Iluka Resources Limited (ASX:ILU)

2016 Full Year Results Teleconference Transcript

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Speakers

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Doug Warden, Chief Financial Officer and Head of Strategy and Planning

Matthew Blackwell, Head of Marketing, Mineral Sands

Start of Transcript

Operator: Ladies and gentlemen, welcome to the Iluka Resources 2016 full year results teleconference. I must advise you that today's call is being recorded. There will be a presentation followed by a question and answer session. I will now hand you over to your speaker today, Iluka's Managing Director, Mr Tom O'Leary. Please go ahead.

Tom O'Leary: Welcome, I'm Tom O'Leary, thank you for joining this, this morning. I have Doug Warden with me, CFO and Head of Strategy and Planning and also with me is Matt Blackwell, Head of Mineral Sands Marketing and Rob Porter, General Manager Investor Relations. On slide 2 I'll take the disclaimer and notes about forward-looking statements as read.

Slide 3 sets out the results on a page. The result is, as we foreshadowed back on 30 January. Doug will talk to the detail later, but with the impairments we announced and the lower revenues driven mainly by lower zircon prices, the Company's generated underlying earnings (EBITDA) of $150 million and with a strong finish in 2016, $47 million of free cash flow.

With the acquisition of Sierra Rutile, net debt finished the year at $506 million but at the end of January, it had declined to $442 million as a result of the strong free cash flow generated in January, as well as a revaluation of the US dollar denominated debt. There's a slide on the dividend later in the pack that Doug will cover, but the Board have, in accordance with the dividend framework, had regard to the potential investing requirements this year and determined not to declare a final dividend.

To slide 4 and as I outlined in January, we've begun a thorough review of the business that, together with the reprioritisation of objectives following the acquisition of Sierra Rutile, has led to impairments, the changes in depreciation policy for mining equipment, to adjustments to the rehabilitation provisions and to reserve adjustments. On Monday this week we lodged a comprehensive update of Iluka's mineral resources statement, bringing our material projects up to JORC 2012 compliance and within that was an inaugural reserve statement for Sierra Rutile, which describes reserves of 3.9 million tonnes of rutile.

Slide 5 sets out our summary P&L and I'll hand over to Doug to take you through that.

Doug Warden: Thanks Tom and good morning everyone. Clearly the results are disappointing, as Tom has said and whilst the impairments we announced at the end of January are non-cash in the 2016 accounts, we're acutely aware that these amounts were cash when the assets were built. That said, whilst we're not keen to make a habit of focusing on underlying rather than actual results, we thought it would be useful to give an indication of the underlying EBITDA given the number of one-offs in the 2016 accounts, giving shareholders an insight as to how the business has performed.

So the key factors influencing the lower 2016 earnings result were lower prices, which you can see in the waterfall at the back of this slide pack, had a negative impact of $85 million; an increase in rehabilitation costs, which was flagged at the end of January which year-on-year had a $40 million impact on the results; higher resource development costs which year-on-year had a $21 million impact, largely attributable to the unconventional mining trial associated with Balranald, which has been talked about at the half year result as well; higher idle capacity charges of $31 million; and a $14 million lower contribution from MAC[Mining Area C] which I'll touch on later.

In addition to the above factors, excluded from the underlying group EBITDA is the non-cash inventory movement of $57 million. So just to explain this and it's detailed on page 12 of the annual report, when inventory is built, which is what happened in 2012, both cash and non-cash production costs are capitalised to balance sheet and do not impact earnings to the extent that inventory is built in that year. When inventory is subsequently drawn down, which is what has happened in 2016 and will continue to happen in 2017, the P&L is charged with that inventory movement which includes both the cash and non-cash component.

So the way to think about this is that in 2012, as I said, when inventory build by over $350 million, there was in the order of $80 million of depreciation and amortisation included in that inventory build that charged in 2012 and actually capitalised the balance sheet. Effectively what you're seeing now is an unwinding of this, reflected by that $57 million I mentioned earlier. As you can see, over that period from 2012 to 2015, inventory stayed relatively constant at $800 million and has only just started to reduce in 2016. Finally, as Tom has mentioned, a strong second half free cash flow period of just under $100 million resulted in a full year free cash flow of $47.3 million.

Turning to slide 6, which I will pass over in the interest of time as I've just covered most of those points. Slide 7 deals with Mining Area C and as I mentioned, the 2016 EBIT contribution was down 23% to $47 million, reflecting no annual capacity payments in 2016; there were $3 million in 2015, as well as the 2015 result benefiting from a one-off settlement with BHP of US$8 million, which obviously didn't repeat in 2016.

