HD **Interim 2015 CSR Ltd Earnings Presentation - Final**

WC 9,440 words

PD 4 November 2014

SN CQ FD Disclosure

SC FNDW

LA English

LP

Presentation

ROB SINDEL , MANAGING DIRECTOR, CSR LIMITED : Well good morning everyone, it's 10 o'clock so we'll get started. Thank for you joining us here this morning for the CSR results presentation for the half year ending September 30, 2014. And thanks to James, is he in the room? Thanks to James for hosting us from Morgan Stanley .

TD

Just quickly on the agenda presentation should take about 25 or 30 minutes to leave plenty of time for questions. I will provide a brief introduction of our performance during the last six months before handing over to Greg Barnes who'll take you through some detail of the numbers. And then I'll come back and give you some colour around each of the business units and provide some comments on the market and our outlook for the full year.

Next slide, thanks Andre. Looking first at an overview of the **Group** results, as you can see there's been a strong lift in earnings and we're very pleased at that. It was driven by three key factors. The first one was the benefit of the restructurings we've implemented over the last few years. Secondly we're seeing the growth in volumes driven by the increase in **residential** construction activity, and we've also benefited from higher aluminium prices and **property** earnings.

The steady build up in demand is occurring as we predicted, both in multi-**residential** and more recently in detached housing. Which in our view will continue to deliver solid performance over the next few years. The market remains, sorry in terms of pricing the market remains competitive as always, but as we've seen in previous cycles, pricing and margins tend to follow volumes in the cycle.

In summary we've seen a significant improvement in all of our business units and this strong lift in earnings and cash flow, has enabled us to increase the dividend by 70%. In terms of our strategy, we're making good progress on the objectives we set ourselves. As we highlighted earlier in the year, this is I five key areas.

Firstly we are reinvesting our existing **operations** to improve productivity and efficiency, while maintaining our unwavering focus on safety performance. You'll see on the slide the continuing 25% improvement year-on-year. In Gyprock we are protecting our market leading position with the launch of our optimised core technology in August. Our new ceiling **board** is stronger and easier to use, it's 15% lighter and will be rolled out to other Gyprock products over the coming year.

We are also expanding into new adjacencies such as polyester insulation through the **acquisition** of Martini. This is a good example of the steps we are taking to shift Bradford from being primarily a glass wall business into a broader **energy** solutions provide. Finally our integration of Martini, sorry our integration of AFS acquired in April is progressing well and is meeting the demands to faster and less labour intensive building solutions, particularly in the multi-**residential** market. We see load bearing walling solutions as an exciting growth market, similar to what we've achieved with Hebel in external cladding and internal walling applications.

Enough from me at the start, I'll pass over to Greg, who'll take you through the detail in numbers.

GREG BARNES , CFO, CSR LIMITED : Well thanks Rob and good morning everyone. Slide seven summarises our profit and loss for the period and you can get a sense I think by looking at it, as to why we're quite pleased with results for the period. Revenue was up 15% for the six months to just over a **billion** dollars. We saw higher volume and improved pricing in most of our categories across building products and aluminium revenues were actually up 14% on high sales volumes as well as improved pricing in Aussie dollar terms.

EBIT for the period was AUD114.1 million, I'm going to get into that in more detail on the next slide. As I flagged at year end our effective tax rate was set to increase, and it did during the period to 29.2%. This mainly reflects higher or lower R&D claims and a lower tax free portion of our property profits during the period. We expect our effective tax rate will settle a little bit in the second half and moderate slightly to 28% for the full year.

So as a result of all those factors, our impact was up 72% to AUD70 million during the period. This is actually the best first half performance the CSR since the divestment of Sucrogen. As advised at year end, we've now changed how we account for the discount unwind associated with our asbestos liabilities, we now report that as a significant item and this change was made in the results presentation and in the accounts to both actual results and to comparatives when you're looking at those.

As a result our impact post significant items was AUD68.4 million and that was up 48% for the variant year-on-year. If you look at slide eight, you can see that EBIT was actually up across the board. Our building products division was up 22% with earnings growth across all businesses, earnings benefit from higher sales volumes, good operational performance and limited overhead expansion.

Importantly our underlying EBIT margins expanded by around 1% year-on-year. This excludes the impact of recent acquisitions as well as any increased P&L investment in long term growth initiatives. We're very encouraged by the progress in Viridian, the EBIT improvement was AUD11 million for the period, and returned a profitability for the half. That's slightly ahead of what we expected.

As Rob will show in a moment, one of the things we're particularly pleased about is we're seeing top line growth in both volume and in price. We're confident we're on the right track to return this business to a sustainable long term footing. In aluminium EBIT was up 71% on the prior year, this is largely due to an 8% increase in Aussie dollar prices, and particularly higher ingot premiums.

Property recorded an EBIT of AUD20.4 million, we completed two transactions this period. One was the sale of a multi-residential development site at Pyrmont and the second was the disposal of some excess property at our Viridian industrial site at Ingleburn in Western Sydney.

If we go to slide nine, you can see that operating cash flow has been up 98% year-on-year before non-trading items. This reflects two things, the growth in underlying earnings is flowing through to cash, and the improvement in working capital despite the higher revenues. We're particularly pleased with our debtors collections during the period, with over dues actually at their lowest level in five years.

