



MAGONTEC Limited

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15 May 2024

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

Dear Sir/Madam,

**Magontec Limited – 2024 Annual General Meeting Wednesday 15 May 2024 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 2024 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 15 May 2024.

ADDRESS BY EXECUTIVE CHAIRMAN MAGONTEC LIMITED TO ANNUAL GENERAL MEETING 15 MAY 2024

As usual I will provide an overview of Magontec's operations and business conditions, update shareholders on progress at Magontec's key project in Qinghai province, PRC, and make some remarks on the immediate outlook for the company.

As shareholders will recall, Magontec has cycled a period of extraordinary magnesium price volatility. The price of pure magnesium, pushed by the sudden collapse of US domestic supply, the introduction of stricter Chinese environmental controls and soaring coal prices, rose to over ¥60,000 a tonne.

As customers found new sources of supply and coal prices retraced to prior levels, pure magnesium prices have also come back to much lower levels.

As with all commodities, magnesium prices reflect several factors including fluctuations in raw material values, changes in general economic conditions, the impact of government policies and exogenous shocks. The magnesium sector has experienced all these influences.

In our current configuration, a high price for magnesium drives higher company profits. From the 3rd quarter of 2021 to the 1st quarter of 2023, higher magnesium prices flowed directly through into higher EBITDA for both our magnesium alloy and magnesium anode businesses.

There is a lagging effect of Mg price movements, both to profitability and to working capital, and that continues to work its way through Magontec's P&L and balance sheet.

The falling price of magnesium has been particularly impactful on volume throughput at our recycling facilities in Europe. As primary Mg alloy volumes from our Qinghai facility come online, we think that volumes for these facilities will be sustainable at a higher level and profitability will recover.

In the metals division, primary and recycled Mg alloy volumes have been relatively stable in the first quarter of 2024, while lower revenues reflect falling magnesium prices. Profitability has also been negatively impacted as lower Mg prices flowed through to the European recycling operations in the second half of 2023, although this has stabilised in this first quarter.

A particular issue for our European recycling businesses has been the local availability of very low priced Chinese primary Mg alloy, only marginally higher than the Chinese factory gate price for pure magnesium. This has reduced the attractiveness of recycling and

reduced local scrap supply. Furthermore, much of the scrap material produced in Europe finds its way to other markets where there are tariff barriers for original Chinese material, and to the aluminium alloying industry.

Metals division profitability was supported in the first quarter of 2024 by rising demand for higher margin specialist metals products. Demand from the aerospace industry among others is running at higher levels in 2024 than in previous years.

While there are pricing and material flow issues working against Magontec European recycling businesses in early 2024, the critical issue for our global metals strategy is the absence of primary Mg alloy flow from our Qinghai cast house to European Mg alloy die casting customers. As I have noted in past reports to shareholders, the flow of primary material to European customers is an essential element in the business case for Magontec's European recycling assets.

The key market for Magontec's Mg alloys is the automotive sector. Magontec sells Mg alloy ingots to die casting customers who supply the finished product, such as steering wheels, instrument panel beams, seat and door frames and various other components where weight is a consideration.

This chart shows 2019 sales versus 2023 sales. The Chinese market has powered ahead in the period since the pandemic, despite a weakening economy. Interest rates in China continue to be relatively benign and automotive manufacturers are producing and selling at record volumes, encouraged by very attractive financial terms. In the last few weeks, the Chinese Government has announced a new "cash for clunkers" program and further subsidies of between RMB7,000 and RMB10,000 for new automotive purchases.

In other major markets, sales have yet to surpass 2019 volumes, constrained by sustained high interest rate settings across Europe and the US, and associated cost of living pressures.

In the anodes businesses, including both magnesium anodes manufactured in China and Romania and powered anodes made in Germany, performance has been flat. Home building activity in all the markets we address has been weak, particularly in China. While new buildings account for just 20% of sales volumes, a sharp fall in Chinese new home starts and the competitive response within the anode manufacturing industry, has been particularly impactful.

From a profit perspective, a reduction in global powered anode sales has had a marked effect on Magontec's Gross Profit margins. Changes in government regulations and reductions in consumer incentives have led to lower levels of demand for this product and an inventory build-up in the latter half of 2023 that has continued into the first half of

2024. It will take time for this congestion to clear, but we see a positive long-term outlook for powered anodes driven by emission abatement strategies and strong underlying demand for housing, given the right macroeconomic settings.

While the replacement market represents around 80% of hot water appliance installations, it is of course the case that each new home also requires a new hot water appliance, and each appliance contains an anode. These charts show the trends that have made Chinese and European housing markets such a difficult environment for water heater sales and suppliers of components to that industry.

In China, house sales measured by square metres have declined by 38% in the last 2 years. In Germany new house and apartment construction fell by around 30% in 2023. The decline in hot water appliance demand at the margin has caused a rise in competitiveness in the component supply industry and a decline in margins in China and Europe. We don't think this will last for a long time, particularly given the underlying demand for new housing in Europe, but it has made for a challenging market over the last quarter.

An unexpected reversal in heat pump hot water system sales over the last 6 months has also reduced revenues and volumes in powered anode sales, a very important profit contributor for the company. This was driven by changes in government policy among other factors and is also expected to rebound in the coming months. All these trends have impacted CCP profits at the margin in 2023 and 2024.