Our net royalty income was down just a bit over 2% with marginally lower volumes being partially offset by slightly higher Australian dollar realised price of just under $74 a tonne. It's interesting to compare that $74 implied price to the current spot of iron ore, which is over $90 and at current exchange rates, represents an Australian dollar price of about $120 a tonne.

Turning to slide 8 which just illustrates the movement in net debt from 2015 to 2016, obviously the acquisition of SRL [Sierra Rutile Limited] equity as well as the assumed SRL debt are the key features on this slide. As Tom has mentioned, we finished the end of January with net debt reduced to $442 million, which reflected a very strong free cash flow month in January as well as the revaluation of the US denominated debt given the appreciation of the Australian dollar during January from the end of December.

Slide 9 deals with the inventory movements over time. As we flagged last year when we idled Jacinth-Ambrosia, inventory levels have reduced by $118 million in 2016 to $694 million. Approximately 70% of this inventory reduction relates to work in progress reduction associated with the drawdown of HMC [heavy mineral concentrate] stocks in both the Murray Basin from the WRP [Woornack, Rownack, Pirro] mine and as well as Jacinth-Ambrosia and the balance is finished goods, obviously. Depending on market conditions, of course, we would expect inventories to return to pre-2012 levels over the next 12 to 18 months.

Slide 10, Tom has already mentioned that the Board has taken the decision not to declare a final dividend in the context of the Company's potential investment opportunities. I would emphasise that despite the fact that we have only paid out 27% of 2016 free cash flow, represented by the interim dividend of $0.03 per share, our dividend framework to pay a minimum of 40% of free cash flow not required for investing or balance sheet purposes, remains firmly in place. It's worth noting that our payout ratio since 2010 has been 66% of free cash flow.

With that, I'll hand over to Matthew Blackwell to address the state of our markets.

Matthew Blackwell: Thanks Doug, good morning everyone, good evening. In 2016 we saw, as we've mentioned, inventory through the supply chain normalise and the gradual decline in zircon prices finally halted. Price remained stable through to year end and providing a base for modest increase going into 2017. Currently the Company sees moderate demand growth, combined with a shortening supply providing a positive dynamic in the short to medium term for zircon.

Turning to slide 12 and TiO2 [titanium dioxide feedtocks], 2016 I think will be seen as an inflection year for high grade ore sales with increased volumes and improved pricing outcomes in the second half. Pigment and hence feedstock demand in 2017 is likely to continue to outpace underlying growth as capacity is rebuilt in what is still a very lean supply chain. So with this in mind, the Company has been deliberate in committing less material under contract in terms of fixing price and volume when compared to how we started 2016. With an uptick in the cycle clearly evident, the Company is confident in the timing of the SRL acquisition and confident in securing the appropriate off take arrangements for Cataby in due course.

So with that, I'll hand over to Tom.

Tom O'Leary: Moving to slide 13, Cataby, the deposit and planned development I think is well known to most of you. The plan for Cataby is to upgrade our ilmenite that the SR2 kiln in Capel. That would give us the best economics but we could also sell product as ilmenite. The project is robust and shows good financial characteristics on our assumptions and we expect to seek Board approval and proceed with the project this year. As we've noted, it's execute ready and we continue to engage with our existing customers and new and will push ahead with it when the time is right.

Moving to slide 14 on Sierra Rutile, the integration is tracking well, we're making changes on safety, we're obviously focused on maintaining production and on addressing the issues we touched on back in January about production and cost this year and we're building strong relationships with key stakeholders. In short, we're seeing nothing to discourage us from proceeding with our improvements and expansions.

On slide 15, we've touched on some of these. First, the introduction of a mobile mining unit at Lanti dry; that was approved at yesterday's Board and we expect to have it operating by year end. Then we have three expansions, doubling capacity at both Lanti and Gangama and also setting up the Sembehun development. We fully expect those Sierra Rutile expansions to proceed apace. As I say, there are no roadblocks.

Moving to slide 16 on Balranald and as we've said before, the acquisition of Sierra Rutile gives us flexibility as to the timing of Balranald. The trials completed late last year have given us a higher level of confidence that the unconventional approach will be successful, so further expenditure on Balranald will be capitalised. The path was planned toward a development decision, possibly in around 12 months' time, is phased and is likely to be lower cost than last year. A lot of it is dependent upon desktop analysis and further physical testing is likely to be above ground.

