarb to expand bicarbonate plant and build a new bicarbonate plant in Asia

Penrice Quarry & Mineral

- Underlying EBIT loss steady at \$1.0 million (FY2013: \$0.9 million) despite slower building and construction activity in Adelaide and less internal sales of limestone on account of soda ash plant closure
- Mine operations fully restructured with reduced production footprint, cost base and improved efficiencies

Outlook

- EBIT forecast to improve in H2 FY2014 on increased lime and bicarbonate sales and reduced transformation costs
- Full year benefits of the business restructure on track to be delivered in FY2015
- Debt restructure and refinancing planned in H2 FY2014

SUMMARY

Penrice Soda Holdings Limited (Penrice) (ASX: PSH) today reported an underlying net loss after tax for the half year ended 31 December 2013 of \$11.0 million (FY2013: \$8.3 million). Statutory net loss after tax was \$12.2 million (FY2013: \$28.2 million) and includes restructuring charges of \$1.3 million.

There was an increase in underlying net loss compared to the prior corresponding period which was primarily in the chemicals business and due to the impact of continuing one-off business transformation costs – notably lime and bicarbonate plant commissioning costs, corresponding lower production volumes and soda ash supply chain set up costs. The result was materially improved on the previous six months, which incurred increasing losses from the soda ash manufacturing business, closed in June 2013.

Statutory operating cash flow was a net cash outflow of \$4.0 million (FY2013: \$0.4 million outflow) on reduced EBIT, significant items and other restructure costs.

Significant items included business restructuring costs of \$1.3 million, plus there were additional one-off business transformation costs following the chemicals business restructure.

Penrice Managing Director and CEO, Guy Roberts, said “Our first half results reflect the numerous operating and sales changes underway in our continuing business transformation following the business restructure last year and include a number of one-off costs. We have strong conviction that our new business model - an integrated limestone, lime and bicarbonate producer - will deliver sustainable returns. Our lime and bicarbonate businesses are competitively positioned in very different and growing markets – lime into construction and mining markets in Australia and bicarbonate into food and medical markets in Asia.”

“The company’s EBIT loss reduced from \$8.2 million to \$6.2 million, despite the transformation project one-off costs.”

“The chemicals business earnings were lower with an underlying EBIT loss of \$3.8 million (FY2013 loss: \$0.5 million) on substantial one-off costs incurred in commissioning the bicarbonate plant on imported soda ash for the first time, commissioning the new lime plant and supply chain set up costs for new soda ash distributor, Pro Asia Pacific. Those one-off costs were higher than planned due to the breadth and complexity of the undertakings and are not expected to recur, now that all of those operations are running to plan in the second half. Notwithstanding these ongoing restructure costs, the chemicals business EBIT loss compared to H2 FY2013 was reduced by 45%.”

“The bicarbonate business had continued strong sales both domestically and in exports to Asia. The new lime plant commissioned well and lime sales uptake tracking well across a growing customer base.”

“The South Australian quarry and mineral business delivered an EBIT loss of \$1.0 million (FY2013: \$0.9 million) on lower sales volume, reflecting historically low levels in residential and commercial construction activity. Cost savings and production efficiencies of a new mine plan helped offset sales decline and the overall result, while disappointing, was creditable in the circumstances.”

Net debt was \$117.2 million, up from \$106.3 million, including for the new facilities obtained to fund the business restructure and ongoing transformation costs.

Restructure Complete and Transformation continues

The restructuring of Penrice which has involved the exiting of its soda ash business is now largely complete. There were a series of important steps taken in the first half to consolidate the business transformation;

- The limestone mine operated to its new mine plan on a reduced operating footprint, capturing all of the operating cost savings planned for FY2014
- The lime business has started well with the new lime plant commissioned and running to plan and lime sales uptake progressing well with sales to customers in South Australia, Victoria and Western Australia
- The bicarbonate plant was commissioned to run on soda ash imported from the USA for the first time and is running well on this new raw material

There were restructuring charges of \$1.3 million in the first half (excludes the one-off operational business transformation costs mentioned above) covering the continuing business transformation and balance sheet restructure. There were no impairments taken during the first half. There are expected to be minimal further restructuring charges in the second half and no impairments are expected to be taken on current business forecasts.

