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ABC.AX - Adbri Ltd to Provide Update on Kwinana Upgrade Project

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PRESENTATION

Operator

Thank you for standing by, and welcome to the ADBRI Limited Kwinana Upgrade Project Investor Presentation. (Operator Instructions)

I would now like to hand the conference over to Mr. Nick Miller, CEO. Please go ahead.

Nicholas D. Miller - *ADBRI Limited - CEO*

Good morning, and thank you for joining us here today. As noted, my name is Nick Miller. I'm the Chief Executive of ADBRI. I'm sure I've met most of you, and thanks for your interest in today's presentation.

I'd just like to say we're really delighted to be announcing this exciting and very financially attractive project. It's been a long time in gestation. But first, I want to introduce the ADBRI team that's with you here today. We've got Theresa Mlikota, our Group CFO, I'm sure you all know; Brad Lemmon, our Executive General Manager of Cement & Lime, who's been around the Cockburn Cement business for 26-odd years; and Dinesh Kapadia, who's our Manager of Engineering Projects, who has really been living and breathing this project for a number of years.

Today, we're delighted to outline the project, how we intend to procure it, explain the financial rationale and benefits for the project and also the community benefits. We will follow with the Q&A session. We have got 1 hour this morning. So any residual questions that we don't get through during the course of the presentation, we welcome you to contact Darryl Hughes, our GM of Corporate Finance and Investor Relations, as noted on the bottom of the ASX announcement.

So in front of you is a graphic of the project. In essence, that's what you get for $199 million in today's dollars. Transitioning out of the Munster site cement production has been part of a very well-thought-out master plan. And that master plan commenced in 2012, '13, when we first entered into a state agreement to secure the Kwinana site on a 99-year lease. Recall, we ceased production of clinker at the Munster site in 2014. And this was really around the efficiency of a wet process of production of clinker or the inefficiency of that. And we moved to a grinding model, an importation model associated with clinker.

The detailed planning for the new grinding and handling facility commenced in 2015. And certainly, as a leader of this business over the last 2 years, I've been really impressed with the level of engineering expertise that's gone into this project, [to scope it very accurately,] and importantly, get best-in-class assets into the project and deeply understand the costing of the projects and the benefits and make sure that we are deeply across the interface risks during construction.

So let's move in to Slide 3, the executive summary. What we will deliver is a state-of-the-art raw materials import, cement grinding, silo and dispatch facility. Importantly, this facility will be integrated with our existing state-of-the-art dry mix

(technical difficulty)

Operator

Pardon me. This is the operator. We briefly lost communication with the speakers. So please hold while we get them back on the line.

Pardon me. We now do have Nick on the line. Sorry for the interruption. Please go ahead, Nick.

Nicholas D. Miller - *ADBRI Limited - CEO*

Thank you. And apologies for that, dropped out. I'm not quite sure where we got to, so I'll go to the executive summary again and recap on the executive summary. So yes, we are going to deliver a state-of-the-art raw materials, import, cement grinding and silo and dispatch facility. Importantly, we'll integrate with our existing state-of-the-art dry mix, bagging and slag drying facilities that exist on the Kwinana site. This is a compelling investment. It will strengthen ADBRI's long-standing position as one of WA's leading low-cost suppliers of cementitious products into the future.

We expect construction to commence in the first quarter of 2021 and the project to be commissioned by 2023. The budgeted cost is $199 million including contingency, and that will be funded through existing debt facilities. And Theresa will give an overview around that shortly. We are -- we have adopted a self-delivery model, and we'll explain the pros and cons of that later in the presentation.

The project is expected to deliver some very key benefits, 3 categories: financial benefits, sustainable benefits and quality benefits. Post commissioning, the year 1 savings are in the order of $19 million as a result of the lower energy, maintenance and transport and production costs. We will have a lower carbon footprint predominantly through a better energy footprint and also reduced road transport and more efficient utilization of the plant and equipment.

The WA market is expected to grow, and we've built into this our forecast in terms of growth opportunities in the market to increase the capacity of the plant to 1.5 million tonnes per annum. And importantly, this redirects capital investment away from our older assets into modern technology, which is more efficient. The ADBRI's Cockburn Cement business has been and remains a key contributor to the Western Australian economy. The investment demonstrates our company's commitment and -- to the confidence in the WA mining and construction sectors, which are projected to grow over coming years.

