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8 May 2019

CSR Building Products performing well and investing for future growth

CSR Limited (CSR) has reported a net profit after tax from continuing operations of $181.7 million (before significant items).

Building Products revenue of $1.7 billion, was up 1% with growth across most products and segments. EBIT of $206.5 million net of $14 million invested in innovation and new building systems to deliver long-term growth.

Commenting on the results, CSR Managing Director Rob Sindel said, “CSR has invested in its portfolio of building products businesses during the last few years to increase the diversity of earnings and build a wider addressable market providing adaptability to changing market conditions.

“The Building Products business performed well this year, despite the residential construction market slowing during the last few months. This reflects our increased exposure to the non-residential market where CSR has been positioning its investments in both innovative product solutions and growth-linked capex.”

Property delivering as per guidance

“Consistent with its track record over the past decade, Property continues to be a significant source of earnings for CSR contributing $38.8 million in EBIT this year from a long-term pipeline of projects.

Strengthened financial position

“Optimisation of our portfolio combined with strong cash flow from operations means our financial position remains strong with net cash of $50.0 million as at 31 March 2019. An additional $188 million in cash proceeds from previous transactions are to be received during the current financial year. This provides flexibility to invest in new building systems and ongoing Property projects which are expected to deliver increased returns over the next few years.”

“In March 2019, we launched a $100 million share buyback to return surplus cash to our shareholders.”

At the group level, CSR delivered EBIT from continuing operations of $265.0 million (before significant items), down 17%. This lower result was expected due to higher electricity costs in Aluminium which delivered $36.6 million in EBIT down from $79.5 million last year.

Statutory net profit after tax from continuing operations was $138.9 million. Statutory net profit after-tax (including discontinued operations) was $78.0 million which included an after tax loss of $60.9 million related to the Viridian Glass business sold on 31 January 2019.

The board has resolved to pay a final dividend of 13.0 cents per share, franked at 50% which will bring the full year dividend to 26.0 cents per share.

Update on Managing Director and CEO appointment

As previously announced, a search is underway to appoint a successor to Rob Sindel who signalled his intention to step-down as Managing Director and CEO of CSR this year. This search is well progressed and the new appointment is expected to be announced prior to CSR's Annual General Meeting to be held on 26 June 2019.

Outlook

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

Building Products – Volumes in the first month of YEM20 remain consistent with the final quarter of YEM19. Mixed economic signals make it difficult to predict building activity levels for the year ahead. CSR is making changes to its operating footprint and overheads to mitigate the impact on earnings. Longer-term, demand for CSR's building products will be supported by housing activity driven by population growth, high employment and a stable environment for interest rates.

Property – Whilst the quantum of earnings may fluctuate due to the timing of transactions, the ongoing development of a number of major projects will underpin Property earnings over the next 10 years.

Aluminium – Currently 71% of net aluminium exposure for YEM20 is hedged at an average price of A$2,718 per tonne (excluding ingot premiums) as of 30 April 2019.

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CSR Limited – review of results for the year ended 31 March 2019 (YEM19)

Trading revenue[1] of $2.3 billion, up 4% on the prior year following revenue growth in all businesses.

EBITDA[1] of $330.0 million was down 15% following the expected decline in earnings from Aluminium.

EBIT[1] of $265.0 million included the following results:

- **Building Products** EBIT of $206.5 million, down 4% included $14 million invested in innovation and new building systems to deliver long-term growth.

- **Property** EBIT of $38.8 million included settlements from Chirnside Park, VIC and Horsley Park, NSW. This was down from $47.8 million in the prior year.
- **Aluminium** EBIT of $36.6 million, down from $79.5 million as the significant step-up in electricity costs was partly offset by the higher realised aluminium price.

Net profit after tax from continuing operations (before significant items)[1] of $181.7 million, down from $210.6 million.

Statutory net profit after-tax (including discontinued operations) of $78.0 million which included an after-tax loss of $60.9 million related to the Viridian Glass business sold on 31 January 2019.