Net Debt and Funding

Penrice's net debt as at 31 December 2013 was \$117.2 million, which increased by \$10.9 million as a result of new facilities with TMPA and reduction of cash of \$5.6m. Penrice has total debt facilities of \$106.7 million and operates within its facility covenants.

Given the company's operating loss and weak balance sheet, no dividend was declared.

"As previously advised, the company's view is that its net debt needs to be reduced, particularly given previous impairments, which have resulted in negative shareholder funds. The priority has been to first create a sustainable earnings model, without which a restructure of the balance sheet would not be possible. Having completed its business restructure, which should increase the company's earnings sustainably, the company announces a planned debt restructure and refinancing transaction which will substantially reduce its net debt and provide a working capital facility in the second half."

Subsequent Event – Debt Restructure and Refinancing

Penrice is pleased to announce that it has signed a Heads of Agreement with a proposed new senior lender for a debt restructure and refinancing transaction (Proposed Transaction) to be implemented by the end of March 2014 and which provides for;

- the new senior lender to purchase the senior debt in Penrice held by one of its two existing senior lenders,
- a restructure of Penrice's senior debt involving the forgiveness or conversion to equity of the majority of Penrice's senior debt, (the exact value and rate of conversion of which remains under negotiation), and
- the new senior lender to provide additional working capital to Penrice

The Heads of Agreement is indicative and non binding and the Proposed Transaction is subject to final negotiation, due diligence, documentation, internal approvals and the approval of Penrice's senior lenders. Penrice is in advanced discussions with its existing senior lenders regarding the Proposed Transaction and retains the support of its senior lenders for the Proposed Transaction. If the Proposed Transaction involves a debt restructure which requires Penrice shareholders' approval, a meeting of Penrice shareholders will be convened for that purpose in H2 FY2014.

OUTLOOK

Outlook

Penrice completed its restructuring in FY2013, with the closure of soda ash manufacturing. In FY2014 the transformation to being an integrated limestone, lime and bicarbonate producer continues, as the company beds down a raft of operational and sales changes.

Penrice expects improved underlying earnings in FY2014, subject to economic conditions. H2 FY2014 should improve performance on the back of increased lime and bicarbonate sales and less transformation costs. FY2015 will be the first full year of earnings uplift following the restructuring and should be another material uplift on FY2014 forecast earnings, once again subject to economic conditions.

Lime

The new lime business is on track to achieve solid production volumes and sales growth in its first year of operation.

Limestone

The quarry business should improve profitability in FY2014 on the back of more efficient and productive operations, subject to economic conditions. The medium term outlook for housing construction in Adelaide is for some modest growth and there is some evidence of that improving outlook with slightly increasing activity.

Bicarbonate

Bicarbonate should remain a solid performer and since the plant is sold out, options will be pursued with Novacarb to grow the business in Asia, where the product range is in strong demand.

RESULTS SUMMARY

Results Summary					
Half year ended A\$000	December 2013	June 2013	December 2012	% change H1 FY14 - H1 FY13	% change H1 FY14 - H2 FY13
Sales revenue	39,854	71,346	65,873	(39%)	(44%)
Chemicals EBITDA*	(2,994)	(5,505)	2,862	(205%)	(46%)
Quarry & Mineral EBITDA*	(54)	1,175	185	(129%)	(105%)
Corporate centre/unallocated	(1,528)	(1,477)	(1,518)	1%	3%
Underlying EBITDA *	(4,576)	(5,807)	1,529	(399%)	(21%)
Depreciation	(1,640)	(2,344)	(4,471)	(63%)	(30%)
Underlying EBIT *	(6,216)	(8,151)	(2,942)	111%	(24%)
Net interest expense *	(4,770)	(5,329)	(5,599)	(15%)	(10%)
Underlying NPBT*	(10,986)	(13,480)	(8,541)	29%	(18%)
Tax *	(29)	332	254	(111%)	(109%)
Underlying NPAT*	(11,015)	(13,148)	(8,287)	33%	(16%)
Total significant items (after tax)	(1,258)	(8,817)	(19,841)	(94%)	(86%)
Statutory NPAT	(12,273)	(21,965)	(28,128)	(56%)	(44%)
Underlying earnings per share* (cents)	(12.0)	(7.3)	(9.1)	32%	64%
Statutory earnings per share (cents)	(13.5)	(69.6)	(30.8)	(56%)	(81%)
Dividend per share (cents)	Nil	Nil	Nil		
Gearing [net debt/(net debt+ equity)] %	200%	178%	136%		
Interest cover [EBITDA*/net interest] (times)	-1.0	-1.1	0.3		

