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Penrice Soda Holdings Limited  
Solvay Road Osborne  
South Australia 5017

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Penrice Soda Holdings Limited yesterday reported net profit after tax of \$7.1 million for the year ended June 2009, down 3 percent from the previous year. Underlying EBITDA was \$27.0 million, up 36 percent, reflecting the benefits of your Way Forward Plan. With investment under the Way Forward Plan completed in 2009, what level of benefits will flow in the current year ending June 2010?

**MD Guy Roberts**

We expect our investment in the Way Forward Plan to generate increased profits and cash flows in 2010. In the Quarry & Mineral business we stepped up our extraction of overburden from the Angaston mine under the Way Forward Plan and we should continue to see strong sales of that overburden material into the civil engineering and construction markets.

In our Chemicals business, we've invested in repairing and upgrading our soda ash plant and in expanding the capacity of our sodium bicarbonate plant. We expect to see continuing improvement in the robustness of the soda ash plant and an uplift from a full year of sales from the expanded bicarb plant. We expect the expanded bicarb plant to generate an additional \$4 million EBITDA a year and we'll be targeting to achieve that in 2010.

Improved cash flow is an important immediate focus of ours and we're confident the additional sales will flow through to cash.

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Penrice booked operating cash flow of \$0.1 million in 2009, versus \$1.1 million in the previous year. This was largely due to an increase of \$15.2 million in working capital to \$47.7 million, reflecting funds flow into aggregate and schist inventories. Have inventories peaked? What is your expected cash flow conversion of EBITDA going forward?

**MD Guy Roberts**

In 2010 we expect an increase in inventory of about \$3 million as we come off the back of our accelerated overburden extraction program, which saw inventories increase by about \$18 million in 2009. In subsequent financial years we expect inventories to reduce.

It's important to recognise that we committed to expanding the Angaston mine to secure the long-term supply of limestone for our Chemicals business and to give us the ability to expand into the civil and construction markets. We're now a major supplier in the Adelaide construction market.

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With investment under the Way Forward Plan of \$26 million and \$24 million in 2008 and 2009 respectively, Penrice has not generated free cash flow for the past two years. What are your capex plans going forward and what level of free cash flow can the business generate?

**MD Guy Roberts**

We've been in a very aggressive rebuilding phase, but the reduction in our inventory build together with the completion of our expansion capex will mean significantly improved free cash flows. Our capex budget for 2010 is \$10 million versus \$22 million last year – \$12 million lower – and as I said earlier, our inventory build will go to \$3 million from \$18 million – \$15 million lower. Together that would mean a \$27 million improvement in free cash flow.

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Net debt stood at \$86.6 million as at the end of June 2009, up from \$71.4 million a year earlier. Net debt to net debt plus equity was 59 percent, unchanged, partly reflecting a share placement and SPP raising \$8.9 million in the first half. What are your debt reduction targets for the business? Will operating cash flows alone be adequate to pay debt down to an appropriate level?

**MD Guy Roberts**

Clearly we've had to maximise our balance sheet to rebuild the business. Our stated gearing range has been 50 to 60 percent but we're reviewing that given investor and key stakeholders' preference for more conservative gearing post the global financial crisis.

We're planning for our gearing to come down to the bottom end of our range over the medium term. We expect increased profits and reduced capex requirements to allow us to commence debt amortisation payments in the 2011 financial year.

We're also focusing on strengthening our balance sheet and obviously an equity raising would assist that process.

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Borrowing costs increased to \$8.6 million in 2009, up from \$6.0 million and interest cover (EBITDA to interest expense) fell to 3.1 times from 3.4 times. How does interest cover at this level compare with the covenants under your recently renewed loan facility and what is the outlook for interest cover given debt levels will remain relatively high?

**MD Guy Roberts**

Our banking syndicate reset our covenants as part of the debt facility extension we completed this month which takes our senior debt through to March 2012. We've remained in full compliance with all our covenants.