And importantly, we have been a key supplier in this market for over 65 years. And this investment will underpin our future in the WA market for a further 60-plus years. The financial returns are attractive, and Theresa will talk to those shortly.

I'd just like you to turn now to the next slide, Slide 4, which outlines -- I'll get Brad Lemmon to overview the current cement production facility and the differences by moving to the new production facility. Thanks, Brad.

Brad D. Lemmon - *ADBRI Limited - Executive General Manager of Cement and Lime*

Thanks, Nick, and good morning to everyone on the call. Yes, so the current cement production footprint here in Perth is spread over 2 sites that has served us very well for many, many years: the original Munster site, which was the original Cockburn site from 1955; and then the Kwinana site, which came about as a consequence of the merger between Cockburn and ADBRI in the late '90s. As you can see from the schematic, there's a lot of moving parts. Currently, clinker ships come in to KBT, Kwinana Bulk Terminal. And from there, clinker and slag is then trucked either into -- directly into the Kwinana site, where it is now, and also to the Munster site, which is 9 to 10 kilometers away from the port.

The materials are then required to be transferred around the site. In most cases, particularly at Munster, that is quite a manual task, quite a lot of mobile equipment required. So there's quite a bit of intensity in terms of how the -- how cement is currently produced.

The assets are old. As I say, the Munster site is 65 years old. So they are old technology -- older technology, less efficient and certainly requiring an increasing level of repairs and stay-in-business capital for ongoing reliability.

If we compare that, and we move across now to the next slide, Slide 5, we compare that to the footprint that we'll be moving to. Again, just purely through the schematic, you can see the simplicity of the upgraded project. The key feature is the removal of trucks and a lot of mobile equipment from the process. The plant will be built with a conveyor that directly links the KBT operation to our new clinker shed. That will mean clinker -- we will no longer require a truck clinker. That will be conveyed directly into the automated shed, where it will be automatically dropped into the shed and then also reclaimed through twin reclaim conveyors into the milling operation.

Highly automated. This will feature the latest in automation, digitization and will ensure that we have a very efficient and from a quality point of view, removes a lot of variability, providing an advanced position going forward.

I'll now hand over to Dinesh, if we move to Slide 6, who will take us through the project scope.

Dinesh Kapadia

Thank you, Brad, and good morning to all. The project upgrade comprises of new bulk materials receivable, in storage system, with the conveyor linking our facility to the Kwinana Bulk Terminal via conveyor. This will -- the conveyor eliminates any road transport delivery for the bulk materials that we currently are undertaking. The clinker shed, as Brad explained earlier, will have an automated reclaim system.

And the intent behind this is this minimizes any on-site clinker handling using mobile equipment. The raw materials, that's clinkers, slag and the other additives that we use for manufacturing cement, will then be fed into a modern cement grinding facility. The cement and slag will be ground into latest generation ball mills with an installed capacity of 1.3 million tonnes per annum. There is an existing cement mill that we will retain that's for manufacture of specialty products such as off-white cement, thereby giving us a total installed capacity of circa 1.5 million tonnes per annum.

The upgraded facility will also have a new 21,000 tonnes of storage for finished product. That's -- that will be complete with automated truck loading and weighbridge infrastructure to support the new investment.

I will now move on to Slide #7. As illustrated in this picture, the upgraded facility will be on a block of land that's nestled in between our existing Kwinana cement facility and the Fremantle Ports bulk terminal. ADBRI has already secured a 99-year lease with the WA state government land agency as of from 2015 onwards, and that enables us to undertake the investment on this property.

The close proximity to the wharf enables all the raw materials to be conveyed directly into our new facilities. As part of the cement consolidation plan that we have undertaken over the last few years, ADBRI has already upgraded its slag grinding plant that's going to supply dried slag, which is a low-carbon supplementary cementitious products that we'll continue using for these project as well. And we've also further upgraded and modernized the cement packing plant. That's for packing of cement and the dry mix broad range of products.

I will now move on to Slide #8, please. So as indicated earlier, the upgrade offers a number of operational benefits, and they're comprised of 5 key areas. Materials handling, so this is mainly as a result of savings in road transport of bulk materials through the conveyor and plus reduction in stockpiling and truck demurrage costs that we experience at the moment due to the nature of the operations.