Adjusted for outflows associated with significant items in asbestos, the statutory operating cash was actually up 294% year-on-year. We spent AUD 28.8 million in capital expenditure in the past six months, excluding property developments and acquisitions. This represents 74% of depreciation and includes things like investment in warehouse automation at our Gyprock Yarraville facility.

We expect capital spend to be slightly higher in the second half and full year spend will be around AUD70 million. Net property cash flows, and I'm talking cash as opposed to earnings, were AUD29 million on the back of the Chirnside Park developments and the sale of the Pyrmont during the period. All in all improved earnings in operating cash resulted in a net cash position of AUD5.7 million. This includes the funding of AUD37 million of acquisitions associated with AFS and I think at this stage we'd expect to see further improvement in the second half.

In terms of our asbestos provision, slide 10 reconciles the movement in the provision over the last six months. In combination with the graph below you can see that claim related costs were AUD13.9 million this period and that's down 9% on the same period last year. After adjusting for the discount unwind, the provision reduced to AUD361.2 million, and that's the lowest level this liability, we've seen in this liability in nine years. The provision includes a prudential margin of AUD68.3 million or 23% above the central estimates from our two experts.

Our message remains very consistent with what we've said in recent presentations. We're encouraged by the progress in the US, the US liability is down in US dollar terms, is down 31% from its peak two and a half years ago. In Australia it remains on its gradual downward trajectory having peaked around six years ago. Looking ahead we expect net cash payments for the year associated with asbestos around AUD32 million for the full year.

Just finally before I wrap up, I wanted to highlight the improvement in returns over the last few years. Slide 11 shows the return on funds employed for the Group, and our key operating divisions since the divestment Sucrogen. So we need to be mindful of the asset write downs in Viridian over the period when interpreting this chart. But the chart does highlight the improvement across the Group in this period.

We're particularly encouraged by the consistent improvement in building products as well as the Group, both of which are now around our pre-tax cost to capital. There is further scope for improvement as construction markets recover and Viridian moves into profitability in the years ahead. So look that's from me for now, I'm going to hand back to Rob, thanks for listening and I'll come back with questions, for questions at the end. Thank you.

ROB SINDEL : Thanks Greg. Okay in terms of the individual business units, construction markets and outlook, I'll just turn to that first slide Andre, thank you. So slide 13 shows the trend in each of the key market segments in which we operate. The residential data that we're showing here is for the six months to March 2014. As you know we lagged those by two quarters, so that two quarter lag will translate into demand for our product during the September half year we're representing here today.

So the 12% increase in detached housing and the continued strong activity in multi-res is reflected in our revenue growth during the period. The non residential market has remained flat, so has commercial market, and this is consistent with what we're seeing for demand in those product segments that have a higher proportion of exposure to commercial market. Interestingly we're seeing a similar trend in A&A , and our view is that we expect both of these markets to improve, particularly as consumer confidence improves.

The New Zealand market remains strong and we're actually only now just starting to see the benefit of the rebuild in Christchurch, because our products are very late in that cycle. A lot of the work that's been going on there has been civil construction and heavy side.

So in terms of the revenues for each of the building products divisions, you can see the ramp up in revenues we saw in the final quarter that I talked to at the full year results, have continued with light weight systems revenue up over 21%. If you exclude the acquisition of AFS and Martini, revenue was up 12% with volume growth in excess of 10% in most of our product categories.

In bricks and roofing we achieved 10% increase in revenue from volume and prior margin product mix, with bricks delivering first in the construction cycle, it's good to see steadying increases in these volumes. Viridian also delivered a 4% increase in revenue, the first one I think we've delivered in three or four years. Following the benefit of pricing initiatives and higher volumes on a much more stable business platform as Greg said, and more on Viridian in a moment.

In terms of earnings, we're pleased with the improvement in both the EBIT and EBIT margin, you can see on the chart, on slide 15. Where the green bars show the improvement in volume, while price increases and factory performance are broadly offsetting inflation. We are seeing improvement in our margins as the building cycle continues to grow. We're looking at the normalised margin, and I mean by stripping out the investment in AFS or the acquisition of AFS and Martini. There's also a number of one-off costs associated with the gross inequities as part of our strategy. Our margins are actually 10.9% compared to the 10% in the previous quarter, in the previous period.

So regarding the bricks JB which I'm sure everyone is as interested in as I am. We believe we put in a very strong case to the ACCC and the merits of the transaction both to the industry and consumers are compelling. We'll continue to engage with the ACCC in the lead up to the final decision on December 18, 2014.

So turning now to Viridian, we continue as Greg said to track slightly ahead of plan, achieving a positive EBIT for the first half of the year. The chart on slide 16 gives you more detail of where the improvements have been delivered. While the restructuring program has delivered the bulk of the AUD8 million earnings improvement, we have also seen higher pricing and a significant turnaround in the performance of our New Zealand joint venture, which has contributed to the overall result.

I'll just take the opportunity to reiterate what a terrific job the Viridian management team led by Peter Moeller who's here today of turning around this business. I think there were a lot of people who didn't realise what was achievable and it's very pleasing to see that come through. The difficult part is now obviously we move to focus on revenue growth, and to really drive acceptable returns in this business.