Before I discuss the Qinghai project, I want to make a few remarks about the underlying good health of Magontec's balance sheet. The company has no net debt and a net cash balance of \$8.7 million as at the end of March 2024. This cash was acquired through 2022 and 2023 when Mg prices were higher and margins on Mg products rose sharply. As prices have declined, the company's working capital requirements have also declined and released cash onto the balance sheet.

In the coming period we expect to ship some thousands of tonnes of additional Mg material. While we have banking and other credit facilities in place that can be expanded, the Board has chosen to retain the current capital management strategy until we fully understand the size of future demands on the balance sheet. Furthermore, the company has a tax bill due in the second half of 2024 that will reduce cash by some \$6 million.

Moving on to the company's key project, the primary magnesium alloy cast house in Qinghai province, PRC. This facility, which will offer the world's only truly "green" magnesium alloy, is the central strategic focus of the company. Flow of material from the Magontec Qinghai cast house will drive higher sales volumes of primary magnesium alloys and increase volume throughput at the company's recycling facilities in Europe.

As shareholders will have noted from prior reports, there have been delays to production at the electrolytic smelter that supplies Magontec due to commissioning and other issues. Our partner in Qinghai, and 28.5% shareholder, Qinghai Salt Lake Magnesium Co Limited (QSLM), has now provided a new production schedule. They plan to restart production of pure magnesium at low levels in the second half of this year, rising to higher levels through 2025.

There are two operational issues that QSLM has been addressing: dehydration sustainability and electrolytic efficiency.

In November 2023 the dehydration process was sufficiently remediated to be able to run for a continuous 40-day stretch. Having proven this process QSLM have now turned their attention to issues in the electrolysis facility.

The company has trialed a different cell configuration and feedstock input process that is expected to resolve chlorine concentration and energy efficiency issues. This will be in place in the third quarter of 2024. Following completion of these upgrades QSLM expect to commence magnesium and chlorine gas production from the electrolysis facility and will run it continuously thereafter. Through the second half of 2024, assuming the new configuration is successful, QSLM plan to complete the remediation of the first dehydration unit and to commission around 50% of the electrolysis cells. This is expected to increase annual pure magnesium production capacity in the first quarter of 2025 to around 30,000 metric tonnes.

Meanwhile Magontec's cast house operations have been operating successfully throughout this difficult period. When the first material flows to our furnaces in the second half of this year, our experienced management and operations team will already be in place to receive QSLM's liquid pure Mg, and process that through to Mg alloys for our global customer base.

The Qinghai project remains the only low emission, high volume magnesium production facility in the world. Magontec has a series of agreements with QSLM, the owners of this facility, including an exclusive right to produce magnesium alloys at the site and to off-take up to 56% of the facility's production. The start of production at Qinghai is expected to move Magontec into the front ranks of magnesium alloy producers and to enhance profitability across all our magnesium alloy activities, including primary production, recycling and anode manufacturing.

In closing I want to leave you with a few summary points.

The company has an exceptionally strong balance sheet, net cash and was cash flow positive in the first quarter of 2024. Furthermore, the company's current working capital¹ of \$42m, as at the end of March 2024, is equity funded. As the effect of falling magnesium prices works through the balance sheet, there is scope for working capital to reduce further.

The company's key strategic initiative, to bring our Qinghai facility online, has continued to make good progress over the last 12 months. Our partners have indicated confidence in the supply of small quantities of liquid pure magnesium supply to our Qinghai cast house in the coming six months, rising to higher volumes next year.

We have stuck with the Qinghai project through a difficult period because it remains the only truly 'green' magnesium option anywhere in the world. There are no existing or near-term projects with comparable emission, volume, or growth potential metrics. It is also the case that manufacturers who buy Mg alloy are increasingly focused on issues that only Magontec's Qinghai facility can address.

While our Net Profit has re-traced from the higher levels in the last three years, we continue to generate positive underlying operating cashflow². As the Qinghai project comes on stream with growing volumes through 2025, we can expect our magnesium alloy activities to benefit. Activities that are currently financially supported by earnings from the CCP assets, will become profitable in their own right.

Finally, I would like to take this opportunity to thank my fellow directors for their efforts and advice through the year. Magontec is particularly blessed to have a high quality and stable board of diverse talents.

That concludes my remarks and am happy to take questions from shareholders.

Mr Nicholas Andrews
Executive Chair

¹ Working capital = debtors + inventory - creditors.

² Underlying operating cashflow = operating cashflow excluding working capital, interest and tax paid

Magontec Limited

ASX:MGL

Chair's Presentation

15th May 2024



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All dollar values are in Australian dollars (A\$) unless stated otherwise and financial data is presented within the financial year end of 31 December unless stated otherwise. Any pro forma historical financial information included in this Presentation does not purport to be in compliance with Article 11 of Regulation S-X of the rules and regulations of the US Securities and Exchange Commission.