The next key element is repairs and maintenance. As earlier mentioned, our cement milling assets are approaching end of its useful life. They've been in operation for 50 to 60-odd years and, hence, are quite maintenance-intensive. Replacing these assets with new plant offers significant improvement in our maintenance expenditure going into the future.

As mentioned earlier, energy efficiency. The new mills are 20% more energy efficient. This will help reduce our grinding costs, plus the surplus milling capacity enables us to utilize or maximize utilization of off-peak period for grinding cement.

Productivity. The consolidation of milling operations at Kwinana into modern, new facility does rationalize duplicated resources that were required to operate and maintain both the Munster and Kwinana facilities at the moment.

Other operational savings mainly from the on-site materials handling. That's within this -- transfers between the site and within the site as well, reduced cleaning costs as a result of shutting down the Munster operations and reduced product changeover losses that we will gain from the new cement mills that will be installed. So post commissioning in year 1, the cost savings are expected to be circa $19 million per annum.

If we can move to Slide #9, and I'll hand over to Theresa now.

Theresa Mlikota - *ADBRI Limited - CFO*

Thanks, Dinesh. As Nick mentioned earlier, the project will be funded using the group's existing debt facilities. We have $900 million in committed debt facilities. And at the end of November, the group's liquidity, which includes cash and undrawn debt, totaled $500 million. This provides ample liquidity to debt fund this project.

Our strong balance sheet provides us with really good flexibility, and our credit metrics are projected to remain investment-grade under a debt-funded scenario. Importantly, our peak debt is -- our peak net debt is projected at $535 million. This assumes we continue to pay dividends at a 65% payout ratio. Through the course of the project, we remain well inside our debt covenants and just outside our preferred leverage target peaking at 2.2x.

Our net debt to net debt plus equity remains under 30% through the period of the project, and our interest cover remains strong.

I'll move on to Slide 10, the investment rationale. The business case for Kwinana is a compelling one, particularly when we consider this against the alternative of continued investment into the aging Munster assets. By investing in state-of-the-art technology and centralizing our operations at 1 site, this business case generates a strong return with an NPV in excess of $125 million and an internal rate of return in excess of 15%, which is well above our cost of capital.

The alternative option would be for us to continue to spend capital at Munster, which is over 60 -- 60 to 65 years old. The total projected spend there would be around $230 million over the next 20 years. $160 million of that $230 million would be spent in the next 10 years. So we are looking at similar spend profiles over the next 20 years, but the Kwinana upgrade generates significant cost savings, which the base case doesn't.

The improved cost profile delivered by the upgrade will make our product cost competitive well into the future with significant annual cost savings, as outlined by Dinesh earlier. So together, this will generate that $19 million in year 1 cash cost savings post commissioning.

Importantly, because the cost savings are substantial, the investment metrics have a low sensitive -- sensitivity to volume changes.

I'll now hand over to Brad to cover off the next section. Nick, sorry.

Nicholas D. Miller - *ADBRI Limited - CEO*

Yes. Thanks, Theresa, for that overview. And I guess the other point is how are we going to deliver those projects. We've evaluated a number of options from turnkey, ECI, design and construct, construct only, and we've adopted a self-delivery model to improve the project controls. The principal will oversight the work package and that will be delivered predominantly by subcontractors. Importantly, the design has been very well developed as has the geotech evaluation, and we've spent enormous amount of engineering time around understanding the interface responsibilities between the various packages and where the risks might lie.

The construction is going to be separated into the -- into individual packages so that we can manage the risk of those packages. And we're going to focus on subcontractor selection given the quality of the subcontract and not just pricing. We've already scoped the work out in a lot of detail, and we've interfaced with the market to get firm pricing on the project.

Importantly, around the projects of this size, our internal project structure is going to be critical, and from a governance to a delivery phase. If I think about our proposed steering group team between 3 members of that team, there's over 100 years' line of major construction. We are utilizing the services of an individual consultant that will work with myself and the steering group team to govern the project delivery. We will be putting a specialist project director to lead the project. They will take a hands-on approach. And there'll be a dedicated project team with specifically responsibilities for delivery of the various components of the project.

Given Theresa and myself's background in construction and construction management, we believe this is well within our capability. And if we look at the projects that ADBRI has delivered in similar space over the last 5 years, we've delivered close to $200 million of individual projects, the largest of which was a $70 million upgrade at Birkenhead. All of those projects we've delivered on time and on budget. We have a good track record. The geotech risk on the site is low, and the design and scoping is very well developed.