So looking now at aluminium. Premiums continue to be the big story here, and we've also benefited from higher aluminium prices, with the price in September reaching 18 month highs. Improvements in pricing combined with a weaker Australian dollar is flowing through to earnings. While the Australian dollar was relatively stable in the first few months of the financial year. The Aussie dollar fell by 6% during, sorry AUD0.06 during September as confidence in the US recovery gathered pace.

Sales volumes very pleasingly were up 5% following continual operation improvements at Tomago and this helped drive the EBIT to AUD41.4 million, up 71%. Now there's many issues impacting aluminium pricing and premium, but generally the market fundamentals are improving, due to global demand, production curtailments and supply deficits outside China. This has led to a reduction in inventory, global inventories, with a tighter physical market maintaining higher premiums, and in our view this is likely to continue in the short term.

Very pleasingly Mark White and the team are 90% hedged for the remainder of the year, so failing a major operational issue at Tomago earnings are pretty much locked in. In terms of our property portfolio, the result as Greg said of AUD20.4 million reflects good demand in the market for both residential and industrial sites, and obviously that's flowed through to pricing as well as demand for our sites.

In the last six months we completed two significant transactions. In Victoria the residential land market continues to strengthen, so we're seeing good demand for stage two and three at Chirnside Park. The photo on the slide actually shows you the completed homes in stage one, and once completed, Chirnside Park will have 533 new homes.

Just turning to our pipeline on slide 19, it remains solid with the Chirnside Park development and a couple of other things underpinning earnings for the next two to three years. As always we are confident in our ability to deliver consistent earnings over the medium term, aren't we Andrew? Before turning to the outlook for the remainder of the year, I wanted to remind everyone of the pipeline of activity in the residential housing market.

So the pipeline shown on the chart is in the blue shading, and this is an ABS statistic, which includes dwellings improved or under construction but not yet completed. The coloured lines on the chart show the lag between approvals and completions, which continue to push out with the longer lead times, particularly from high rise apartments. We're also seeing the lag time increase in the detached market, and I think some of these thoughts were endorsed by the comments, particularly from Westpac , about the funding that's going into new residential construction, that is yet to actually hit the pipeline. So this growing pipeline gives us confidence that the market will remain stronger for longer.

Finally on to our outlook for the remainder of the year. In building products, we're expecting to see similar growth rates in the second half as we have seen in the first half. Longer term steady growth in housing activity will lead to an increased demand for CSR products. The Viridian turnaround in earnings is tracking slightly ahead of our stated objectives, to exist the year with an EBIT positive run rate. While in aluminium we have improved our hedge position and we're also benefitting from higher ingot premiums.

In property we are working on another transaction which we expect to settle in the second half of the year. For the Group the current analyst forecast range of AUD111 million to AUD134 million for net profit after tax, sorry that's the current range. At this stage we expect to be towards the upper end of this range, assuming no major deterioration in the markets in which we operate. I will conclude there and open it up for questions, thanks for coming along this morning. And Simon? We need the microphone to pick it up on the call.

Questions and Answers

SIMON THACKRAY, ANALYST, CITIGROUP : Simon Thackray from Citi, thanks Rob. I'll jump in ahead of Emily because she always asks about prices. So can we talk about pricing in the building products portfolio, with a little bit of granularity across the portfolio, to see what's done well and what hasn't done quite so well?

ROB SINDEL : You've actually got to look at it on a state basis and a product basis and a mixed basis, so there's all sorts of things happening. We announced our price increases that take effect in February or March this year, in November last year. So the market really hadn't built to the position it is now.

If you look at -- there's a move back from commercial to residential and the big builders in residential are taking more market share. Not surprisingly some of their pricing environment is -- well they've taken a price increase in terms of the mix effect, that takes a while to flow through because the commercial market has been softer.

In plasterboard, probably the one I'm a little disappointed with, but all sorts of stuff's happening there. You've had new international players come into the market, you've had capacity built in Victoria and Queensland. We're still getting price increases in plasterboard, but that's the one which I think has under-performed.

On the other side of it you've seen significant price increases in bricks, you've seen price increases in insulation and, as I alluded to, we've increased prices in glass, both at the price level, but also the team has introduced surcharges which has helped drive price. So to read it straight through, I think the other point I'd just make quickly is that, volume comes first and price tends to come second.

Because what you do is you drop off the lower margin customers and they're the ones that come through. So we're relatively pleased at the position at the moment. We knew there'd be some comments about the

EBIT margin so that's why we pulled out that expenditure that we've put into the business for growth initiatives.

SIMON THACKRAY: Right, so net debt, going ahead, you'd probably expect price contraction to improve. As you say, that's the way the lower margin --

ROB SINDEL : Yeah, there hasn't been a lot of price contraction. I think you can say that there'd be -- assuming volumes are maintained at this (inaudible), you'd probably in a better pricing environment.

SIMON THACKRAY: Then just one for you Greg. In terms of the **property** cash flow at Chirnside and Pyrmont, is there a full year guidance for the **property** cash flow, one, and then the second part of the question is, what are you going to do with this balance sheet?

GREG BARNES : The first question around **property**, look we've got further cash flows to come in during the period. So I won't give you a specific numbers but it's going to be not too far from what we've seen in the first half and I think you can see net cash overall should improve second half. It's usually our stronger working capital period for building prices, it tends to unwind more in the second half.

