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CSR Limited announces half year net profit after tax of $58.7 million

Solid Building Products result for the half year ended 30 September 2020 (HY21)

- **Building Products** EBIT of $96.3 million up from $95.9 million, with EBIT margin increased to 12.1% from 11.4%. Strong cost control and operational efficiency offset the slowdown in residential construction activity which declined 7%.

- No significant **Property** earnings were recorded during the period, however a further sale of industrial land at Horsley Park, NSW was secured with $226 million in development sale proceeds expected over the next four years.

- **Aluminium** EBIT of $6.2 million, down from $25.4 million, reflecting a significant decline in aluminium prices following the volatility due to COVID-19.

- Net profit after tax of $58.7 million, down 15% from $68.8 million in the prior comparable period.

- Net profit after tax (before significant items) of $66.4 million, down 7% from $71.6 million in the prior comparable period.

Strong balance sheet with net cash position of $153 million

- Cash preservation strategy drove strong cash flow during the half which strengthened the balance sheet to a net cash position of $153.1 million.

- Interim dividend of 8.5 cents per share (fully franked) declared. Special dividend of 4.0 cents per share (fully franked) declared. The special dividend reflects visibility of first half operating environment, noting that no final dividend was declared for the year ended 31 March 2020.

Increased diversification and strong cost control

Commenting on the result, CSR Managing Director & CEO Julie Coates said,

“While it has been a challenging half on many fronts, we are very pleased with the performance of Building Products. The increasing diversification of our business across segments and markets, coupled with strong cost control and operational efficiency enabled us to maintain our Building Products EBIT in a contracting market.

“We have also made good progress across a number of key strategic initiatives. We secured the next phase of development at Horsley Park, with our property development pipeline set to unlock significant earnings over the coming years. We have reorganised the business to drive a stronger customer solutions focus, started our supply chain transformation and continued to optimise our footprint.

“We are building CSR into a more diversified, streamlined business to increase resilience as well as growth potential.”

Good progress on key strategic initiatives

During the half year, CSR progressed the development of key strategic initiatives for the business.

- Leadership team and structure in place to support CSR strategy to make the business more diversified, streamlined and resilient.

- Planned closure of PGH Bricks Horsley Park, NSW announced in October 2020 reflecting continued work on footprint optimisation to improve efficiency and fixed cost position.

- Supply chain transformation with initial projects scoping the opportunity on site master planning, group import strategy, shared fleet and a transport management system.

- Business reorganisation to drive a customer solutions focus, CSR group technical capability, product and market growth.

A detailed overview of CSR's strategy will be provided at a strategy session which will be webcast on 12 November 2020.

Outlook

Regarding the outlook for the year ending 31 March 2021 (YEM21), CSR noted:

- **Building Products** - Revenue for the first four weeks of the second half of YEM21 is down 6% from the prior comparable period. Changes in market activity from current levels will be closely monitored to ensure costs are contained and production is aligned to demand. The longer-term outlook remains uncertain as the impact of COVID-19 continues to influence macro factors like migration, as well as economic activity and employment levels.

- **Property** - Delivery of the first tranche of the Horsley Park Stage 2 project is on track to deliver earnings of $53 million in the second half of YEM21. In addition, approximately $2 million of earnings is expected from property sales at Brendale, QLD and Chirnside Park, VIC.

- **Aluminium** - Due to the significant hedge position and five months remaining in YEM21, CSR has provided additional disclosure with Aluminium EBIT for YEM21 to be in the range of $14 million to $23 million, assuming all other cost and revenue areas are unchanged.

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CSR Limited – review of results for the half year ended 30 September 2020 (HY21)

Trading revenue[1] of $1.08 billion, down 6% on the prior comparable period.

Net profit after tax (before significant items)[1] of $66.4 million, down 7%.

Statutory net profit after tax of $58.7 million, down 15% which included strategy implementation and reorganisation costs.

Earnings per share[1] of 13.7 cents, down from 14.4 cents.