In terms of the project delivery time line, Dinesh, I'll ask you to make a few comments on Slide #12.

Dinesh Kapadia

Thank you, Nick. The high-level project milestone activities are with the project delivery, including design, tendering and construction of the various packages, so that will be kicking off in first quarter 2021 with completion towards first half 2023. So by mid-2023, the project is expected to be commissioned and handed over for operations. Thereafter, the Munster cement milling will cease and expect it to be decommissioned as of from early 2024 onwards.

If we can move to Slide #13, and I'll hand over to Brad to go through the critical risk management.

Brad D. Lemmon - *ADBRI Limited - Executive General Manager of Cement and Lime*

Thanks, again, Dinesh. Yes. Clearly, this is a large-scale project. It will be one of the largest that we've undertaken for many years in terms of a construction project. But that said, there's been a long track record of sizable projects that have been undertaken over many years and -- with a very successful outcomes.

The key element in really managing the critical risks around a project like this is really broken into the 3 phases. Nick has already talked about the project delivery. But the 3 phases being -- first one being the design and planning, moving then into the construction phase, and then finally into the commissioning phase. At each one of those stages, what we've been able to do is blend significant amount of internal experience operating this type of equipment, constructing, operating and maintaining this type of equipment. Blending that with the expertise from external equipment manufacturers and specialist engineers, particularly through the construction process, that process will be managed very carefully by expert project direction, again, coupled with our internal engineers.

In terms of specific risks, early long-lead procurement, that activity will get underway as soon as possible, as soon as final supply has been finalized. And just to make a comment on the COVID environment, whilst that is still -- that remains a risk to many projects, the business has actually built up a very solid COVID management process over the last 7 or 8 months, and the learnings from that will be applied to this project.

I'll now hand back to Theresa to talk about the -- on Slide 14 to talk about the benefits to the WA economy.

Theresa Mlikota - *ADBRI Limited - CFO*

Thanks, Brad. The Kwinana Upgrade Project represents a really important investment in WA's mining and construction materials capability. Demand for our cementitious products is expected to grow over the medium term, driven by residential, infrastructure and mining demand and will be serviced through our increased capacity. Cockburn Cement has been a WA-based manufacturer for 65 years and currently employs 188 people across the state. The upgrade will create another 130 jobs during the 2-year construction period and will generate economic stimulus through the local supply of project materials and services.

From an environmental perspective, the project will have a reduced carbon footprint, with 20% lower emissions through the elimination of road transport and materials handling. Finally, less trucks on our roads and enhanced amenity for local residents will further enhance our engagement with the community.

I'll hand back to Nick to wrap up and follow up with some Q&A.

Nicholas D. Miller - *ADBRI Limited - CEO*

Right. Thanks, Theresa. So we've covered the presentation. The project is clearly expected to deliver significant benefits. The cost savings that Theresa has touched on, $19 million in year 1, very significant. The reliability of our high-quality cement products is critical to our business. We have had always a great reputation of delivering reliable high-quality products in the West, but we are dealing with very aged assets. The first ball mills were put into the site at Munster in 1955 and commissioned. So they are old technology, and they are inefficient.

Importantly, we produced a very significant range of products in Western Australia. It is quite a unique market because we have a high proportion of our cement products going into the mining sector, not just the ready-mix concrete sector, and the value in the residential sector. I'll say if you don't want [to put it after that,] this does redirect capital investment into a much more efficient, a much more modern facility that is a lot more reliable and can give us more consistent supply.

The lower carbon footprint that Theresa spoke about, based on current volumes, we've saved in the order of 7,000 to 8,000 tonnes of carbon during the year per annum associated with getting those trucks off the road and running a more efficient ball mill circuit. And importantly, we have a 65-year relationship with the community in the Munster and Kwinana locations, and this is going to get trucks off the road. So all of our raw materials currently coming in, say, a 1.1 million tonne of raw materials coming in, all go into a truck, and they go up local roads between Kwinana and the Munster site. They won't be happening in the future. We'll be conveying all that directly from the ship straight into the facility. So significant benefits for the local communities.

We've obviously been through a very extensive process around this project since its inception back in 2015. The road map that was developed in 2012 and a lot of critique by the Board. And this investment definitely demonstrates our company's commitment and confidence in WA mining and construction sectors, which are projected to grow over coming years. So a pretty exciting opportunity for the business and an exciting opportunity for the WA economy and servicing those sectors.