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This Presentation contains certain "forward-looking statements". The words "expect", "should", "could", "may", "will", "predict", "plan", "scenario", "forecasts", "anticipates", "outlook" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Where the Company expresses or implies an expectation or belief as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. Forward-looking statements, opinions and estimates provided in this Presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Such forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. There can be no assurance that actual outcomes will not differ materially from these forward-looking statements, and there are risks associated with the Company and the industry (including those set out below) which may affect the accuracy of the forward-looking statements. The Company does not undertake any obligation to release publicly any revisions to any forward looking statement to reflect events or circumstances after the date of this presentation, or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

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Investment in Magontec shares is subject to investment and other known and unknown risks, some of which are beyond the control of Magontec Limited, including risk factors associated with the industry in which Magontec operates and risks specific to Magontec, such as: construction, development and operational risk associated with the Golmud Plant, fluctuations in magnesium alloy prices and exchange rates, risks associated with operating in China, financing risks, market price and demand risk and other risks generally relating to security investments.

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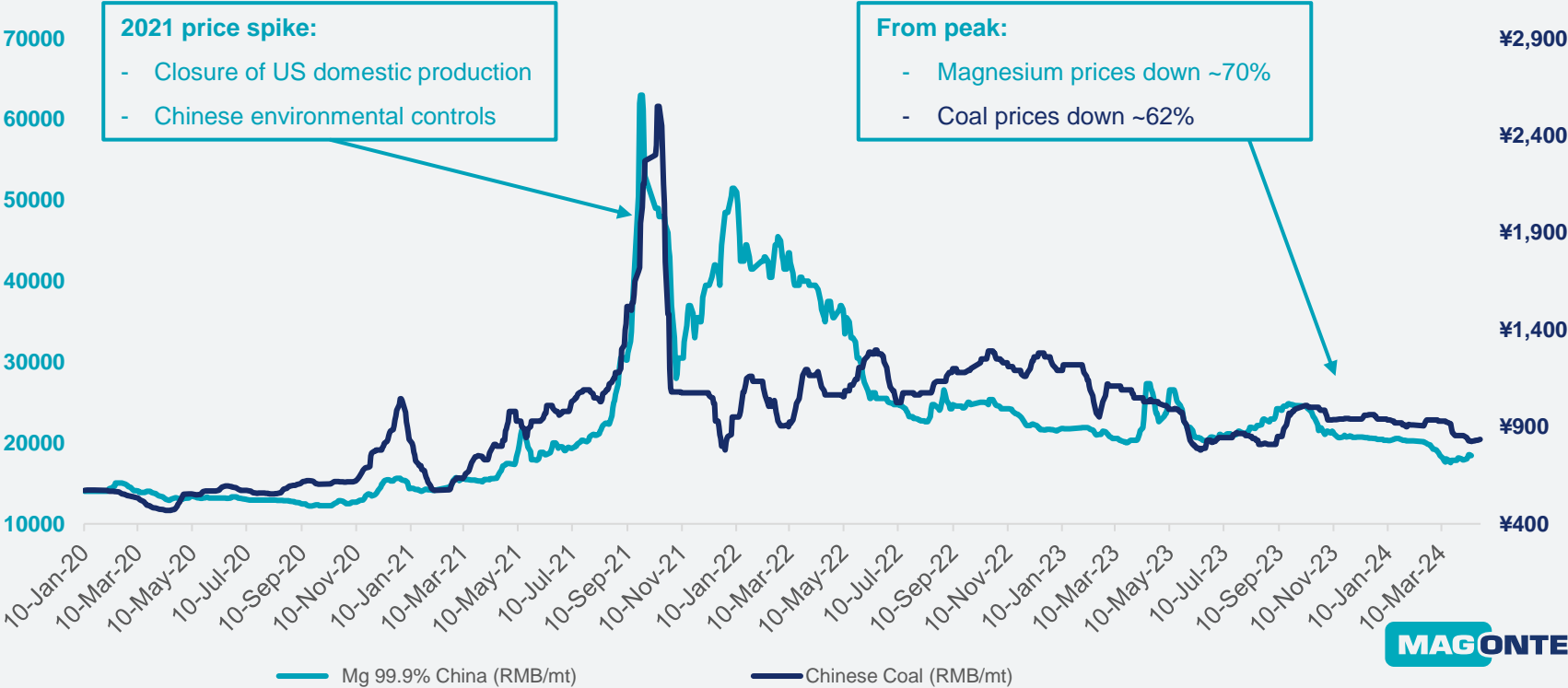
Investor Presentation

