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1 November 2019

CSR Limited announces half year net profit after tax of $68.8 million

CSR Limited (CSR) has reported statutory net profit after tax of $68.8 million for the half year ended 30 September 2019, up from $26.8 million in the prior comparable period which included impairment charges from the Viridian Glass business (sold on 31 January 2019). Net profit after tax (before significant items) of $71.6 million, was down from $89.6 million in the prior comparable period [1].

Building Products EBIT of $95.9 million was down 18% as the slowdown in residential construction activity impacted performance in the half. This decline in activity has seen housing commencements across the industry down on average 19%.

Despite the broader market slowdown, CSR's largest businesses of Gyprock and Bradford delivered steady volumes and earnings as they benefitted from a diversified revenue base across residential and commercial sectors. However, Hebel and AFS earnings were lower as they have significant exposure to the high density market which was down 38% during the period. The higher fixed cost position in PGH impacted earnings in the first half but fixed costs have been reduced following the July 2019 closure of the Darra brick plant in Queensland.

In Aluminium, EBIT increased by 10% to $25.4 million as input costs stabilised. While no Property earnings were recorded during the period, significant progress was made on key development projects, which will secure strong Property earnings in future years.

The CSR Group delivered EBIT from continuing operations of $113.1 million (before significant items), 16% lower than the prior comparable period[1].

CSR finished the period with a strong net cash position of $141.6 million. The board declared an interim dividend of 10.0 cents per share along with a special dividend of 4.0 cents per share (both franked to 50%). The special dividend takes into consideration the Company's strong cash flow and financial position whilst delivering available franking credits to shareholders. The previously announced $100 million share buyback is ongoing with $47 million of shares purchased to date.

Commenting on the results, CSR CEO & Managing Director Julie Coates said, "The business has performed solidly in light of challenging market conditions in the residential construction sector. While in the short term we are focused on managing the business prudently, we remain committed to continuing to diversify our earnings across both residential and commercial construction."

Sale of 20-hectare industrial site at Horsley Park for approximately $140 million

CSR also confirmed today the sale of the second tranche of surplus land at Horsley Park, NSW for total sale proceeds of approximately $140 million. The sale of the 20-hectare site is expected to generate Property EBIT of approximately $90 million. These earnings will be split into two 10-hectare stages which are expected to be recorded in the financial years 31 March 2021 and 2023 (YEM21 and YEM23).

Julie Coates noted, "While there was no EBIT contribution from Property in the half, we have made very good progress on property development activity including the sale of Stage 2 at Horsley Park.

This project has required major rehabilitation on the former quarry to prepare the site for future industrial development. The strong demand for this property highlights the value uplift we can deliver by managing large scale redevelopment projects with a number of major developments underway as CSR continues to optimise its site network."

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[1] CSR adopted AASB 16 *Leases* effective 1 April 2019, resulting in an increase to EBIT of $3.5 million and decrease to NPAT of $0.9 million for the half year to 30 September 2019. The comparative period has not been restated, refer to Note 19 in the half year report.

Outlook

Regarding the outlook for the year ending 31 March 2020 (YEM20), CSR confirmed:

Building Products – Given the subdued immediate outlook for the housing construction sector, it is difficult to predict activity over the near term. As per previous years, the results in the second half are expected to be lower than the first half due to the seasonality in volumes. In the medium to longer term, demand for CSR's building products will continue to be supported by housing activity driven by population growth, high employment and low interest rates. This is also supported by the recent improvement in lead indicators including increased credit availability and improving house prices.

Property – Due to the transaction terms, the proceeds of the sale of 20 hectares of land at Horsley Park are expected to be recorded in YEM21 and YEM23. While ongoing development continues on a number of projects, due to revenue recognition requirements, any additional sales confirmed in the second half of the year are not expected to result in material levels of earnings being recorded in this financial year.

Aluminium – The increase in first half earnings reflects the benefit of the current hedge position which remains at this level for the second half of the year. As of 31 October 2019, 72% of net aluminium exposure for the second half of YEM20 is hedged at an average price of A$2,763 per tonne (excluding ingot premiums).

CSR Group - CSR notes that there is a wide range of analysts' forecasts reported on Bloomberg for YEM20 net profit after tax (before significant items) of $107 million to $168 million. Noting that the YEM20 results are unlikely to include any significant earnings from Property, CSR expects to deliver net profit after tax (before significant items) between the low end ($107 million) and median ($133 million) of this range.

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1 November 2019

CSR Limited – review of results for the half year ended 30 September 2019 (HY20)

Trading revenue[1] of $1.15 billion, down 4% on the prior comparable period.