Once we get to a development decision point, potentially around the end of 2017, that decision will obviously be dependent on market characteristics at the time. But the advantage of the mining method is flexibility and a relatively low cost capital approach to extract the high quality ore. Finally, on where we focus in 2017, I'd emphasise to the people within Iluka that it's time to deliver on Sierra Rutile and once we've moved ahead on Cataby, on that important project and on costs. Matt's talked to the market dynamics being positive and we're looking forward to seeing the evidence of those dynamics played out.

With that, I'd open it up to questions.

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star/one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Your first question comes from the line of Hugh Stackpool of JP Morgan. Please ask your question.

Hugh Stackpool: (JP Morgan, Analyst) Hi guys. Just a question on the market more generally, so with news this week that Tronox and Cristal are seeking to merge, just trying to think about the impact on Iluka in terms of opportunities and threats. So maybe for Matthew, just wondering about your views on whether Tronox going from net long feedstock to net short feedstock might impact Iluka, is supply consolidation potentially a positive for your marketing function?

Tom O'Leary: Thanks for that question, just before I hand over to Matt to talk about specifics perhaps, as you'd expect, we think a lot about potential industry combinations and such changes a lot. At a very high level, where there's some consolidation and it leads to more robust players in the industry, then that, I think, clearly is a good thing and I think that applies here with improvements in disciplines around operating regimes and pricing, that will naturally flow from having more robust players in the industry. We obviously look at and evaluate and have views on more specific aspects of the feedstock market, but I don't expect that it would be in our commercial interest to be explicit about those.

So Matt, with that, do you want to…

Matthew Blackwell: Good morning Hugh. We were alert to this possibility and had considered the spectrum of implications and quite frankly, the opportunities that come from it. We do enjoy commercial relationships with both companies and I think that, as Tom said, consolidation we would view as a positive thing in this, as a positive step in this industry.

Hugh Stackpool: (JP Morgan, Analyst) I guess maybe a follow-on question, it seems like the benefits of integration there, they're trying to increase maybe their own feedstock supply to enhance that vertical integration, is there a risk that funds are removed from the contestable market if they run their assets harder? Or do you not think that's part of the plan?

Matthew Blackwell: Hugh, this merger fundamentally does not change at all the tonnes that are mined from the ground. So the number of TiO2 units that are coming out of the ground before this merger and after this merger will remain the same and without being flippant there is potentially -- some boats will just sail in different directions. So I think that it's not -- there was no discussion to closing pigment plants, there was no discussions of reducing overall demand for TiO2 units.

So I don't personally don't have the view that it changes the amount of TiO2 that is needed by the world or is available to be mined.

Hugh Stackpool: (JP Morgan, Analyst) Yes, no, that's fine. I thought they might run their mines harder and put on some of those slag plants because they've got two of four offline but I suppose it's all really at the early stage but -- then the final question before I hand over to everyone, sorry for taking so much time, is just on Cataby with the SR off take, just wondering if it might impact that given you do have commercial relationships with those companies?

Tom O'Leary: Look, on Cataby as I've said in the past we've got some flexibility around Cataby, particularly as to timing through using ilmenites from elsewhere. So in terms of when we commit to Cataby it's not so much a question of what Tronox might be doing, it's really a commercial question and I've noted in the presentation that we're continuing to engage with our customers and we'll determine when is the right time to proceed with Cataby.

I'm not particularly concerned about the Tronox deal. Clearly that has an impact on the industry generally and it's one of the many factors that we'll take into account in determining when we go ahead with that project.

Hugh Stackpool: (JP Morgan, Analyst) Thanks, guys.

Operator: Your next question comes from the line of Paul Young of Deutsche Bank. Please ask your question.

Paul Young: (Deutsche Bank, Analyst) Yes, morning, gentlemen. The first question, Tom on the potential of the re-start JA, which idled in April. Has there been any change to the market or your thoughts around re-start -- a potential re-start of that operation before or after the target date which I believe was during the first half of 2018? That's the first question and then just on Cataby, so I get a sense you said it could go to Board approval this year, which means that if you only approve it later in the year you'd have to peddle pretty hard on the construction to get that up and running to make a smooth transition for when Tutunup closes.

So are you less worried about a smooth transition on SR2 and keeping it -- obviously you've got to re-line after three years anyway but to maintain production beyond that? That's the first two questions and I'll probably go further with Cataby. Thanks.