Earnings per share[1] of 36.1 cents, down from 41.9 cents.

Final dividend (franked at 50%) of 13.0 cents per share bringing the full year dividend to 26.0 cents.

A$m (unless stated)	**YEM19**	**YEM18**	**Change**
Trading revenue from continuing operations	**2,322.8**	2,237.7	4%
EBIT from continuing operations			
Building Products	**206.5**	214.1	(4%)
Property	**38.8**	47.8	(19%)
Aluminium	**36.6**	79.5	(54%)
Corporate, provisions and restructuring costs	**(16.9)**	(21.1)	20%
Group EBIT from continuing operations	**265.0**	320.3	(17%)
Net finance income (costs)	0.1	(1.2)	
Tax expense	(74.7)	(90.5)	17%
Non-controlling interests	(8.7)	(18.0)	52%
Net profit after tax from continuing operations [1]	**181.7**	210.6	(14%)
Significant items after tax from continuing operations	(42.8)	(11.6)	
Statutory net profit after tax from continuing operations	**138.9**	199.0	(30%)
Statutory net loss after tax from discontinued operations	**(60.9)**	(10.2)	
Total statutory net profit after tax	**78.0**	188.8	(59%)

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 year ended 31 March 2019 (YEM19). All comparisons are to the year ended 31 March 2018 (YEM18) unless otherwise stated.*

CSR FINANCIAL OVERVIEW

CSR Limited has reported a net profit after tax from continuing operations (before significant items) of $181.7 million for the year ended 31 March 2019, down 14% with good operational performance in Building Products and Property offset by the expected decline in earnings from Aluminium following the significant step-up in electricity costs.

Statutory net profit after tax (including discontinued operations) was $78.0 million, which included an after tax loss of $60.9 million related to the Viridian Glass business which was sold on 31 January 2019 and an after tax non-cash impairment of $26.2 million to the carrying value of the Monier Roofing business.

Tax expense of $74.7 million (before significant items) was down from $90.5 million due to the lower pre-tax profits. CSR's effective tax rate for the year was 28.2% compared to 28.4% in the prior year.

Net cash of $50.0 million increased from the net debt position of $14.3 million as of 31 March 2018 including proceeds from the sale of Viridian. Strong operational cash flow was invested in Property projects and the construction of the new $75 million Hebel plant in Somersby, NSW. Cash proceeds of $188 million from previously announced transactions are to be received in the year ending 31 March 2020.

Capital expenditure (excluding Viridian Glass, Property and acquisitions) was $104.2 million during the year. Of this total, $36.5 million was for stay-in-business projects and $67.7 million was development related capital expenditure including investment in the AFS Rediwall manufacturing facility in Minto, NSW and Hebel's new factory in Somersby, NSW.

Dividends

The Company has resolved to pay a final dividend of 13.0 cents per share, franked at 50%. This represents a dividend payout ratio for the year of 72% of net profit after tax from continuing operations (before significant items) in line with CSR's stated dividend policy to pay out 60-80%. The level of franking for the final dividend has moved back to 50% due to the utilisation of tax losses following the sale of Viridian Glass. For Australian tax purposes, the unfranked amount of the final dividend will not be Conduit Foreign Income.

The Company's dividend reinvestment plan (DRP) will operate for the final dividend payable on 2 July 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 31 March 2019, the asbestos provision fell to $268.0 million from $289.0 million as at 31 March 2018. This provision included a prudential margin of $35.7 million. CSR paid asbestos related claims of $29.1 million (including legal costs) compared to $31.7 million in the prior year.