EBIT[1] of $113.1 million, down 16% included the following results:

- **Building Products** - EBIT of $95.9 million, down 18% following the slowdown in residential construction during the last six months.

- **Property** - No significant Property sales were recognised during the half year period due to the timing of transactions. The earnings from the transaction announced today at Horsley Park are expected to be recorded in YEM21 and YEM23.

- **Aluminium** EBIT of $25.4 million, up 10% as input costs have stabilised and hedging offset aluminium price and currency movements.

Net profit after tax from continuing operations (before significant items)[1] of $71.6 million, down 20%.

Statutory net profit after-tax (including discontinued operations) of $68.8 million compared to $26.8 million in the prior comparable period which included impairment charges.

Earnings per share[1] of 14.4 cents, down from 17.8 cents.

Interim dividend of 10.0 cents per share and a **special dividend** of 4.0 cents per share (both franked at 50%).

A$m unless stated [1]	HY20 [2]	HY19	change
Trading revenue from continuing operations	**1,150.1**	1,198.7	(4%)
EBIT from continuing operations			
Building Products	95.9	116.5	(18%)
Property	(2.2)	4.3	(151%)
Aluminium	25.4	23.0	10%
Corporate	(6.0)	(8.8)	
Group EBIT from continuing operations	**113.1**	135.0	(16%)
Net finance costs	(4.8)	(1.7)	
Tax expense	(30.5)	(38.3)	
Non-controlling interests	(6.2)	(5.4)	
Net profit after tax from continuing operations [1]	**71.6**	89.6	(20%)
Significant items after tax from continuing operations	(2.8)	(4.9)	
Statutory net profit after tax from continuing operations	**68.8**	84.7	(19%)
Statutory net loss after tax from discontinued operations	**-**	(57.9)	
Total statutory net profit after tax	**68.8**	26.8	157%

1 All references are for continuing operations before significant items unless stated. They are non-IFRS measures and are used internally by management to assess the performance of the business and have been extracted or derived from CSR's financial statements for the half year ended 30 September 2019 (HY20). All comparisons are to the half year ended 30 September 2018 (HY19) unless otherwise stated.

2 CSR adopted AASB 16 *Leases* effective 1 April 2019, resulting in an increase to EBIT of $3.5 million and decrease to NPAT of $0.9 million for HY20. HY19 has not been restated, refer to Note 19 in the half year report.

CSR FINANCIAL OVERVIEW

CSR Limited has reported a net profit after tax from continuing operations (before significant items) of $71.6 million for the half year ended 30 September 2019, down 20%.

Statutory net profit after-tax (including discontinued operations) of $68.8 million compared to $26.8 million in the prior comparable period which included impairment charges from the Viridian Glass business (sold on 31 January 2019).

Tax expense of $30.5 million (before significant items) was down from $38.3 million due to the lower pre-tax profits. CSR's effective tax rate for the half year was 28.2% compared to 28.7% in the prior comparable period.

Net cash of $141.6 million increased from the net cash position of $50.0 million as of 31 March 2019, including the final proceeds from the sale of Viridian and receipt of deferred Property consideration. Strong operational cash flow was invested in property projects and the construction of the new $75 million Hebel plant in Somersby, NSW. The final tranche of cash proceeds of $30 million from the previously announced Rosehill Property transaction is expected to be received in the year ending 31 March 2021 following a renegotiation of the lease site arrangements.

Capital expenditure (excluding Property and acquisitions) was $44.8 million during the half year. Of this total, $17.8 million was for stay-in-business projects and $27.0 million was development related capital expenditure including Hebel's new factory completed in Somersby, NSW. A strategic site in the southern highlands of NSW was also purchased for $7 million for future site network planning. CSR's Property team invested $20.9 million during the period as part of rehabilitation of key development sites during the period.

Dividends

The board declared an interim dividend of 10.0 cents per share, representing a payout ratio for the half year of approximately 70%, along with a special dividend of 4.0 cents per share (both franked at 50%).

The special dividend takes into consideration the Company's strong cash flow, financial position and delivering available franking credits to shareholders.

It is expected that the full year dividend (excluding special dividends) will be in line with CSR's stated dividend policy to payout 60-80% of full year net profit after tax (before significant items).

The Company's dividend reinvestment plan (DRP) will operate for the interim and special dividend payable on 10 December 2019. Shares will be acquired on-market and transferred to participants to satisfy any shares to be issued under the DRP. Further details of the DRP are available from CSR's website (www.csr.com.au).