Tom O'Leary: Okay, Paul. On the first question to JA, no there's been no change to our time start-up plans for JA. On the second, and as I just mentioned to Hugh, we've got some flexibility around timing and I think we've touched on it before with you around using Ilmenites from elsewhere. So that gives us some flexibility around timing. The key -- and clearly I accept the premise of your question that ideally we would have a smooth continuation of synthetic rutile production, that's certainly an objective but the timing constraint or the timing for Cataby, as I said to Hugh, is really around when we have the commercial parameters in place such that we're comfortable with the overall returns from that project.

The way we see that project, it's a robust project, we're looking forward to going ahead with it but we'll wait until it's the right time commercially to proceed with that one.

Paul Young: (Deutsche Bank, Analyst) Okay. Well, further to that, just on the project parameters, I mean if I look at Tutunup, I mean Cataby has got half the HM grade, sort of 6% to 7%, it's far away from Capel, so I guess it looks to me the cost structure will be significantly higher than Tutunup. Can you confirm that and really you're waiting for therefore higher prices to make sure that you can maintain -- maximise margins? Hello? Hello?

Operator: Ladies and gentlemen, your speakers line is having some difficulties now, please continue to stand by. Thank you for your patience. For now I'll be turning the music on, please stand by.

Paul Young: (Deutsche Bank, Analyst) Okay, thanks. Tom, what didn't you hear of that? Maybe I should just start again on the second question on Cataby?

Tom O'Leary: I think that would be helpful. Yes, thanks, Paul.

Paul Young: (Deutsche Bank, Analyst) Okay, all right, I'll try and remember it. So what I was saying was that if I look at Cataby and the location of Cataby versus Tutunup, it's obviously far away. Right, so it's got a distance -- a challenge with distance. It's also got half the HM grade of Tutunup, so 6.5% HM, lower assemblage, so the question is on the cost structure it seems to me it will be significantly higher.

I'm interested to hear your comments around that and is that the reason why you're waiting on approval because you're trying to secure similar economics and therefore better commercial terms on price? Thanks.

Tom O'Leary: Thanks for that, Paul. It's a good question. Transport costs, it is further away clearly so transport costs will be higher, grade is lower so costs will be somewhat higher but no, that's not the reason for any delay. As I said before we are planning on moving ahead with Cataby but at the right time. So we're looking to the market dynamics, the customer input on our plans and as I say we'll be moving ahead with Cataby when we think the right commercial parameters are struck for that project.

Does that answer your question?

Paul Young: (Deutsche Bank, Analyst) Yes and no. Yes and no. Just again back to curious that clearly you're not too concerned about that smooth transition in that case from -- back again on to SR2. I know you're combining ilmenite but obviously that's not an ideal situation, so again I'm just curious as to why this is not being approved but listen, I'll move on. Just one last question, just on the zircon market, you obviously signalled the $50 a tonne potential increase from February 15 and you secured volumes.

Just wondering if you can give us an idea of what percentage of volumes are stuck at that new price? Thanks.

Tom O'Leary: Yes, I'll pass on to Matt in a moment but we signalled that - well, we notified our customers of that price increase prior to Christmas and so we have volumes sold both before the price increase at February 15 and at the higher price post February 15, but Matt do you want to add anything to that?

Matthew Blackwell: Yes, look, Paul it's what eight days since the 15th so in those eight days we've been selling at the higher price. It was a firm changeover and that's what we announced and that's what we're going with.

Paul Young: (Deutsche Bank, Analyst) Okay, that's good. Thank you.

Operator: Your next question comes from the line of Craig Campbell of Northcape Capital. Please ask your question.

Craig Campbell: (Northcape Capital, Analyst) Good morning, gentlemen. Just something a little bit left field, Metalysis, how is that progressing?

Tom O'Leary: Yes, thanks, Craig. Metalysis, we continue to see that as a potential value opportunity for Iluka at some point. It's an early stage technology and they're looking to commercialise it. I don't really have much more of an update, I think since I last spoke about it. I think that I mentioned that I visited Sheffield and the plant late last year and we continue to believe that there's a potential that that could be a value enhancing opportunity at some point.

Craig Campbell: (Northcape Capital, Analyst) Right, okay and just with regard the previous question on the zircon market, are you seeing other producers of zircon following the price increase or is it too early to tell?

Tom O'Leary: I'll hand over to Matt for that one, Craig.