A$m unless stated [1]	HY21	HY20	change
Trading revenue	**1,075.5**	1,150.1	(6%)
EBITDA	**143.1**	163.0	(12%)
EBIT			
Building Products	96.3	95.9	—
Property	1.7	(2.2)	
Aluminium	6.2	25.4	(76%)
Corporate	(9.8)	(6.0)	
Group EBIT	**94.4**	113.1	(17%)
Net finance costs	(0.8)	(4.8)	
Tax expense	(25.0)	(30.5)	
Non-controlling interests	(2.2)	(6.2)	
Net profit after tax [1]	**66.4**	71.6	(7%)
Significant items after tax	(7.7)	(2.8)	
Statutory net profit after tax	**58.7**	68.8	(15%)

Building Products

A$m unless stated [1]	HY21	HY20	change
Revenue	797.1	839.4	(5%)
EBIT	96.3	95.9	—
EBIT/revenue	12.1%	11.4%	
Return on funds employed[2]	18.6%	19.4%	

1. Before significant items.
2. Based on EBIT (before significant items) for the 12 months to 30 September divided by average funds employed.

Construction activity

Total residential commencements on a two quarter lag basis for the 6 months to March 2020 were down 7% compared to the prior comparable period. Detached housing on the east coast of Australia decreased by 9%, with resilient activity in Victoria and South Australia offsetting the weaker New South Wales market.

The high density market stabilised after a significant downturn over the last two years with commencements falling by approximately 40% from a peak in 2018.

The non-residential market was down 7% with the social sector offsetting declines in commercial projects (on a work done basis to 30 September). The alterations & additions market was stable supported by increased renovation activity during the period.

1 All references are 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 2020 (HY21). All comparisons are to the half year ended 30 September 2019 (HY20) unless otherwise stated.

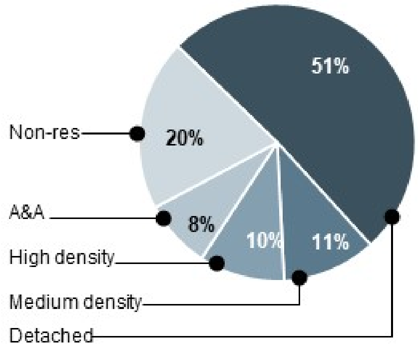
Building Products financial results

Trading revenue from Building Products was $797.1 million, down 5%. Building Products EBIT of $96.3 million was up slightly from $95.9 million as strong cost control and operational efficiency offset the decline in volumes due to the slowdown in building activity during the period.

Despite the broader market slowdown, CSR's largest business Gyprock delivered increased earnings as the business benefitted from a diversified revenue base across residential and commercial sectors. Bradford and PGH Bricks were lower as they have significant exposure to the detached housing market which was down 9% during the period. AFS and Hebel were also lower as high rise residential projects are nearing completion after a period of very high activity over the past two years.

Strong cost control and operational efficiency across the business has lifted the EBIT margin to 12.1% from 11.4%.

Building Products revenue diversification



Building Products business performance

A key step across CSR's strategic initiatives this year was to streamline the operating model to ensure we can drive the most competitive product and service solutions for the market. In June 2020, three new business units were formed: **Interior Systems**; **Masonry & Insulation**; and **Construction Systems**.

These businesses will build on their leading brand positions and expand their offering across market segments by developing more complete solutions for customers.

Interior Systems	
GYPROCK, martini, HIMMEL INTERIOR SYSTEMS, POTTER INTERIOR SYSTEMS	• **Revenue**: HY21 $306m (down 4% from HY20) • **Volume**: Gyprock volumes ahead of market • **EBIT:** higher with strong performance from Gyprock. Commercial fitout businesses lower as market slowed
Masonry & Insulation	
Bradford, PGH BRICKS & PAVERS, Monier ROOFING	• **Revenue**: HY21 $346m (down 7% from HY20) • **Volume**: Volumes lower following decline in detached activity • **EBIT**: Bradford and PGH EBIT lower while Monier improved with cost reduction following reorganisation completed in YEM20
Construction Systems	
hebel The better way to build, afs smarter permanent formwork., CEMINTEL	• **Revenue**: HY21 $145m (down 2% from HY20) • **Volume**: Cemintel higher with increased external cladding range • **EBIT**: Hebel and AFS lower due to NSW high-rise exposure while Cemintel higher