Product Liability

As at 30 September 2019, the asbestos provision fell to $259.1 million from $268.0 million as at 31 March 2019. This provision included a prudential margin of $26.7 million. CSR paid asbestos related claims of $12.9 million (including legal costs) compared to $15.0 million in the prior comparable period.

BUILDING PRODUCTS

CONSTRUCTION MARKET CONDITIONS BY SEGMENT

	HY20	HY19	change
Australia Residential (6m – 000s)			
Detached[1]	54.1	59.3	(9%)
Medium density[1]	17.0	21.0	(19%)
High density[1]	21.0	33.8	(38%)
Total Residential Commencements	**92.2**	**114.0**	(19%)
Non-residential (A$B) [2]	21.9	21.8	—
A&A (A$B) [2]	4.3	4.6	(7%)
NZ consents (6 month - 000s) [3]	**17.3**	**16.2**	7%

1. Source ABS data – (original basis two quarter lag – i.e. 6 months to March).
2. Source ABS, BIS Oxford Economic forecast (value of work done – 6 months to September).
3. Source Statistics New Zealand – (residential consents 2 quarter lag – 6 months to March).

Total residential commencements on a two quarter lag basis for the 6 months to 31 March 2019 of 92,200 were down 19% compared to the prior comparable period. Detached housing on the east coast of Australia decreased by 7%, while Western Australia was down 18%. The medium and high density market slowed significantly during the period, down 31%, as projects were completed over the last 12 months.

The non-residential market was steady with the commercial sector offsetting declines in social projects. The alterations and additions market has also slowed, while the New Zealand market remained reasonably strong across all segments.

BUILDING PRODUCTS FINANCIAL RESULTS

A$m unless stated [1]	HY20	HY19	change
Revenue	**839.4**	887.2	(5%)
EBIT	**95.9**	116.5	(18%)
Funds employed[2]	932.5	979.0	(5%)
EBIT/revenue	11.4%	13.1%	
Return on funds employed[3]	19.4%	22.1%	

1. Before significant items.
2. Excludes cash and tax balances and certain other non-trading assets and liabilities as at 30 September. A reconciliation of funds employed is included in Note 2 in the half year report.
3. Based on EBIT (before significant items) for the 12 months to 30 September divided by average funds employed.

Trading revenue from Building Products was $839.4 million, down 5%. Building Products EBIT of $95.9 million was down 18% as the slowdown in residential construction activity impacted performance in the half. This decline in activity has seen housing commencements across the industry down on average 19%.

Despite the broader market slowdown, CSR's largest businesses of Gyprock and Bradford delivered steady volumes and earnings as they benefitted from a diversified revenue base across residential and commercial sectors. Hebel and AFS earnings, however, were lower as they have significant exposure to the high density market which was down 38% during the period. The higher fixed cost position in PGH impacted earnings in the first half but fixed costs have since been reduced following the July 2019 closure of the Darra brick plant in Queensland.

EBIT margin of 11.4% was down from 13.1% due to lower volumes across the operating network with the opportunity for price increases above inflation becoming more limited in some products and regions.

BUILDING PRODUCTS BUSINESS PERFORMANCE

Lightweight Systems

- HY20 revenue $344m (in line with HY19)
- Performance benefitted from growing exposure to commercial
- EBIT and EBIT margins stable

Energy and roofing solutions

- HY20 revenue $252m (in line with HY19)
- Bradford insulation EBIT steady due to diversified market segments
- Monier roofing EBIT lower due to slower detached housing and one-off impacts following integration with Bradford to drive additional cost savings

Bricks

- HY20 revenue $143m (down 13% on HY19)
- Volumes lower as detached housing has fallen on east coast
- EBIT lower with Darra closure completed in July 19

Construction Systems

- HY20 revenue $100m (down 21% on HY19)
- Volumes and pricing impacted by sharp slowdown in NSW high density market
- EBIT lower reflecting slower market activity

PROPERTY

Progress on key development projects

A$m unless stated [1]	HY20	HY19	change
EBIT	**(2.2)**	4.3	(151%)
Funds employed[2]	173.6	181.4	(4%)
Return on funds employed[3]	18.2%	3.1%	

1. Before significant items.
2. Excludes cash and tax balances and certain other non-trading assets and liabilities as at 30 September. A reconciliation of funds employed is included in Note 2 in the half year report.
3. Based on EBIT (before significant items) for the 12 months to 30 September divided by average funds employed.

CSR's Property division continued to make good progress on key development projects. However, due to the timing of transactions, no earnings were recorded during the period.