Matthew Blackwell: We've seen price rises, it would appear that competitors have raised their prices as well. Different amounts for different regions but generally across the large markets other people have put their prices up as well. As we've talked about in the past it's needed for the industry.

Craig Campbell: (Northcape Capital, Analyst) Great, thank you very much.

Operator: Your next question comes from the line of Mr Peter O'Connor of Shaw and Partners. Please ask your question.

Peter O'Connor: (Shaw and Partners, Analyst) Good morning, Tom. Two questions. Firstly on dividends, your thoughts on how we should think about them this year and I note Doug's comment about dividends and the non-payment for the final and given business opportunities ahead and given what you've mapped out with Cataby, Balranald and Sierra Rutile, how should I think about dividends for the foreseeable future, first question? Secondly, Doug on inventory just remind me, 2012 level you're heading back towards that in the next 12 months. What level would that be?

Tom O'Leary: Okay. Thanks, Peter. On the dividend firstly, as you've pointed out there are some very good and attractive investment opportunities coming up for Iluka and it's in that context that the Board has made the decision they have yesterday. The dividend framework expressly calls for us to consider investing opportunities and that's precisely what the board has done. Your question also went to the longer term. What the Board does in considering dividends at each point is to go through that framework and consider what the cash flow generation has been, what pricing has been achieved in the market, what the outlook is.

So that's a decision that the Board will make at each particular time. We have a lot of good opportunities coming up, but there's some pretty good pricing dynamics in the marketplace at the moment as well. I'll just pass onto Doug for the question you had on inventory.

Doug Warden: Yes, just in relation to pre-2012, what I'm getting at is on slide nine you can see from the bar chart there the dollars inventory right back until December 2008. If you sort of cast your eye along the chart it's around $250 million to $400 million of inventory. I don’t want you to be too specific about where it might sit within that band, because it obviously depends on which assets we're running as you cast your mind forward. But somewhere probably more in the range of $300 million to $400 million. I'm not saying it will get to that point by the end of this year, but over the course of 2018 we would expect it to be towards the top end of that range and perhaps a bit below.

Peter O'Connor: (Shaw and Partners, Analyst) Thanks, can I just - Tom sort of go back, I'm still trying to join the dots up on this dividend. I understand your answer, thank you very much for that, but is it more about the debt level you're carrying now, compared to where you'd like to be? Because it would appear to me that if you had business opportunities ahead - Cataby and Balranald, and maybe Sierra Rutile - there will be no dividend until all three are executed. So does that mean we are looking at no dividends, or dividends once the debt returns to a more normal level?

Tom O'Leary: Yes, Peter, I'm not sure I'm going to be able to help you much more. The dividend framework also - as you know - expressly refers to balance sheet. But I'm not going to go into the constituent elements of a decision that the Board has made, or will make in the future. It's something that we need to consider at each point when we think about making a dividend. All of those things in our dividend framework will be subject to very careful consideration. As will, of course, the very known desire for shareholders to receive returns.

Peter O'Connor: (Shaw and Partners, Analyst) Thank you Tom.

Operator: Your next question comes from the line of Mr Paul McTaggart of Credit Suisse. Please ask your question.

Paul McTaggart: (Credit Suisse, Analyst) Hi gents. I just wanted to circle back to that SRL for a moment. Can you give us a sense - I mean obviously you're not going to get the 4% price rise that you're after for Rutile across all of the product metrics, because you’ve indicated that a chunk of it is already committed in previously processing arrangements. But can you give us a sense of roughly how much of the kind of Rutile might be available for repricing?

An allied question really, it's unfortunate when you make an acquisition and then you kind of work out that it's not going quite as well as you would have liked. How can we get investors confident, and how long will it take for you to kind of get to a level of confidence that you really understand exactly what the grades are and what the grade profile might look like at SRL? Is that sort of a six-month exercise, is that 12 months? At what point can we really feel confident about exactly what we've got there?

Tom O'Leary: Okay, thanks Paul, some interesting questions. Firstly, I'll hand over to Matt in a moment to talk about Sierra Rutile product and repricing, how much is available for repricing. But before I do that, on SRL you mentioned that it's unfortunate when you make an acquisition and it doesn't go as well as you'd thought. I mean that isn't the position that we're in. We don't judge the success of acquisitions by the performance in year number one. I and the Company, the Board, anticipated there are going to be hiccups along the way with Sierra Rutile, as there are with any acquisition. So I have to say that I'm actually pretty pleased with how it's going. I mean the priority in the first instance in an acquisition is always to ensure that the transition of leadership and the people in the organisation are aligned, and I'm pretty comfortable that that's occurred.