In terms of balance sheet, look we've obviously gone back in a slightly net cash position and, as I've said in the past, we intend to use that for growth. I think the key objective for this business, long term, is to continue to innovate and continue to invest in this business, so that we're better aligned with how we think Australia is going to build in the future. So we will be using that, first and foremost, for growth by way of **acquisition**, organic and licensing technology, and bringing it into Australia where it makes sense.

Our dividend policy, as you know, is 60% to 80% of NPAT, pre-significant items, and we've got a bit of flexibility there as well period-to-period, depending on our cash position. So I think we're in a good position that way. Go for it Emily.

EMILY SMITH, ANALYST, DEUTSCHE BANK : Thanks very much. Emily Smith from Deutsche Bank . I just had a question on that, on the building products EBIT margin. You mentioned 10.9% ex the --

ROB SINDEL : Yep.

EMILY SMITH: -- reinvestment. I'**m** just wondering for how long will this reinvestment occur? So when you look at your guidance for the second half, saying that the growth is going to be pretty similar to the first half growth, is that including or excluding the re-investment in the first half?

ROB SINDEL : Oh look I think the reinvestment will continue but you're not talking big numbers, in terms of you're talking single digit **millions**, but it actually detracts from the margin because --

EMILY SMITH: Sure.

ROB SINDEL : -- we're taking the P&L hit. But what I'**m** saying in terms of growth, I think you'll see a similar reflection of volumes in the second half and a reflection of pricing in the second half, because the next round of pricing doesn't actually kick in til February or March next year.

EMILY SMITH: Yeah and so have you announced any price increases yet? It is November but do you announce them sort of later in November for next year?

ROB SINDEL : We do Gyprock in late November.

EMILY SMITH: Yep.

ROB SINDEL : And we do other ones in December and a few in January.

EMILY SMITH: Okay, so would you expect those price increases to be ahead of inflation or -- given you sort of said that, pricing's sort of better when volumes are improving, and you've obviously got the tail **wind** at the moment.

ROB SINDEL : I just don't want to flag --

EMILY SMITH: Yep, sure.

ROB SINDEL : -- how big they'll be at this stage. I think it's -- you know we'll make our own assessment internally and we'll let the market know all at the one stage.

EMILY SMITH: Mm hm and maybe just back on that margin growing from 10% to 10.9% on an underlying basis. Is that all -- is that improvement because of volume or because of price? Is that leverage or is that sort of -- or are price increases just covering cost increases? I'm just trying to understand if there's leverage in it?

ROB SINDEL : Yeah sure.

GREG BARNES : Look it's by and large -- I mean we obviously got some price increases through, and I think Rob's sort of expressed his view on that, and it's by and large leverage the volume, is how I'd interpret it.

EMILY SMITH: Great, so the price increases were just cost recovery really.

Greg Barnes : Pretty much.

EMILY SMITH: Yeah, okay.

GREG BARNES : I think that's a fair assessment.

EMILY SMITH: (Inaudible), thanks very much.

ROB SINDEL : Hi Andrew, how are you?

ANDREW JOHNSTON, ANALYST, CLSA: Thanks. Andrew Johnston, CLSA. Just a question around the bricks and pavers JV that's in front of the ACCC.

ROB SINDEL : Yep.

ANDREW JOHNSTON: Have you -- maybe you can't talk about it, but if you could that'd be useful -- have you considered, or started discussing with them, alternatives to the proposal that's been put up? Maybe something around where -- a JV around the manufacturing but leaving separate the marketing.

ROB SINDEL : I'll let Greg take that, he's spent 18 months of his life on this deal so --

GREG BARNES : I was in my 20s when we started.

Look it's understandable there's going to be a lot of interest in the joint venture and what would happen if it weren't approved. It's just not appropriate for us to speculate on that. I think we're in an ACCC process with a competitor, I think just me providing sort of any market commentary around what we might do, either with Boral or on our own or otherwise, is just not the right time. Suffice to say we've got various options available to us and I just reinforce that we think the merits around the transaction, as proposed, are very strong.

I might just pick up one point in relation to that comment, when you're referencing specifically a manufacturing joint venture. One of the attractions of this transaction is on the overhead side and the fact that both businesses stand alone are a little subscale. So one of the things that is attractive around the joint venture is the ability to do more than just take costs out on the manufacturing side of things. And we've got more leverage, through a joint venture, to stay competitive with alternative cladding materials. So that's why it's our preferred transaction.

ANDREW JOHNSTON: Just a question on the aluminium price premium. Do I take it, from your comment, that you expect to say -- or factored into your numbers is a figure around the 420 mark for that?

ROB SINDEL : I think the answer to that is yes. I mean we lock in three months forward. So what are we now Mark? 320 -- ah 420 some --

MARK WHITE, GENERAL MANAGER, CSR ALUMINIUM: 420.

ROB SINDEL : -- 420. We can't see any reason why that would drop in the fourth quarter. But that's our internal view.

GREG BARNES : We could go to 600.

ANDREW JOHNSTON: You very well could, you could go to 200.

ROB SINDEL : I don't know, well when it was 200 we wouldn't have thought it could go to 400 (inaudible), yeah. The shortage in the market is bigger than people realise. The shortage in the physical supply is more significant than people realise.

