

## SOUTH32 LIMITED (S32)

23 AUGUST 2018

RESULTS	Full Year 2018	Full Year 2017	CHANGE
Revenue (US\$m)	7,549.0	6,950.0	+9%
Bloomberg Consensus (US\$m)	7,495.0		
EBITDA (US\$m)	2,516.0	2,411.0	+4%
Net Cash (Debt) (US\$m)	2,041.0	1,640.0	+24.5%
Underlying Earnings (US\$m)	1,327.0	1,146.0	+16%
Bloomberg Consensus (US\$m)	1,278.0		
Final Dividend (US\$)	0.062	0.064	-3.1%

### South32 (S32) profits lift as higher commodity prices offset a lift in costs

- **South32 (S32)** posted a 16% lift in underlying profit for the year to \$1.3bn which was around \$50m ahead of Bloomberg consensus (15 analysts surveyed) and was helped by a lift in commodity prices. This helped offset a 7% fall in sales volumes and inflationary pressures particularly relating to its aluminium business.
- The price lift in alumina, aluminium, manganese ore, energy coal and nickel boosted underlying EBIT by more than US\$1.3bn over the year. A 10% move in these commodity prices over the course of a year has more than a US\$600m impact on its underlying results according to the company. Prices rose partly due to on-going supply constraints and Chinese environmental restrictions.
- **While commodity prices rose, so did costs** (although most were largely in-line with its guidance). **Australian Manganese** remained its biggest earner, adding US\$651m to the group's EBITDA. The result was boosted most by a 13% lift in production and a substantial lift in the average realised price of the commodity which helped offset higher unit costs, which rose 7% due to a stronger dollar and a rise in maintenance.
- **Worsley Alumina** in Western Australia was one of the best improvers, contributing US\$422m to FY18 earnings. While alumina production fell by 3% and costs increased by 16% over the year, the realised average price it received for each tonne of the commodity surged by 35%.
- **South African Energy Coal** posted improved revenue and earnings over the year. Production however decreased by 6% and was blamed on subdued domestic demand. Operating unit costs increased by 24% partly on unfavourable exchange rate movements of the South African rand. As was the case with many of its other operations however, a strong lift in commodity prices helped offset the higher costs.
- S32 declared a US\$0.062 **dividend** which is set to be paid on 11 October 2018 and will trade ex-dividend on 13 September 2018.
- **Looking ahead**, S32 anticipates production to lift by 5% in FY19 together with cost savings which should help offset inflationary pressure. **S32** – which was spun-off from BHP Billiton (BHP) in 2015 – rose strongly on the ASX following the results.

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