Property

A$m unless stated [1]	HY21	HY20
EBIT	**1.7**	(2.2)

1. Before significant items.

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

Development of the industrial property at Horsley Park continues. To date, 39.3 hectares at the site have now been sold for total proceeds of approximately $285 million. Rehabilitation at the site is tracking ahead of schedule. As a result, CSR expects to deliver a portion of Stage 2 earlier than forecast in YEM22. Marketing is also underway for 9 of the final 12 hectares available for sale at the site.

Recent Horsley Park transactions and expected completion dates

Tranche	Size	Proceeds	EBIT	Completion
Stage 2/1	11.7ha	$80m	$53m	2H YEM21
Stage 2/2a	4ha	$28m	$18m	YEM22
Stage 2/2b	5ha	$34m	$22m	YEM23
Stage 3/1	8.6ha	$84m	$48m	YEM24
Total contracted	**29.3ha**	**$226m**	**$141m**	
Stage 3/2	9ha	Marketing underway		

Aluminium

A$m unless stated [1]	HY21	HY20	change
Sales (tonnes)	**102,526**	105,026	(2%)
A$ realised price[2]	2,715	2,959	(8%)
Revenue	**278.4**	310.7	(10%)
EBIT	**6.2**	25.4	(76%)
EBIT/revenue	2.2%	8.2%	
Return on funds employed[3]	29.1%	27.9%	

1. Before significant items.
2. Realised price in A$ per tonne (including hedging and premiums).
3. Based on EBIT (before significant items) for the 12 months to 30 September divided by average funds employed.

Aluminium financial results

Gove Aluminium Finance (GAF – 70% CSR) sales volumes of 102,526 tonnes was down 2% from 105,026 in the prior comparable period due to the timing of shipments. Trading revenue of $278.4 million was down 10% due to lower aluminium pricing during the period.

The Australian dollar averaged 68.57 US cents compared to 69.27 US cents in the prior comparable period, while the average ingot premium for the six months to 30 September 2020 was US$81 per tonne, below the US$107 per tonne in the prior comparable period (Platts Metals Week – Main Japanese Port ingot premium).

EBIT of $6.2 million was down from $25.4 million in the prior comparable period. The significant decline in A$ aluminium prices was partly offset by lower input costs including coke and the overall cost of electricity due to a lower coal cost pass through.

GAF has secured new contracts for alumina, all of which are effectively linked to the US$ aluminium price. These new contracts began in January 2020 which have staged end dates to 31 December 2023.

For future years, the following alumina volumes have been contracted:

- Calendar years 2021 and 2022: 100% alumina volume
- Calendar year 2023: ~60% alumina volume

Given Tomago's high energy cost (which is not correlated to LME aluminium prices), CSR's approach is to take advantage of profitable pricing by hedging when possible. A significant hedge book is in place through to March 2024.

GAF Aluminium hedge book position

As of 31 October 2020	2H YEM21	YEM22	YEM23	YEM24
Average price A$ per tonne (excludes premiums)	A$2,766	A$2,742	A$2,839	A$2,781
% of net aluminium exposure hedged	82%	75%	59%	26%

The second half of YEM21 is over 80% hedged with five months remaining in the year enabling additional disclosure. The table below provides a YEM21 EBIT range based on various A$ per tonne aluminium spot prices. This assumes all other cost and revenue areas are unchanged.

GAF Aluminium – YEM21 EBIT scenario

	Aluminium average spot price A$/t for the remainder of YEM21		
	A$2,000	A$2,500	A$3,000
YEM21 EBIT A$m	A$14m	A$18m	A$23m