JASON STEED, ANALYST, JP MORGAN : Morning Rob, morning Greg. Jason Steed, JP Morgan . A couple of questions, first on energy costs, and Greg you mentioned the full year, probably about a AUD10 million impact, so there's a full year 2014 AUD10 million impact this year --

GREG BARNES : Mm hm.

JASON STEED: -- of gas.

GREG BARNES : Mm hm.

JASON STEED: And obviously a lot of press on very low gas prices in certain parts of the country.

GREG BARNES : There are.

JASON STEED: Are you seeing the benefit of that, one. And then the second question, MacGen contract nothing noted today, was the aluminium price very high, approximately very strong. Is that off the table in terms of negotiation or are you talking to AGL at the moment about that?

ROB SINDEL : Why don't you take the gas one and I'll take --

GREG BARNES : I'll take gas, you take MacGen.

ROB SINDEL : Yeah.

GREG BARNES : Yeah so look in terms of gas, we're in a contracted position. So in terms of outlook for gas, I think there's various views out there at the moment. But being in a contracted position, as most manufacturers would be, you know we're obviously receiving gas at the price we've contracted. So some of the spot prices you're seeing at the moment are a reflection of short term over supply as LNG's capacity comes on, LNG train capacity comes on. So it'd be fair to say we're not really benefitting from that.

Longer term, if you accept some of the forecasts, you would see our gas costs increase from low AUD30 **million** into the AUD50 **million** odd range, low AUD50 **million** range. And the timing around that is difficult to estimate, it's probably 2017, 2018. There's a bit of speculation that that might drift, but it's somewhere in that 2017, 2018 calendar period that it starts to tighten up. And the challenge for us is to get, both more **energy** efficient in our **operations**, and ensure that we're in a position to pass on those costs as best as we possibly can. Alright, so that's a --

JASON STEED: Greg one of your competitors in bricks often talks about the fact that they've done a lot more than you have, and than Boral has --

GREG BARNES : Mm hm.

JASON STEED: -- in terms of reducing their reliance on gas and making investments. Is that -- what's your view? I mean is there much that you've got that you can still do landfill gas, whatever it might be?

GREG BARNES : Look I --

ROB SINDEL : I might take that.

GREG BARNES : Yep.

ROB SINDEL : Because I'**m** a bit closer to it. In terms of -- it depends where your factory is quite frankly. So if you look at Oxley where we have a low cost position, we use **coal** fines and it's a very cheap alternative. Unless you're sitting close to a facility that's either wood chip or methane gas from waste, then it's (inaudible) -- it's not that big a difference in our view. We've got a team working on it, so we get it, we understand it. I think we wouldn't talk it up as much -- it's a bigger issue for the competitor who I think you're talking about obviously.

The bigger issue -- the issue for us is that, as gas prices go up, most of our businesses that use gas aren't necessarily trade exposed to a great extent, except for glass in Victoria, so we suspect the price will go up and compensate. The issue we had more concern about 12 months ago was, would there be enough gas. It looks like the market's going to clear, it looks like the LNG trains aren't going to come on as quickly. New South Wales has still got a particular problem that they need to resolve, and hopefully the election will help do that. In terms of --

GREG BARNES : MacGen.

ROB SINDEL : Yep, in terms of MacGen, AGL's only owned this thing for six weeks. They had an obligation under the contract, under the **sale** contract, to engage with Tomago and have a discussion about the current contract. I can rest assured that has -- those conversations have started. I read comments at their AGM a couple of weeks ago, which said we didn't value Liddell as part of this **transaction** but it would make sense that Liddell and Tomago come together and find a solution. So I'**m** quietly confident that something will come out of that, but realistically AGL really couldn't speak to us until probably three or four weeks ago. They're just doing the implementation of the -- they're just doing the integration of the business. So we've had a couple of discussions and they will continue.

JASON STEED: Just to clarify Rob, so just on that point, your contractual clause relating to re-negotiation is on (inaudible) bankruptcy, is on -- because it just looks -- if you look at the forward (inaudible) for aluminium, you'll be making a lot of money at Tomago.

ROB SINDEL : Yep.

JASON STEED: I'd just be interested in how you actually position yourselves in that (inaudible).

ROB SINDEL : Well I think if you strip out the premium, the dynamics change very quickly. So coming back to Andrew's point about, what will the premium be, none of us know. If you strip out the premium then it's a very different situation for Australian aluminium smelting. So look I think it's a conversation that's around, what's the market price for electricity, what does Tomago do for the entire NEM, what's happening to electricity demand across Australia, not just New South Wales, and I'm sure there'll be a sensible resolution.

JASON STEED: Thanks Rob.

ANDREW PEROS, ANALYST, CREDIT SUISSE : Good morning. Andrew Peros, Credit Suisse . Just a quick one on the Viridian business, obviously quite pleasing to see that break even ahead of schedule. I'm wondering if you could comment about the performance of the upstream business, as well as the downstream business. Does that imply that both are profitable or maybe one is doing better than the other? Then maybe just taking that one step further, in terms of the performance to New Zealand, maybe comment about what's actually happening in that market. Have you been able to pull back some of that market share off one of your key competitors there?