Our interest cover remains at the lower end of the range we'd like but we expect it to improve in the short term reflecting our increasing EBITDA, and with scheduled loan repayments commencing in July 2010.

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Penrice's Chemicals business booked a substantial improvement in profitability in 2009, with EBIT up 29 percent to \$11.4 million on revenue of \$138.1 million, up 18 percent. EBIT margin improved to 8.2 percent from 7.5 percent. Post the Way Forward Plan investment, what will be the key drivers of profitability in Chemicals going forward?

**MD Guy Roberts**

The key driver will be increased sales volumes of sodium bicarbonate into premium export markets in Asia, Africa and Europe. There's also potential for us to further expand our bicarb plant and we'll conduct a feasibility study into that during 2010.

In soda ash we expect volumes to be reasonably flat this year, but demand growth should return as economic growth strengthens. We also expect some uplift from the repricing of a major contract. Two sectors will be particularly important for soda ash demand: glass and mineral processing. In glass, Amcor is in the middle of expanding its plant, which potentially means more demand for our soda ash. In mineral processing, mines that have been impacted by the global financial crisis should return to production as China and India develop a renewed appetite for our resources.

We'll also continue to focus on productivity improvement and improving the unit costs of our Chemical business.

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You've indicated the soda ash business does not currently generate your hurdle rate of return on net assets of 15 percent. How important is the upcoming "major" contract renegotiation to the business achieving acceptable returns and given

continuing low returns is the carrying value of the business likely to be written down?

**MD Guy Roberts**

The major contract renegotiation is important for earnings in the short term and indications are that we'll receive a satisfactory price increase. If that contract renegotiation is unsatisfactory, over time we'll redeploy that soda ash into other parts of the market and possibly exports as demand returns.

We benefit from being a low cost producer and the lowest cost producer in the region. In terms of cost, we're in the bottom quartile of synthetic soda producers in the world, and are more competitive than the Chinese soda ash producers. That gives us opportunities in export markets in the region in normal market conditions. We're focused on getting a minimum return of 15 percent on every tonne of soda ash we sell from our plant.

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The Quarry & Mineral business booked EBIT of \$12.1 million, up 32 percent, on revenue of \$30.3 million, up 26 percent. Can you comment on current volume demand conditions for aggregate and schist, and with the mine widening largely complete, do you expect a significant increase in efficiency going forward?

**MD Guy Roberts**

Over the last five years we've seen compound growth of 20 percent per annum in volume sales of aggregates. We're a large, efficient, low-cost producer located in the growing northern region of Adelaide, close to where the development is happening and those features should position us well for continued strong sales. We're confident we'll be a competitive supplier for a number of projects that are being planned for northern Adelaide including new federal and state government funded roads, new rail links and upgrades of existing rail infrastructure, and new sub-divisions to support defence and other large infrastructure programs.

In 2009 we also made our first sales of schist, which is the lower value material more suitable for landfill applications. We expect that commensurate with the uptick in building activity, there will be increasing demand for landfill, so we're confident that over the longer term we'll be able to sell down all our schist inventory.

We're in the process of completing our long term mine plan, but we expect future cash mining costs to look a lot better than the historical average, largely because our strip ratio will be significantly reduced.

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Penrice suspended its dividend in 2009. What financial benchmarks would you look to hit before a reinstatement of the dividend would be considered?

**MD Guy Roberts**

It's clearly a matter of concern to the board that we weren't able to return some cash to the owners of the business. That will be a temporary situation and the

board wants to resume dividend payments as soon as possible. The board will be looking for improved profits and cash flows and our guidance for the 2010 financial year is that better prices and increased margins on bigger sales volumes in Chemicals and Quarry will lead to better cash flows and the likelihood of a resumption of dividends in the current year.

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Thank you Guy.

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For further information on Penrice Soda Holdings Limited visit [www.penrice.com.au](http://www.penrice.com.au) or call Guy Roberts on +61 8 8402 7239 or CFO Frank Lupoi on +61 8 8402 7280.

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