*Excludes significant items. Underlying results (Underlying EBITDA, EBIT, NPBT, Tax, NPAT, Earnings per share) is a non-IFRS measure that is presented to provide an understanding of the underlying performance of Penrice's operations. This measure excludes the impact of non cash accounting adjustments for impairment and derecognition of deferred tax assets as well as items that are not part of normal business operations that are not expected to reoccur, including restructuring costs.

The non IFRS financial information is unaudited.

GROUP

The elements of the business transformation completed over the first half include:

- Bicarbonate plant was commissioned to accept imported soda ash as its new raw material and is in full operation. Customer acceptance has been forthcoming
- New lime screening plant with storage and load out facilities is commissioned and is in full production
- Steam supply under a new contract with Osborne Cogeneration from its adjacent cogeneration plant is meeting Penrice's new operational needs
- Penrice's new Angaston mine plan is fully operational and running to plan, based on a reduced requirement for limestone from Penrice's chemical business. A new smaller and more flexible mine fleet has been introduced on a more variable cost structure
- Penrice made its first lime sales from its new plant and sales uptake is strong
- Penrice is providing a local logistics service package to Pro Asia Pacific including wharfage, transport, storage, handling and packaging.

LIMESTONE

Quarry & Mineral - underlying results					
Half year ended A\$000	December 2013	June 2013	December 2012	% change H1 FY14 - H1 FY13	% change H1 FY14 - H2 FY13
Sales to external customers	9,780	9,339	10,137	(4%)	5%
Inter-company sales	741	2,828	2,942	(75%)	(74%)
Total sales revenue	10,521	12,167	13,079	(20%)	(14%)
Underlying EBITDA	(54)	1,176	184	(129%)	(105%)
EBITDA margin	-0.5%	9.7%	1.4%		
Underlying EBIT	(964)	120	(873)	10%	(903%)
EBIT margin	(9.2%)	1.0%	(6.7%)		

The quarry and mineral business booked an underlying EBIT loss of \$1.0 million on reduced sales, compared with a loss of \$0.9 million in FY2013. Sales volume was down on the prior year, reflecting the three year, deep cyclical decline in construction activity in South Australia. Selling unit prices were up and distribution unit rates were held in line with the prior year, but net sales revenue decreased.

The business continues to pursue productivity improvements to reduce costs, including from the new mine plan and a smaller, more flexible mine operation fleet.

The amount of limestone required to supply Penrice's chemical business has reduced by 70% due to the closure of the soda ash plant. Limestone is still required to make lime, from which carbon dioxide is sourced for the sodium bicarbonate plant. A new mine plan adopted with a new smaller operational footprint and cost base is being adhered to.

CHEMICALS

Chemicals - underlying results					
Half year ended A\$000	December 2013	June 2013	December 2012	% change H1 FY14 - H1 FY13	% change H1 FY14 - H2 FY13
Sales revenue	29,193	62,007	55,736	(48%)	(53%)
Underlying EBITDA	(2,994)	(5,505)	2,862	(205%)	(46%)
EBITDA margin	-10.3%	-8.9%	5.1%		
Underlying EBIT	(3,725)	(6,791)	(554)	572%	(45%)
EBIT margin	(12.8%)	(11.0%)	(1.0%)		

Chemicals business earnings were lower with an underlying EBIT loss of \$3.8 million (FY2013: \$0.5 million) on substantial one-off costs incurred in commissioning the bicarbonate plant on imported soda ash for the first time, commissioning the new lime plant and supply chain set up costs for new soda ash distributor, Pro Asia Pacific. The costs includes \$0.7m (FY2013: \$1.9m) ongoing legacy costs associated with the management of calstilt following the closure of the soda ash plant.

Notwithstanding these ongoing restructure costs, the EBIT loss compared to H2 FY2013 was reduced by 45%.

Bicarbonate

Domestic demand was up in food and stock feed segments and exports demand in Asia continues to outpace supply.