ROB SINDEL : Okay, if you look at -- it's actually four businesses that Peter has actually split the organisation into. So we talk about flight manufacture, we talk about home comfort, we talk about commercial and design and we talk about stock and trade. So we run a P&L for each of those businesses. Without breaking it down, the issue that -- the negative -- assume three out of four are negative -- are positive.

The one that's negative is what we call commercial and design and that's a couple of things. That was over investment, that was footprint and all of those things that Peter and the team are now addressing. So I don't want to strip out how profitable one is against the other. But you can imagine the volume that came out of Ingleburn going into Dandenong, the cost reduction that that's driven, the fact that the Australian dollar has come down, that the upstream business is profitable.

The second part was New Zealand particularly. I wouldn't say Peter that we'd necessarily picked up market share. But I think we've very much stabilised our position after, what was actually, a lot more complex integration of three businesses into two. You know Metro has obviously been a beneficiary of our issues around integration. We've got a good management team over there and I think they're making some really good progress and the opportunities before us are very positive.

ANDREW PEROS: Okay thanks. And just finally, obviously now that (inaudible) and can you just maybe comment on what the opportunity is in terms of where you see mid-cycle level for this business.

GREG BARNES : Mm hm.

ROB SINDEL : Yeah, no you go on.

GREG BARNES : Yeah look I mean obviously we value this business on the basis --

ROB SINDEL : We should ask Peter. Mid-cycle?

GREG BARNES : This is not a budget discussion.

Look we've said, I think consistently, we can see our way back into EBITs north of AUD20 million over the three to five year time horizon. When we restructured the business we said around five years, I still think that's consistent. We naturally are assuming that we can cover our cost of capital in this business and, hence, maintaining its carrying value. So I -- and I think we're well on track to do that. We're working slightly ahead of our expectations when we model this business each year. So I still think that's the right sort of guidance.

ROB SINDEL : I think the pleasing point is we -- and we've delivered on expectations, the revenue growth issue is the next one and we can see a good plan around that. We've also seen some good, I think, reactions in the market to our taking back that leadership role and really sort of settling the industry and leading the industry and acting like market leaders. And that goes a long way to driving overall profitability.

MICHAEL WARD , ANALYST, CBA: Rob, Michael Ward from CBA. Just on aluminium I noticed the volume's ticked up over 100,000 for the half.

ROB SINDEL : Yep.

MICHAEL WARD : I don't think we've probably seen that for a while. Just wondering what drove that improvement and is that sustainable?

ROB SINDEL : We've never seen it before.

MICHAEL WARD : Oh okay, there you go.

ROB SINDEL : And I think there's a couple of things that have really driven the performance at Tomago. The change of -- you know, never waste a good crisis I think I said 12 months ago, where the questions around aluminium in Australia and globally were being asked. We actually did a reasonably significant restructuring of the workforce, the terms and conditions and how we approach that business.

We actually changed management and brought in somebody from outside the aluminium industry, still with a smelting background, to be the CEO up there. And they've had an enormous impact in driving productivity and efficiency, which has actually now got us on that path of growth, again in terms of volume. So we've set some stretching targets to go forward and we think that'll continue into the second half.

MICHAEL WARD : So that level's sustainable or there's further improvement over and above that level?

ROB SINDEL : I think it's sustainable and I think there's further improvement.

MICHAEL WARD : Okay. Just a second question on asbestos I guess. The rate of improvement in the US is significantly better than it is in Australia.

ROB SINDEL : Mm hm.

MICHAEL WARD : Can you attempt to put that into plain English for me, as to why that's the case?

ROB SINDEL : The second part's the challenge. So just to clarify the question, why it's improving (inaudible).

MICHAEL WARD : Improving quicker in the US than it is in Australia.

ROB SINDEL : Look the US has historically been a more litigious market and the reason we've been able to improve our position there is twofold. One is, we've been able to narrow, through good evidence, where we're exposed and where we're not. And where CSR material was applied and where it wasn't. And the second is, without US assets and without major **transactions** going on and, I guess, the public concerns you might have around people bringing litigation to Australia, we're just in a slightly stronger position in terms of negotiation.

It means we can just hold our ground on what we think are reasonable settlement values. So what we've done, in short, is really try and realign settlement values in the US to the experience in Australia, and we've been successful in doing that for the last couple of years and that's the reason for the big difference. That's about as plain as I can be. (Inaudible).

JAMES RUTLEDGE, ANALYST, MORGAN STANLEY : Thanks, James Rutledge from Morgan Stanley . Just firstly the guidance on **property**, you go into higher earnings, I think, for the full year on PCP, is that right? Just trying to understand that in the context of the guidance, given that you're already tracking AUD3 **million** above what you did for the last full year.

ROB SINDEL : Yep.

JAMES RUTLEDGE: And then just secondly, on the lightweight acquisitions, the AUD35 **million** of revenues there, just wondering if that was additive or diluted to the margins after building products.

ROB SINDEL : Okay, I'll take the guidance on **property**. Normally our guidance has traditionally been AUD15 **million** to AUD20 **million**, and these **transactions** are often, you know, any -- if we call them out -- there's stuff going on all the time but if we call them out they're someone between AUD5 **million** and AUD15 **million**. So when we say we've done AUD2 **million** in the first half, they were reasonably close together, about the AUD10 **million** mark.