- Performance review
- Market conditions
- Qinghai project
- Outlook



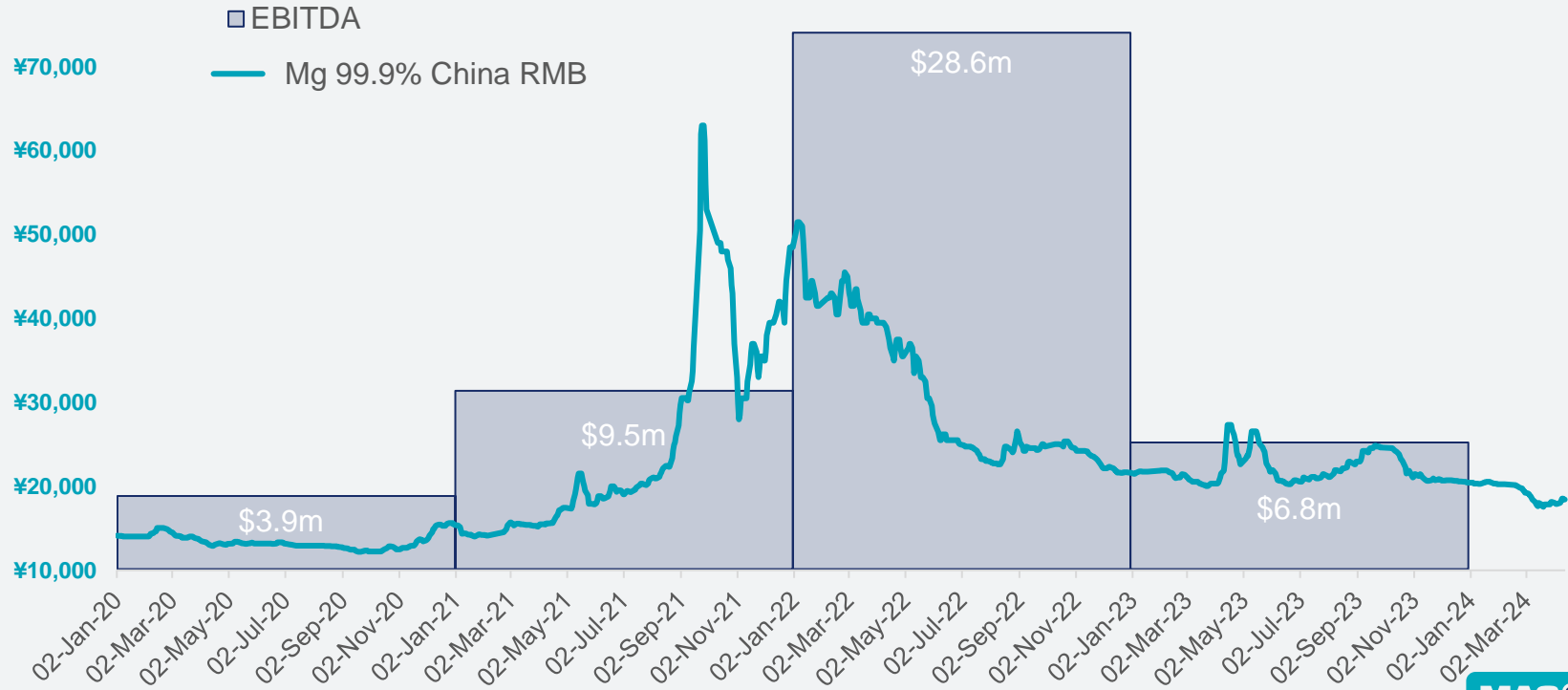
Magnesium Pricing

Chinese Magnesium and Coal Prices -1 January 2020 to 12 April 2024



Magnesium Pricing

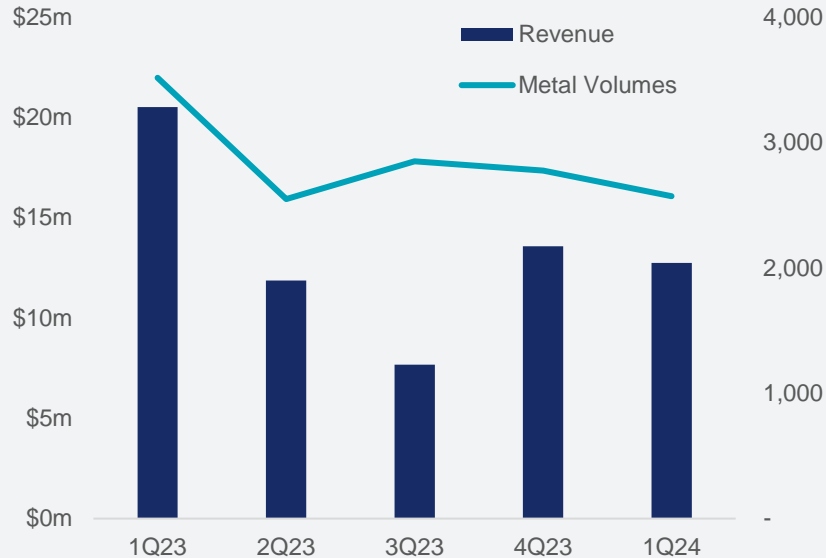
Chinese Magnesium Price V Magontec EBITDA* - 1 January 2020 to 31 December 2023



* EBITDA excluding unrealised FX gains/losses

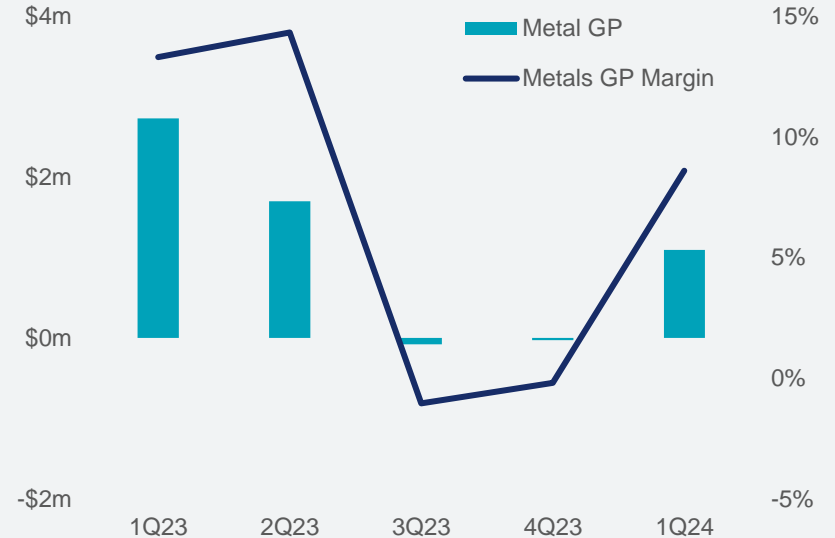
Division Performance - Metals

Magontec Metal:
Revenues and Volumes (tonnes)