Production was down caused by commissioning on imported soda ash. New soda ash receival facilities for sodium bicarbonate manufacture are operational. Continuity of supply and product quality is being maintained, with strong customer acceptance.

Lime

Penrice continues to operate its lime plant since the lime manufacturing produces carbon dioxide which is required in its sodium bicarbonate plant. The lime plant incorporates new screening plant and load out facility built in FY2013 and six lime kilns, of which two are currently in operation, being those rebuilt and relined in FY2012.

First sales of quicklime were made in the first half to a growing range of customers in South Australia, Victoria and Western Australia. Quicklime, a new product in Penrice's portfolio, is used in Australia in mineral processing, chemical, building and construction industries.

Soda Ash Services

Soda Ash Services incurred a loss on increased supply chain set up costs for the inbound logistics services to be provided to Pro Asia Pacific and reduced logistics services demand due to less Pro Asia Pacific sales volumes. In the second half, Penrice expects the supply chain to run more smoothly and is examining options to restructure to eliminate losses.

Selective Salt Recovery

Penrice continues to deploy its selective salt recovery technology in the coal seam gas industry, albeit with slippage to previously expected timescales. Successful trials of its proprietary SSR technology at its Osborne pilot plant were concluded in FY2012.

CORPORATE

Corporate centre costs were steady at \$1.5 million, despite a number of corporate activities and projects (FY2013: \$1.5 million).

BALANCE SHEET AND CASH FLOW

Balance sheet		
A\$000	December 2013	June 2013
Current Inventories	18,548	16,458
Trade debtors	11,250	18,541
Trade creditors	(35,300)	(32,621)
Total working capital	(5,502)	2,378
Net property, plant & equipment	53,255	51,594
Non Current Inventories	21,555	21,482
Intangible assets	3,748	3,458
Net other assets/liabilities	(14,536)	(19,168)
Net debt	(117,198)	(106,294)
Net assets	(58,678)	(46,550)
Equity	(58,678)	(46,550)
Gearing [net debt/(net debt + equity)] %	200%	178%

Cash flow			
Half year ended A\$000	December 2013	June 2013	December 2012
Net operating cash flows	(4,034)	(2,598)	(418)
Net investing cash flows	(3,640)	(2,262)	(994)
Net financing cash flows	2,108	7,612	1,456
Net increase/(decrease) in cash held	(5,566)	2,752	44

Following the establishment of Pro Asia Pacific in June 2013, with Penrice's soda ash customer franchise being transferred to it, debtors have reduced. With forecast increase in lime sales, debtors held will increase.

Following commissioning of the new lime plant, lime inventory was built, pending customer trials and acceptance. As this market further develops and matures, lime inventory is forecast to reduce.

Creditors have increased as a result of further carbon costs accruing (\$1.4m) which included further penalties and impact of the timing of creditors and other payables. Penrice continues to work with the Clean Energy Regular (CER) to acquit its carbon liability.

The commissioning of the bicarbonate plant to accept imported soda ash as feedstock and establishment of the new lime plant has increased plant and equipment.

As previously reported, the closure of the soda ash manufacturing resulted in redundancies which has seen our employee provisions reduce significantly.

The business restructure (comprising plant and equipment modifications and personnel redundancies) was funded by an \$8.0 million loan. Further funding of \$2.0 million in the period has been provided by TMPA to assist the business through the business transformation and debt restructure. A further \$3.0 million of funding from TMPA has also been received post balance date.

Operating cash outflow includes restructuring charges of \$1.3 million plus a number of one-off business restructure and transformation costs. With the forecast growth in lime and bicarbonate sales, operating cash flow is forecast to improve in the second half.

For more information visit the company's website at www.penrice.com.au or contact Mr Guy Roberts, Managing Director & CEO, Penrice Soda Holdings Ltd, +61 8 8402 7239.

About Penrice

Penrice Soda Holdings Limited (ASX: PSH) is a world leading manufacturer, marketer and exporter of sodium bicarbonate. It manufactures and markets lime for Australian industry. It imports and distributes soda ash throughout Australia through its joint venture, Pro Asia Pacific. It also operates a limestone mine, supplying quarry products and industrial minerals in South Australia. The Company is committed to driving shareholder value through the manufacture and supply of a range of world-class products across a variety of industries and countries including packaging, building and construction, mining, detergents, food and personal care, stockfeed and environmental control/water purification.

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