You can assume that we've called out a **transaction** in the second half, that it's the same sort of order of magnitude. What we don't do is tell people what the **transaction** is and negotiate up to a deadline against the person on the other side, so that's why we're a little bit cagey about those. But that's the sort of order of magnitude.

So what will we do next year? We might do AUD2 **million**, we might do AUD1 **million**, we might do AUD3 **million**, but our guidance of the AUD15 **million** to AUD20 **million** through the cycle has been about right.

GREG BARNES : Second question around **acquisition**.

ROB SINDEL : Sorry. In terms of have they been dilutive or accretive, the EBIT margins are pretty similar quite frankly. The AFS one was a little bit higher in terms of, I think, the guidance we gave originally, but we've put some more investment in there. I think Martini was probably a little bit less than the 10%, but you're talking the same order of magnitude.

It's surprising how many of these businesses run at EBIT margins of around that 10%. Then not surprisingly, when they're a long way below that, you're not returning cost to capital. When you're above that, you get import competition. You get additional capacity added to the market.

GREG BARNES : Andrew?

ANDREW SCOTT, ANALYST, CIMB: Rob, Andrew Scott, CIMB. Just you know you have spoken about it a fair bit already, but this is not an exact science, but a number of things in the mix there in terms of internal improvements, underlying market helping it out a bit and then currency. I wonder if you could just give us a snapshot of which of those is more important in the period just gone and where you think we are with those?

I guess particularly does the 5% or 6% drop in the currency help or do we need to see a lot more for that to come through? What do you see on you the **residential** versus **commercial** (inaudible) and how are we thinking about that going forward? How much is left in the tank just from the internal side of things as well?

GREG BARNES : Philip. Look, the main driver is -- if you have a look at our results slide, the main driver around Viridian's performance this time around has been restructuring, all right. So we got some modest positive price increases on the way through and we've seen some modest volume improvement, but by and large, the earnings growth came from restructuring.

Look, it's difficult to answer this question around currency. Naturally as currency falls over time and moderates at a level, that should help and go into the equation around what we can achieve from a pricing perspective, but the reality is these supply chains are on stream and here to stay. So I wouldn't just draw a straight line between the currency and our revenues.

What does assist us, I think, over time is, having moved from Ingleburn and consolidated on to Dandenong, you now have a plant that is largely full at any point in the cycle, right. That does start to put a premium, I think, on the value of that capacity, the domestic capacity over time, but I wouldn't suggest at the moment we're seeing that. I think that is something that will take a couple of years to play out.

ROB SINDEL : The second part on **residential** versus **commercial**, obviously our **residential**, our home comfort business is getting the most benefit out of the uplift in housing. The comments I made before about **commercial** and design is the one that's struggling, not surprisingly both the footprint but the **commercial** volumes coming through have been relatively subdued compared to where they were 2 or 3 years ago. Would you add anything else to that, Peter?

PETER MOELLER , EXECUTIVE GENERAL MANAGER, CSR BUILDING PRODUCTS: No.

ANDREW SCOTT: Okay.

(Technical difficulty)

ROB SINDEL : We might go to the phones.

OPERATOR: The first question from the phone comes from Matthew McNee from Goldman Sachs . Please go ahead.

MATTHEW MCNEE, ANALYST, GOLDMAN SACHS : Thanks, guys. Look, most of my questions on price and margin and building products have been answered.

But just one question, Rob, just on your new plasterboard product, from what I understand, you've launched that with a very little price premium or very similar pricing to your standard **board**, raining on

Boral 's parade a little bit there. So what's the thinking behind that and did it cost you a lot to -- you've had a more expensive **board** to produce. Is it going to be lower margin going forward or higher margin?

ROB SINDEL : Okay, in terms of our strategy around the launch of that, you've got to -- understanding the dynamics of -- we already have a price premium with the Gyprock product and we also have a price premium on top of that for the ceiling **board**. Our view is that this is best in a ceiling application where the weight differential makes the biggest difference. So ceiling **board** already has the differential.

The market research that we saw was that the contractors said, we already pay a price premium for Gyprock. We already pay a price premium for ceiling **board**. We would like the additional benefits of Optimised Core and we'd like you to give those to us to maintain that premium and that market leading position. We listened to those customers.

In terms of the cost to manufacture, it's actually very similar, so in terms of margin squeeze, there isn't a great deal of problem. Our ceiling **board** represents, I think, about 10% to 15% of our overall sales.

So we're very happy with the strategy we've pursued. It's very much around listening to the customers and giving them what they want, as we did when we launched CD which was the original technology that launched ceiling boards in Australia.

MATTHEW MCNEE: Just on the Boral product, have you seen that in the market yet? Is that out there yet or not?

ROB SINDEL : I've heard it's, yes, cropped up in a couple of locations. I don't know whether they did a national launch like we did. I think they were doing a progressive launch, so I've heard some different stories.

I think it's worth looking at what happened in the US with this product. It's got an application. It's got a good story around where there is long distances that need to be travelled, because that's where the majority of the savings are, not necessarily onsite.

MATTHEW MCNEE: Yes. No worries. Thanks.

OPERATOR: Thank you. The next question comes from David Leitch with UBS . Please go ahead.

DAVID LEITCH, ANALYST, UBS : Hi. Congratulations on a great result.