CONSTRUCTION MARKET CONDITIONS BY SEGMENT

1Q lag basis	2H YEM19	YEM19	2H YEM18	YEM18	% 1H	% 2H	% YoY
Australia							
Detached[1]	59.5	118.5	62.2	115.5	11%	-4%	3%
Medium density[1]	20.7	42.2	23.4	43.5	7%	-12%	-3%
High density[1]	26.3	61.0	28.8	57.4	21%	-9%	6%
Total Commencements ('000)	**106.5**	**221.7**	**114.4**	**216.4**	**13%**	**-7%**	**2%**
Non-residential (A$B) [2]		43.0		41.5			4%
A&A (A$B) [2]		8.9		8.7			2%
NZ consents (12 month - '000) [3]		**33.0**		**31.1**			6%

1. *Source ABS data – (original basis one quarter lag – i.e. 12 months to December).*
2. *Source ABS, BIS Oxford Economic forecast (value of work done – 12 months to March).*
3. *Source Statistics New Zealand – (residential consents 2 quarter lag – 12 months to December).*

Total residential commencements on a one quarter lag basis for the 12 months to 31 March 2019 of 221,700 were up 2% compared to the previous 12 month period. Detached housing on the east coast of Australia increased by 3%, while Western Australia was down 10%. The medium density market slowed during the period, down 3% while the high-rise segment increased following the commencement of a number of major projects in Victoria.

The non-residential market has strengthened with approvals, having reached over $50 billion, now driving work done activity in the commercial and social sectors. The alterations and additions market also improved, while the New Zealand market remained reasonably strong across all segments.

Building Products financial results

A$m unless stated [1]	YEM19	YEM18	change
Revenue	**1,695.9**	1,672.2	1%
EBITDA	258.9	265.4	(2%)
EBIT	**206.5**	214.1	(4%)
Funds employed[2]	947.4	919.1	3%
EBIT/revenue	12.2%	12.8%	
Return on funds employed[3]	22.1%	23.8%	

1. *Before significant items.*
2. *Excludes cash and tax balances and certain other non-trading assets and liabilities as at 31 March. A reconciliation of funds employed is included in Note 2 in the full year report.*
3. *Based on EBIT (before significant items) for the 12 months to 31 March divided by average funds employed.*

Trading revenue from Building Products was $1.7 billion, up 1%, with higher pricing and improved product mix offsetting the moderate reduction in volumes in the second half of the year.

EBIT was $206.5 million which included $14 million invested in CSR's digital customer platform, Inclose façade system and a number of other growth initiatives. EBIT margin of 12.2% was down from 12.8% due to increased growth investments and changes in product mix including increased volumes of imported products partly offset by operational improvements.

SUMMARY OF BUILDING PRODUCTS BUSINESS UNIT PERFORMANCE

Lightweight Systems	
GYPROCK®	Earnings were down following lower volumes due to moderation in demand from multi-residential projects and weak markets in WA, partly offset by improved pricing.
CEMINTEL®	Earnings were higher following growth in fibre cement façade systems and prefinished panels. Improved operational performance including cost reduction and plant efficiency initiatives also contributed to the result.
Construction Systems	
afs smarter permanent formwork.™	AFS increased earnings with growth in Rediwall volumes as a result of increased market penetration and following the launch of the new product range.
hebel® The better way to build	Earnings were slightly ahead of the prior year with lower sales from the NSW apartment market offset by growth in detached housing. The construction of the new $75 million Hebel factory was completed in April. This is a world class facility which minimises raw materials and energy use, improves safety and leverages CSR's product expertise.
Bricks	
PGH BRICKS & PAVERS™	Earnings were slightly down from the previous year following lower volumes from multi-residential and commercial segments while cost increases including energy were recovered in pricing. PGH is consolidating its operating network in NSW and Queensland to ensure its cost structure and footprint are aligned to changing market conditions. These changes include the mothballing of the Darra, QLD site and one kiln at Cecil Park, NSW.
Energy and roofing solutions	
Bradford™	Earnings increased following growth in Energy Solutions. While core glasswool insulation volumes were steady, this was offset by higher energy and raw material costs.
martini	Earnings were in line with the prior year with growth from the commercial market in both aesthetic decorative products and functional acoustic boards.
MONIER™ ROOFING	Earnings were down due to higher installation costs and increased margin pressure in both Australia and New Zealand.
Growth investments	
Inclose™ Unitised Rainscreen Facades	CSR invested $14 million in growth initiatives in YEM19 including the Inclose façade system. Inclose completed its first major project this year at the Australian National University in Canberra and is starting work on an inner city high school in Sydney later this year.
connect	CSR Connect provides 24/7 access for customers for products, pricing, orders, delivery and invoicing with further investments in the last year to integrate Connect with customers' internal ordering systems.