CSR also confirmed the sale of the second tranche of surplus land at Horsley Park, NSW for total sale proceeds of approximately $140 million. The sale of the 20-hectare site is expected to generate Property EBIT of approximately $90 million. These earnings will be split into two 10-hectare stages which are expected to be recorded in the financial years 31 March 2021 and 2023 (YEM21 and YEM23). The sale is subject to approval by the Foreign Investment Review Board.

Major projects under development

- **Schofields, NSW** (Residential) – Full zoning approval of the 70-hectare site at Schofields, NSW is expected to be completed by early 2020 producing approximately 1,525 lots. Stage 1 of 28 hectares will be developed once the zoning and local town planning approvals are obtained. Approximately 450 lots are due to come to the market in mid 2021.

- **Warner, QLD** (Residential) – Residential zoning application under review. Subject to zoning, the site could produce around 450 lots. Public exhibition of zoning plans commenced in October 2019.

- **Brendale, QLD** (Industrial) – Contracts have been exchanged on 15 lots (8ha) with an estimated EBIT of approximately $3.5m to be settled by the end of March 2020. Marketing continues on the remaining 18ha with construction expected to be completed in YEM21.

- **Chirnside Park, VIC** (Residential) – 517 of the 581 lots have been sold generating $44m EBIT. Construction on 18 duplexes has commenced, contracts exchanged on 10 of the duplexes with settlement expected to occur in YEM21. A development application is underway for the 43 remaining townhouses, marketing and construction to commence within the next six months.

ALUMINIUM

Input costs have stabilised

A$m unless stated [1]	HY20	HY19	change
Sales (tonnes)	105,026	104,959	—
A$ realised price[2]	2,959	2,967	—
Revenue	**310.7**	311.5	—
EBIT	**25.4**	23.0	10%
Funds employed[3]	137.2	142.8	(4%)
EBIT/revenue	8.2%	7.4%	
Return on funds employed[4]	27.9%	38.6%	

1. *Before significant items.*
2. *Realised price in A$ per tonne (including hedging and premiums).*
3. *Excludes cash and tax balances and certain other non-trading assets and liabilities as at 30 September. A reconciliation of funds employed is included in Note 2 in the half year report.*
4. *Based on EBIT (before significant items) for the 12 months to 30 September divided by average funds employed.*

The realised aluminium price in Australian dollars (including hedging and premiums) was steady at A$2,959 per tonne.

Gove Aluminium Finance (GAF – 70% CSR) sales volumes of 105,026 tonnes were slightly up from 104,959 in the prior comparable period. Trading revenue of $310.7 million was steady as hedging gains offset pressure on aluminium pricing during the period.

The Australian dollar averaged 69.3 US cents compared to 74.4 US cents in the prior comparable period, while the average ingot premium for the year was US$107 per tonne, below the US$131 per tonne in the prior comparable period (Platts Metals Week – Main Japanese Port ingot premium).

EBIT of $25.4 million was up 10% due to lower A$ alumina costs which are linked to the US$ LME aluminium price and hedging gains. Total energy costs have stabilised at an elevated level and remain a critical issue for aluminium smelters in the region dealing with some of the highest prices for electricity globally.

GAF has now secured 100% of alumina volumes for the 2020 calendar year which are linked to the US$ aluminium price. These new contracts begin in January 2020, which have staged end dates over three years.

US$ aluminium prices are down over 20% since April 2018 and pricing remains subdued due to global trade uncertainty. Due to the current low prices in the market, GAF has not materially added to its hedge position in the last six months.

GAF Aluminium Hedge Book position

As of 31 October 2019	**2H YEM20**	**YEM21**	**YEM22**
Average price A$ per tonne (excludes premiums)	A$ 2,763	A$ 2,976	A$ 2,830
% of net aluminium exposure hedged	72%	16%	3%

OUTLOOK

Regarding the outlook for the year ending 31 March 2020 (YEM20), CSR confirmed:

Building Products – Given the subdued immediate outlook for the housing construction sector, it is difficult to predict activity over the near term. As per previous years, the results in the second half are expected to be lower than the first half due to the seasonality in volumes. In the medium to longer term, demand for CSR’s building products will continue to be supported by housing activity driven by population growth, high employment and low interest rates. This is also supported by the recent improvement in lead indicators including increased credit availability and improving house prices.

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CSR Group - CSR notes that there is a wide range of analysts’ forecasts reported on Bloomberg for YEM20 net profit after tax (before significant items) of $107 million to $168 million. Noting that the YEM20 results are unlikely to include any significant earnings from Property, CSR expects to deliver net profit after tax (before significant items) between the low end ($107 million) and median ($133 million) of this range.

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