In terms of the grade profile and the like, you'll have seen that as a consequence of the pretty exhaustive due diligence that Iluka had carried out prior to acquiring, and the effort since then, we've been able to put out a comprehensive reserve statement in relationship to Sierra Rutile in pretty quick time. We still have a high level of confidence in the ore body.

Paul McTaggart: (Credit Suisse, Analyst) So when will we start to see - I mean obviously you're moving into a lower grade now, but at what point do we move back into a higher grade zone so that people can be comfortable about what the output levels can be? Is that 12 months hence?

Tom O'Leary: Well, I think you'll see it with quarterly production reports as we go through the year. But as I said, the first year is going to be lower than we'd anticipated, and we expect to be able to get back onto acquisition track in 2018. But I think the results are going to be clear in the quarterlies production reports as they flow through the first three quarters and the full year this year. We'll talk a little bit, and give a little bit more detail as we go along about how that's tracking. Sorry, yeah, I'll hand over to Matt on the repricing.

Matthew Blackwell: Yes, look Paul, there has been uplift in the price for Sierra Rutile products compared to last year, just it may have been from a different base. So we are seeing pricing traction there. I would say less than or in the range of only half of the material is - was contracted before the deal closed. So we still see there's plenty of upside for that material. The arrangements that had been put in place come to an end in 2017, so post-2017 we're fully on our own.

Clarke Wilkins: (Citi, Analyst) Good morning gentlemen. Just circling back to Cataby, and not wanting to harp on the point around these sorts of commercial parameters. But back when you the SR was restarted last time and it was a new product basically into the market, and therefore it was both volume and price contracts. Given that it was more an extension of contracts to have a new product come into the market, yet when you look the discussion with customers is it just around securing volume offtake? Or is it also locking in multi-year type price arrangement as was done last time?

Tom O'Leary: Look Clarke, I'd love to be helpful about it, but I really don't think it's in our commercial best interests to delve into the detail of the nature of those commercial contracts. I mean you're clearly correct that there are a number of existing relationships where we'll be looking to extend those contracts, and the nature of the extension - the terms of it - is really very much a confidential matter. The thing to note though I think as well is that we're not just talking to our existing customers, we're also talking to new customers about synthetic rutile offtake. So there's a lot of interest in the quality of product that we produce.

Matthew Blackwell: Yes, and if I could add to that Tom, it's not just with the traditional customers SR, it's with new customers. We currently have SR being used in two chloride plants in China, with another two plants scheduling trials within the next 30 days. So what we're seeing is through the reactivation of the kiln, an interest in the traditional markets that we've served and new markets Clarke, so I said before, we're confident about placing that material.

Clarke Wilkins: (Citi, Analyst) So essentially [unclear] is that still a reflection of less rutile output given the Balranald looks like it's going to be delayed. So from the traditional liquid business that rutile is certainly going to be lower as a sales percentage going forward than what it was in the past?

Matt Blackwell: No, it won't - well, first of all it's not a function of that. Rutile and SR are not entirely interchangeable and they serve different purposes for different customers, that's the first point I'd make. Secondly, rutile as an overall in terms of the overall Iluka business, will not decrease as a percentage year on year through the acquisition of SRL.

Clarke Wilkins: (Citi, Analyst) I was talking more about the decline from the Murray Basin you've given, that was the main retail source effectively - yes - when you forward once the HNCs processed effectively, you've got a bit of a gap between retail production and that sort of comes from the new proposed mining that's what I supposed in Balranald.

Matthew Blackwell: Yes, look, just I think what I can say is that our sales of high grade feedstocks grew in 2016, and they grew 2015 on 2014, 2016 on 2015, on the back of detracted volumes. We expect further growth in 2017 without actually adding in the SRL volumes. So Iluka stand alone. So then you add SRL on top of that and it's a significant uplift in the high grade - in our position in the high grade ore market. That's what I can't go into any more details on that.

Clarke Wilkins: (Citi, Analyst) Great, thank you.

Operator: Your next question comes from the line of Glyn Lawcock of UBS. Please ask your question.

Glyn Lawcock: (UBS, Analyst) Good morning Tom, two quick ones for me. Firstly, I'm just wondering if you could talk a bit about your comfort levels around your balance sheet. I note that the drawn part of your debt isn't due till 2020, but you've got a couple of hundred million expiring this year. With the plans you've got ahead of you CapEx wise and the free cash flow, just can you talk a little bit about your comfort level around that, what you're thinking from a balance sheet perspective.