Look, there's so little available statistics from our Third World Statistics Bureau these days, Rob, I just wondered if you could give a little more specific commentary on volume performance. There's a bar chart there that shows, in building products, the combination of price and volume contributing an unspecified amount of improvement in profits and I just wondered if you could maybe comment on how much brick and tile volumes are up and how much plasterboard volumes are up in percentage terms year-on-year.

ROB SINDEL : Look, I'll try and give you some colour without stripping out the specifics. What we said, I think it was on slide 13, was to say -- we called out the multi-res increase and we called out the **residential** -- the detached increase. So the 12% volume increase we're seeing in detached, you can assume all of that is flowing through to our volumes.

Obviously each of the product categories, it depends on the state. Where we're stronger in roofing in Victoria and weaker in South Australia, we won't get the same benefit. But the 12% to 15%--

DAVID LEITCH: So just on that, would any products have shown 10% year-on-year volume increases?

ROB SINDEL : Yes, and I think I said on one of the slides that we're seeing at least 10% volume increase across the majority of our products.

DAVID LEITCH: Sorry, I missed that, yes.

ROB SINDEL : That's okay. Some are stronger than that. Some are -- you can imagine the heaval volume is stronger because of its primary exposure to multi-**residential**.

So it's somewhere between that 10% and that 20% increase. The 15% that we've seen, we also had -- we never talk about it, but we also had a relatively quiet month in August because of the rain along the East Coast of Australia. You can imagine that some of that catch-up has occurred in September and October.

DAVID LEITCH: Tiles would be up in double digits as well?

ROB SINDEL : It's probably the one that I think there's still some question marks over maintenance of market share versus metal. I think metal continues to make inroads into New South Wales and Victoria. It's up, but it's not up as much as the **residential** housing starts.

DAVID LEITCH: Insulation has also seen reasonable increase?

ROB SINDEL : Yes, very strong increases. I think we've got a stable business. We've got a good management team.

Anthony's sitting in front of me, so I'd better say some nice things. But I think they've grown well above what the market has done.

They've also driven new product development. They've introduced Soundscreen. You'll have seen the advertising on TV with the Optimo product.

I think they've been able to position themselves as the market leader, which has been very positive for volumes.

DAVID LEITCH: Finally on volumes, just glass, I wonder if you could comment on what the overall glass market volume growth would be and then what, if you like, domestic production growth would be?

ROB SINDEL : It'd be fair to say in terms of the demand for glass, noting that it does -- there's probably a very slow substitution of glass from finished windows. But if you just talk about glass, the share between domestic and imported glass really wouldn't have moved around too much year to year at all. The volume growth was positive in Viridian but modest and not nearly the numbers that we were seeing elsewhere, which is understandable when you think about an industry that's been going through a fair amount of restructuring, not just Viridian.

DAVID LEITCH: So low single digits more the guide there?

ROB SINDEL : Yes, I think total demand for finished windows will have grown stronger than what the volumes -- the 4% to 5% we've talked about, because you think about that growth in multi-**residential**, the amount of finished windows that are going into multi-**residential**, they will have come in as a finished product. It's almost impossible for us to track that, but we know based on our market -- the work we do in the market, the real challenge for the team is to say what we can come up with a solution, a multi-**residential** solution that competes with the imported product, not just on price but on value.

DAVID LEITCH: Thanks, Rob. That's very helpful. Thanks.

OPERATOR: Thank you. There are no further questions from the phone.

ROB SINDEL : Any final ones from the floor? Maybe one more.

UNIDENTIFIED PARTICIPANT: Sorry, Rob, can I just pick you up on that last comment? You're talking about you think that Viridian can actually produce a product that will compete against the imported stuff for high-rise? Because that's been a long-term trend for--

ROB SINDEL : I think that's one of the challenges. I mean, I throw it out there as a challenge. I know it's one that Peter has people working on.

It's to say don't just assume the market is gone forever. What solution can we come up with that is different than the standard application?

I'**m** not talking about facade products for these type of buildings. I'**m** talking about specifically around multi-**residential** applications which are being built everywhere.

If you look at most of the American apartments, a lot of it is imported product. I suspect there's a solution that we could come up with that maybe makes inroads into that.

UNIDENTIFIED PARTICIPANT: Yes, that sounds a lot more positive than, say, 2 or 3 years ago where I think the message we were getting was that it's almost impossible to attack that market (inaudible).

ROB SINDEL : Yes, it's amazing what you can achieve when you get good people in place that know what they're talking about.

UNIDENTIFIED PARTICIPANT: Great. Thanks.

ROB SINDEL : Right, I think that's it. Thanks very much for your attendance this morning and join us for a coffee and a chat. Thank you.

[Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.]

CO csrr : CSR Ltd

IN i8396 : Diversified Holding Companies | ibcs : Business/Consumer Services

NS c151 : Earnings | ntra : Transcripts | c15 : Performance | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfce : C&E Exclusion Filter | nfcpex : C&E Executive News Filter | nfcpin : C&E Industry News Filter | niwe : IWE Filter

RE usa : United States | victor : Victoria (Australia) | apacz : Asia Pacific | ausnz : Australia/Oceania | austr : Australia | namz : North America

PUB CQ-Roll Call, Inc.

AN Document FNDW000020141107eab4002s1