- Volumes slightly below prior quarter
- Revenues trend largely dictated by Mg price changes

Magontec Metal:
Gross Profit & Gross Profit Margin



- GP recovery in 1Q24 as prices stabilise
- Higher margin products driving margin improvement

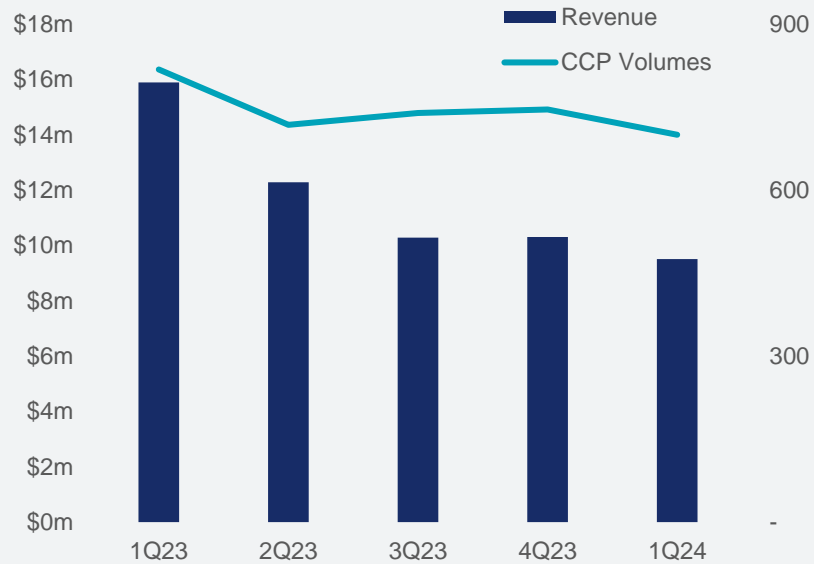
Metals markets – passenger cars. 2019 Vs 2023

Global Annual Automotive Sales - Selected Markets



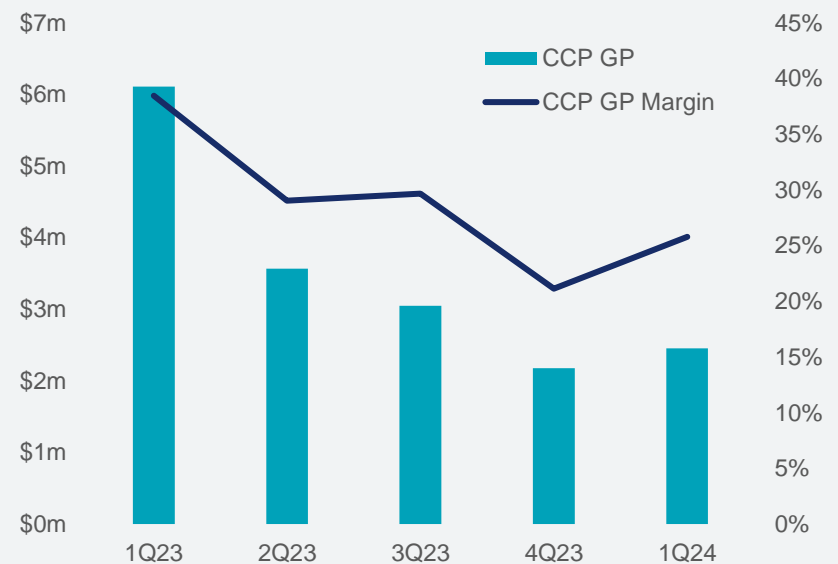
Division Performance - CCP Anodes

Magontec CCP (anode): Revenues & Volumes (tonnes)



- Volumes reduced reflect home building starts in China and Europe, and raised competitive pressures
- Revenues reflect Mg price changes

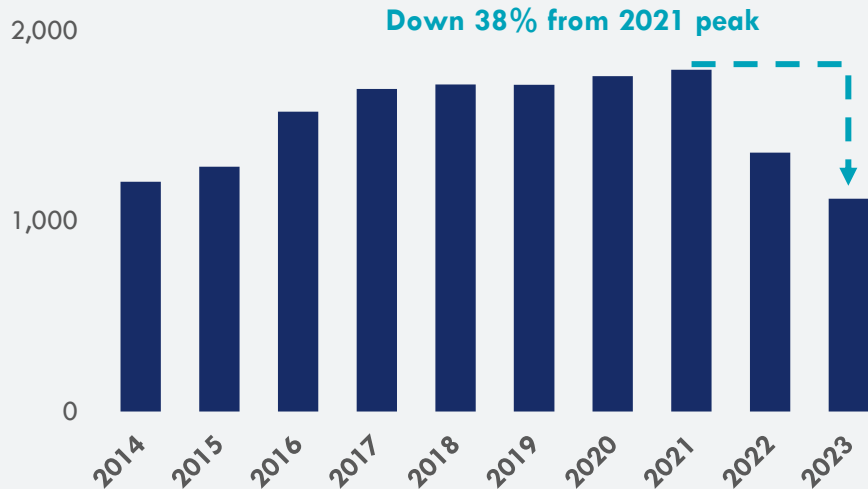
Magontec CCP (anode): GP & GP Margins



- Gross Profit and Gross Profit Margins suffer from lower sales of powered anode products in the period