Then just on rutile pricing, more for your main business not the SRL component, you talked about the price increases up to 4%, but it was on contracted [tenure]. If you could just try and help elaborate a little bit more how much of that main business of rutile is impacted. We've obviously seen your customers now put through a second price rise in this quarter for pigment, probably on the back of the Huntsman issues in Finland. I'm just wondering how much you can take advantage of that, or are we six months away from another drink on pricing? Thanks.

Tom O'Leary: Okay, thanks Glyn. I'll hand over to Matt to talk about the pricing question in a moment. But on balance sheet and debt, as you observe, the tenor is quite a way out. We do have some attractive investment opportunities ahead, as you've said and I've said. Clearly when we consider those - when the Board's considers approving any investment opportunity and the capital expenditure associated with it, then clearly we're going to look at the funding of that. So beyond that there's not much more I'll say. But on the rutile pricing, Matt.

Matthew Blackwell: Yes, Glyn, a couple of things. In 2016 there was a deliberate strategy to lock in sales over the course of the year, price and volume, as we anticipated some weakness early last year before the recovery. But we've entered 2017 with less volume contracted as we view the likelihood of price appreciation to be much greater this year. It's worth noting that feedstocks often tend to lag pigment price increases. I think you also asked about the implications of Huntsman and Pori, did I hear you correctly? It was a bit faint.

Glyn Lawcock: (UBS, Analyst) Yeah, sorry. I was just curious. I mean of the 4% how much of your volume got the 4% rise, and then - because I'm trying to work out whether you could take advantage of, you know, the pigment industry seems to have gone for another price rise on 1 March, on the back of what's happened with Huntsman in Finland. So I'm just wondering do we have to wait six months for you to try and play catch up with the pigment guys or…

Matthew Blackwell: No, no. So look, we have a percentage of our material under contract, we have percentage spot. But what I will say is that the confluence of the high demand of pigment, and some of the more notable incidents recently, not just the Pori fire, the shutdown of the [unclear], the pigment industry has the industry quite on edge. It seems to be creating an environment where the economic rents are moving back up the supply chain through pigment and then potentially to the feedstock suppliers. So I think the dynamics are positive, as we said in our notes.

Glyn Lawcock: (UBS, Analyst) Okay, so I don’t have to wait for the second half then for you to maybe try and push through more retail price increases outside of the 4% announced.

Matthew Blackwell: I'm not going to tell you when I put my price up, no.

Tom O'Leary: Glyn I think Matt has probably given us as much help as he can.

Glyn Lawcock: (UBS, Analyst) Okay, thank you.

Operator: Your next question comes from the line of Mr Hayden Bairstow of Macquarie. Please ask your question.

Hayden Bairstow: (Macquarie, Analyst) Yeah thanks guys. Just a quick question on the zircon market, just in the commentary in the appendix. You talk about losing 150,000 tonnes of market share and then discuss the fact that there's a lot of capital required in the next few years for these guys to maintain production. So should we take from that that given you've got volume and stockpiles that demand looks pretty flat, that we shouldn't be expecting too much in pricing because you need to keep these - or get these guys back out of the - get your market share back? Is that how I'd get the read through from that?

Tom O'Leary: Hayden, it's Tom. No, I don’t think that's how you should be reading it. You're talking about the zircon market, aren't you?

Hayden Bairstow: (Macquarie, Analyst) Yeah.

Tom O'Leary: I think some product was pushed into the market by competitors last year as we've flagged. But what we've also flagged this year is that from our perspective, it seems that the inventory of finished goods, zircon, has pretty much been utilised aside from our own. So the market has really returned to balance. I think I flagged previously that there was a view by an industry forecaster that inventories might be in surplus for some years to come. And that was at odds with our view. I think more recently, industry forecasters have come into line with our view around zircon inventories generally.

So no, I don’t think that's what you should be expecting. I think the market is in balance. We didn't discount pricing going into the back end of 2016. So we've opened up 2017 zircon pricing at more attractive levels. We've talked about the price rises that were put through at the back end of last year and this year and we're seeing take up of those prices. As China appears to be in a restocking phase, we've had product available to meet demand from those customers. I think we're pretty attractively placed in the market generally. Matt, is there anything that you'd want to add to that?