PROPERTY

Major property sale at Horsley Park recorded in the second half of the year

A$m unless stated [1]	YEM19	YEM18	change
EBIT	**38.8**	47.8	(19%)
Funds employed[2]	224.5	185.7	21%
Return on funds employed[3]	18.9%	29.2%	

1. *Before significant items.*
2. *Excludes cash and tax balances and certain other non-trading assets and liabilities as at 31 March. A reconciliation of funds employed is included in Note 2 in the full year report.*
3. *Based on EBIT (before significant items) for the 12 months to 31 March divided by average funds employed.*

CSR's Property division recorded EBIT of $38.8 million which included the first parcel of surplus land at Horsley Park, NSW. The sale of the 10-hectare industrial site generated EBIT of $32 million with cash settlement to occur in the second half of YEM20. Site rehabilitation continues on the remaining 20-hectares of surplus land at Horsley Park.

The result also includes earnings from Chirnside Park, VIC. The Chirnside Park development is nearing completion. As of 31 March 2019, this project has delivered $44 million in EBIT.

Full zoning approval of the 70-hectare site at Schofields, NSW is expected to be completed during calendar 2019 with site rehabilitation substantially completed.

ALUMINIUM

Higher pricing offset by increased energy costs

A$m unless stated [1]	YEM19	YEM18	change
Sales (tonnes)	213,280	212,801	—
A$ realised price[2]	2,939	2,657	11%
Revenue	**626.9**	565.5	11%
EBITDA	48.3	97.1	(50%)
EBIT	**36.6**	79.5	(54%)
Funds employed[3]	140.3	120.0	17%
EBIT/revenue	5.8%	14.1%	
Return on funds employed[4]	28.2%	61.8%	

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 31 March. A reconciliation of funds employed is included in Note 2 in the full year report.*
4. *Based on EBIT (before significant items) for the 12 months to 31 March divided by average funds employed.*

The realised aluminium price in Australian dollars (including hedging and premiums) was up 11% to A$2,939 per tonne.

Gove Aluminium Finance (GAF – 70% CSR) sales volumes of 213,280 tonnes were slightly up from 212,801 in the previous year. Trading revenue of $626.9 million was up 11%, reflecting the 11% improvement in the realised aluminium price.

US$ aluminium prices traded in a wide range during the year with the average cash price per tonne of US$2,035 down slightly from US$2,045 in the prior year.

The Australian dollar averaged 72.95 US cents compared to 77.36 US cents in the prior year, while the average ingot premium for the year was US$112 per tonne slightly ahead of US$111 per tonne in the previous year (Platts Metals Week – Main Japanese Port ingot premium).

EBIT of $36.6 million was down 54% largely due to the new electricity supply contract which took effect from November 2017. This increased total electricity-related costs by $61 million compared to the prior year.

Production costs also increased due to higher raw material costs, up $22 million, including coke and pitch. This was partially offset by operational improvements at Tomago.

Alumina costs were also higher during the year due to the weaker Australian dollar. GAF's current alumina contract which is linked to the US$ aluminium price expires in December 2019. A new two-year contract is now in place for 50% of alumina volumes which is also linked to the US$ aluminium price. A contract for the balance of GAF's requirements is expected to be finalised within the first half of YEM20.

OUTLOOK

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

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Property – Whilst the quantum of earnings may fluctuate due to the timing of transactions, the ongoing development of a number of major projects will underpin Property earnings over the next 10 years.

Aluminium – Currently 71% of net aluminium exposure for YEM20 is hedged at an average price of A$2,718 per tonne (excluding ingot premiums) as of 30 April 2019.

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