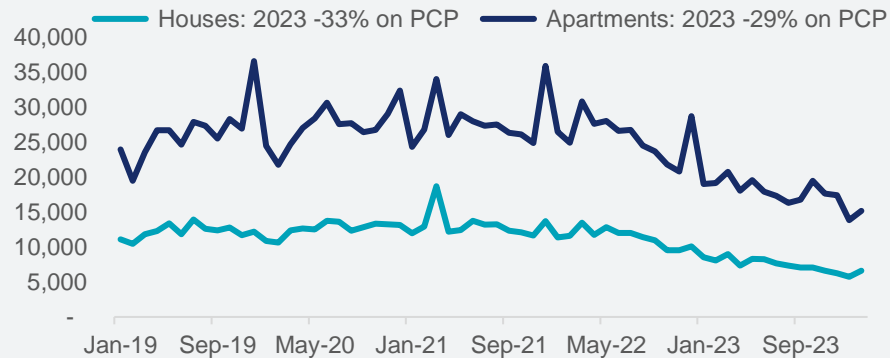
Anode markets: lower demand in 2023

PRC Commercial House Sales (Millions of Sq M)

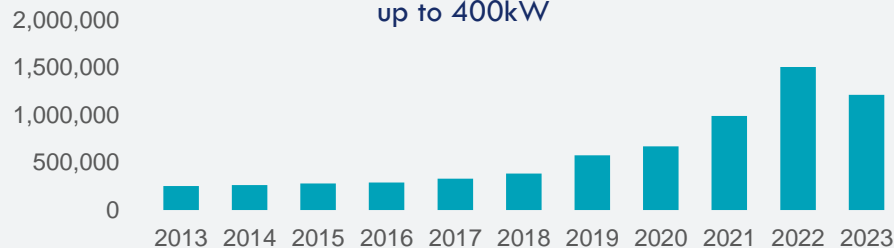


- Chinese housing market likely to continue to struggle
- Domestic PRC market very competitive
- New starts just 20% of total demand

German New Homes and Apartments: 2019-2023



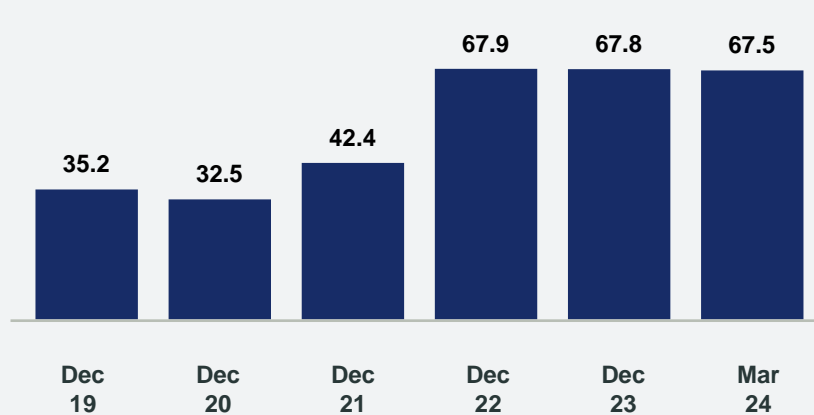
European Hydronic Heat Pump (HP) Installations up to 400kW



- Government subsidies critical to HP growth momentum
- Market confusion has led to lower sales, raised inventory
- Long-term outlook for Mg and powered anodes is positive

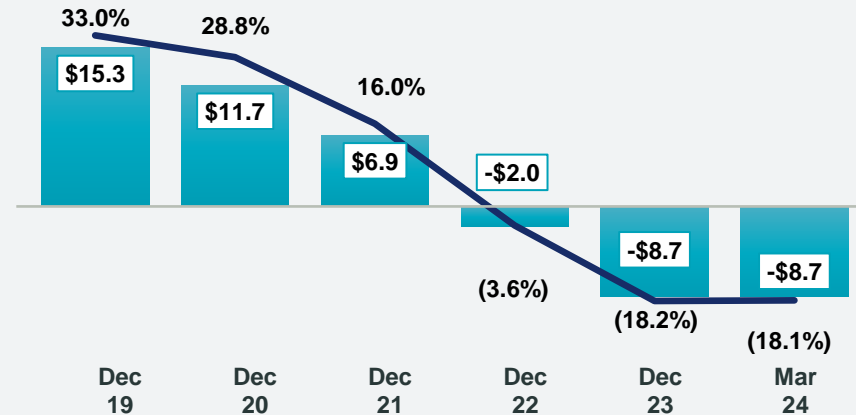
NTA, Debt and Gearing

Net Tangible Assets per Share (cents)*



- NTA per share has remained stable
- As Mg price has retraced there has been some downward inventory adjustment