Matthew Blackwell: No, I think that's right, Tom.

Tom O'Leary: Thanks Matt.

Hayden Bairstow: (Macquarie, Analyst) Okay, thanks guys.

Operator: Your next question comes from the line of Mr Rahul Anand of Morgan Stanley. Please ask your question.

Rahul Anand: (Morgan Stanley, Analyst) Thanks guys. A couple of quick ones from me. Firstly, around to your retail. If we go back to the production guidance that was provided, we're obviously slightly lower than the three year average rate next year. Then the dredge comes to an end the following year, so I'm expecting that production is even lower than this year. Based on that, am I fair to assume that Sembehun then starts production in calendar year 2019 and that's what's allowing you to maintain your three year guidance at the lower end of guidance? That's the first one.

Tom O'Leary: I think that's fully right. So it's not next year, but 2017, we've guided our production would be lower than what we'd anticipated. 2018 is going to be a lower year as you've suggested. Then it's the combination of the expansion that - you know, the Gangama and Lanti expansion, and then possibly coming on towards the end of that year, that allows an uptick in production in 2019.

Rahul Anand: (Morgan Stanley, Analyst) Okay, great. Then onto concentrate sales mix for zircon for next year. I think I read somewhere that it's constant year on year. My understanding prior was that there was more concentrate that had become available from the US operations and that - I'm sorry, I read earlier that concentrate sales were going to be lower this year than last year. But prior, the understanding was that there were going to be constant driven by further concentrate that became available from the US.

Tom O'Leary: I'll hand over to Matt in a moment but I think our expectations there are going to be lower zircon concentrate sales this year than last. We have sold some product in the US but generally, the concentrate level that we're going to be selling over coming years are lower because we've been working through our stocks of that concentrate. But I'll hand over to Matt.

Matthew Blackwell: No, that's right, Tom. Rahul, you should expect to see lower concentrate sales in 2016. Our extent obviously translates through - in 2017, sorry, compared with 2016 and then lower again probably in 2018. Obviously an impact of that is you'd translate through to higher revenue per tonne sold per zircon unit.

Rahul Anand: (Morgan Stanley, Analyst) Just staying with that, Matt, on the zircon pricing then, in terms of discounts that you're having to give out to customers on the zircon, has that changed at all from calendar year 2016 into 2017?

Matthew Blackwell: Look, I'm not going to go into how we structure our pricing model. But what we've seen is just a tightening up of where our - our band, if you like, which is good. So we've played a very deliberate role of pricing our product where we think its economic value is and in the right place in the market and we'll continue to do that. As Tom said before, we have the view that we're the one producer with probably the capacity to respond in the most cost effective and capital efficient manner to the supply-demand imbalance which we see coming down the pipe.

Rahul Anand: (Morgan Stanley, Analyst) Sure, and just one last one before I hand it back. Cataby, has that already made an appearance to the board? Or are you still waiting for those off takes or some contracts to come in and then it goes to board?

Tom O'Leary: Yes, I think I mentioned at the last call, Rahul, that - or perhaps I didn't. But in any event, Cataby has been before the board many times in terms of an update. So the board is very familiar with the characteristics of the deposit and the development of it. I'm clearly not going to go into the ins and outs of board thinking around off take arrangements, but the board's very familiar with the project.

Rahul Anand: (Morgan Stanley, Analyst) Sure, I'll hand it back now, thanks very much.

Tom O'Leary: Yes sure.

Operator: Your next question comes from the line of Mr Clarke Wilkins of Citi, please ask your question.

Clarke Wilkins: (Citigroup, Analyst) Hi, just a follow-up question and probably for Matt. Just in regards to the zircon market, obviously we're seeing more standard versus premium and also the zircon concentrate sales over time. If you've got less zircon concentrate to sell going forward, does that go back to standard or does that go to the premium market? Like how do you see that evolving? Is that increased percentage of the standard Zircon likely to remain in place going forward?

Matthew Blackwell: Clarke, what has happened, as happens in many industries, at the bottom of the cycle people tend to go for the cheap and cheerful. So we would expect, as the conditions improve and relative economic value becomes more important again, people look at how they can get the best out of what they're buying. So that tends to push people back to premium. I would also note that as the cycle improves, you get a tightening of the spread between the price of standard and premium, this is generally what occurs on a percentage basis over time.

Tom O'Leary: It sounds like that's the end of the questions. So thank you very much for your attendance today and have a good one, thank you, bye.

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