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



- There is no net debt and at lower Mg prices, working capital has scope to reduce
- Bank facilities maintained in all regions

* Net tangible assets = net assets less intangible assets less AASB 16 right of use lease assets

** Net debt = net debt / (net debt + equity)

The Qinghai electrolytic magnesium smelter complex



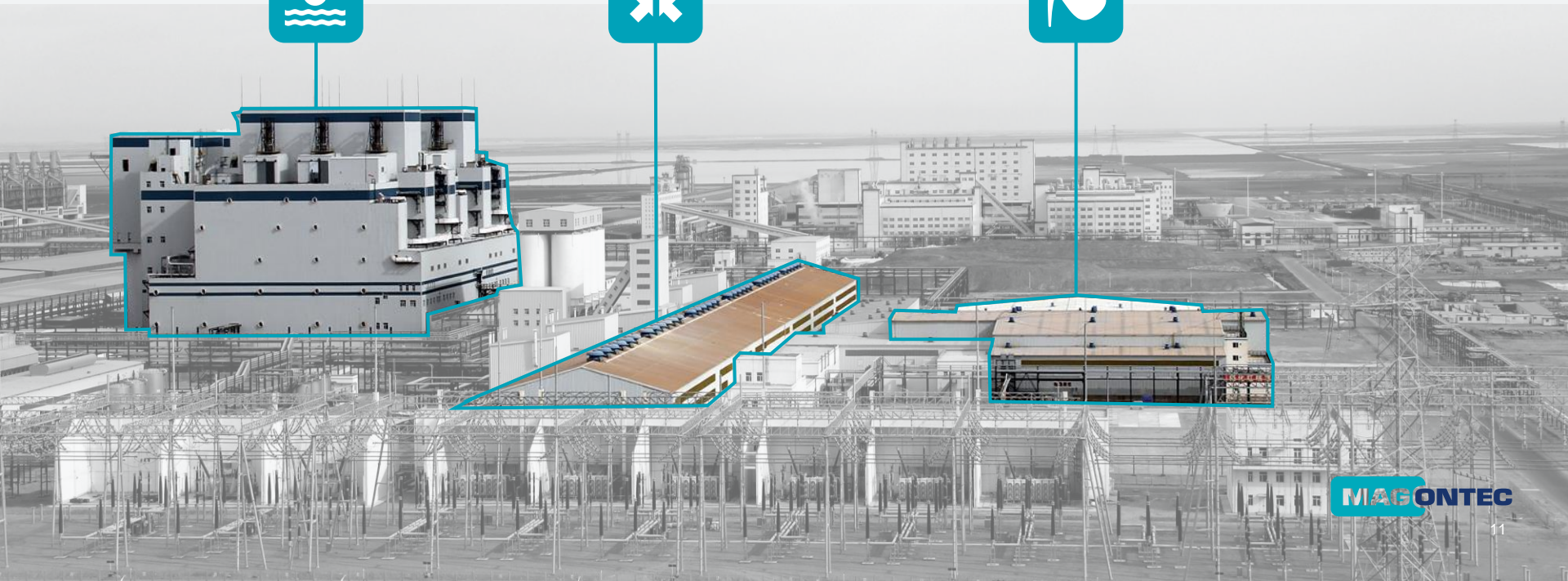
Dehydration



Reduction



Cast house



The Qinghai electrolytic magnesium smelter complex



Dehydration



- 1 line in Unit 1 ran for 40 days in 4Q '23
- Critical tests completed and line idled
- QSLM confident that all 6 lines in both units able to be remediated when other electrolysis issues addressed

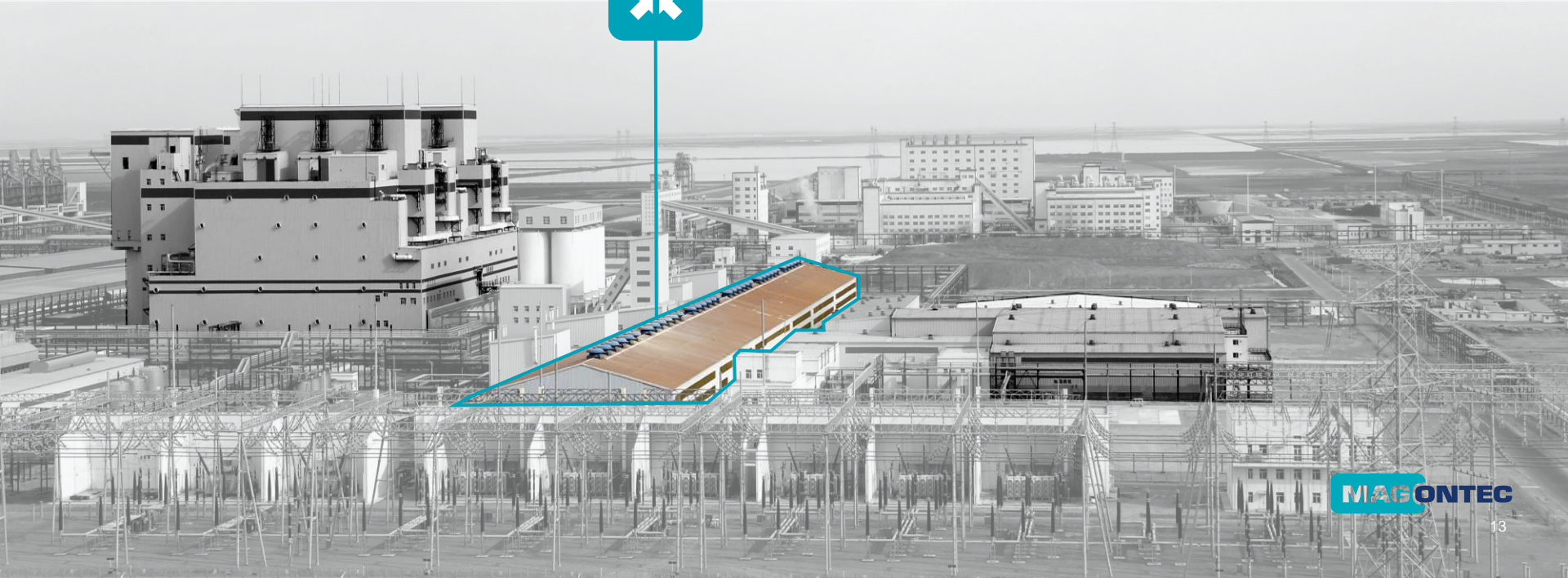


The Qinghai electrolytic magnesium smelter complex



- Electrolysis currently being remediated
- Change to electrolytic cell design
- Cl_2 concentration, energy efficiency

Electrolysis

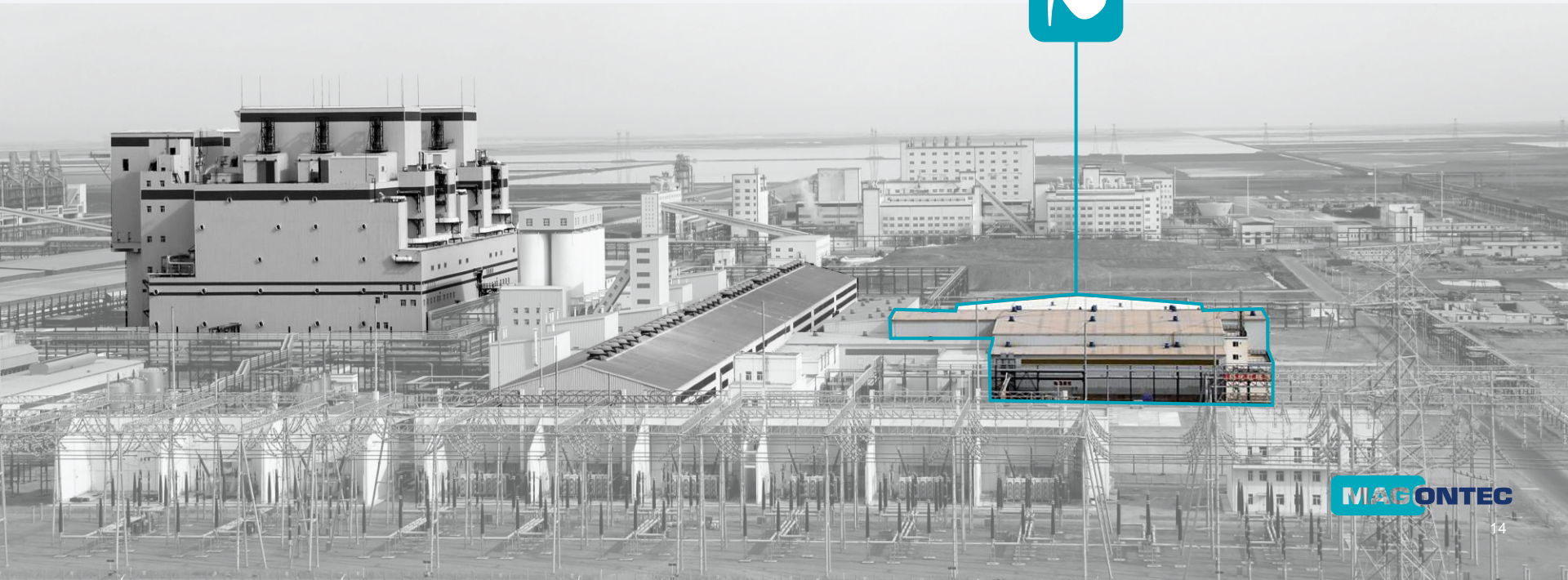


The Qinghai electrolytic magnesium smelter complex

Magontec cast house:

- No changes/upgrades required
- Ready to receive liquid pure Mg and produce Mg alloys

Cast house





Magontec Qinghai **The world's greenest magnesium alloy producer**

Magontec Limited: a platform for growth



- Strong balance sheet and cash position
- No net debt, cash flow positive in FY23 and First Quarter of 2024



- Qinghai primary Mg alloy production likely to commence in 2H24
- Technical/corporate issues are being successfully addressed



- World's only "green" primary Mg alloy production
- No comparable facility under construction or in operation



- Net Profit under pressure in 1Q24, but EBITDA positive
- Qinghai will positively impact earnings for all Magontec Mg activities

Magontec Limited

ASX:MGL

Thank you

15 May 2024