On that note, I'll open up to questions from the floor. Thanks.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Lisa Huynh from Citi.

Lisa Huynh - *Citigroup Inc., Research Division - Research Analyst*

I just had a question about Munster. So can you just talk around -- talk through the cash flow impact from decommissioning Munster out in 2024, whether you're anticipating a net cash positive outcome or whether the potential cost to rehabilitate the site outweigh this? It'd just be good to get some extra color.

Nicholas D. Miller - *ADBRI Limited - CEO*

Well, perhaps I could start that and ask Theresa to follow up. Thanks, Lisa. So what this will create is a significant surplus land on the Munster site. And yes, there is rehabilitation work to undertake on that site. That will be in conjunction with the divestment, if we go down that path, and development of the surplus land at Munster. Clearly, the Munster site will continue to operate on the back third where we have our lime production facilities, which the net result of this project will be the separation of our lime facilities from our cement facilities totally.

So the evaluation of what development opportunities are on the Munster side are being worked through. They are significant. And I certainly don't see a negative cash flow impact associated with that should we develop it and rehabilitate the site. Theresa, have you got anything further to add on that one?

Theresa Mlikota - *ADBRI Limited - CFO*

Not really, Nick. I think the business case does not take into consideration the rehab. We're tying that up with the land piece. So as we develop our strategy for land, it will be a net offset to that. But our expectations in relation to the rehab piece is we're talking about $10 million to $15 million of rehab in that post commissioning phase. But as Nick emphasized, we are still operating our lime assets at this site. So it will be part of a broader land lime strategy.

Lisa Huynh - *Citigroup Inc., Research Division - Research Analyst*

Okay. Cool. Got it. And just in terms of the cost savings of $19 million in the first year. Can you just talk about what proportion of these cost savings come from each of the respective cost buckets that you've talked to? Or are they kind of evenly spread? Yes.

Theresa Mlikota - *ADBRI Limited - CFO*

Sure. In broad terms, raw materials is about -- I'll call it the trucking. The raw materials delivery component is about 30% of the cost savings. R&M, about 18%. The power, sort of 10% to 12%. The labor savings are about 1/4 of the savings. And that leaves the other as the balance.

Nicholas D. Miller - *ADBRI Limited - CEO*

As it, Lisa, relates to product changeover and efficiencies that we experienced in the current site and the on-site materials handling as opposed to the raw materials. So there's a lot of double handling that goes on currently on the existing sites, which is not in the raw materials handling bucket. It's partially processed materials. So that's all being evaluated to come up with that $19 million-odd in year 1.

Operator

Your next question comes from Andrew Scott from Morgan Stanley.

Andrew Geoffrey Scott - *Morgan Stanley, Research Division - Executive Director*

Nick, just a question for you to start with. Just on the increased capacity there, the increase to 1.5 million. Do you have an internal view on when that might be utilized? And just to be clear, the returns that you've set out there, are they predicated on an increase in volumes?

Nicholas D. Miller - *ADBRI Limited - CEO*

Yes. Thanks, Andrew. Good question. So the real benefit of the increased capacity comes at the front-end, Andrew, by utilization of the mills and off-peak power. So on day 1, we're not assuming growth in the volumes. There's a CPI growth that we expect in the volumes, but we've been very conservative in that. Yes, we will get to a point where that capacity of 1.5 million will be consumed by the market well out, but the real benefit comes from running your mills off-peak rather than during peak periods.

Theresa Mlikota - *ADBRI Limited - CFO*

Business case does not assume an increase in market share.

Nicholas D. Miller - *ADBRI Limited - CEO*

Stable market.

Andrew Geoffrey Scott - *Morgan Stanley, Research Division - Executive Director*

Okay. And Theresa, another question to you. Can you just talk to us about anywhere where you're able to avail yourself of any, whether they be state or federal initiatives, including the tax -- some of the tax initiatives around capital spend that came in with the budget?

Theresa Mlikota - *ADBRI Limited - CFO*

Yes. The business cases and the returns that we're showing here don't assume any, I'll call it, any government incentives or benefits. We do, however, expect to benefit from the accelerated depreciation initiative. We haven't put that in here at the moment. We have to -- the assets have to be in place and ready for use by 30 June 2022 to get that benefit. We believe that a portion of the assets, will absolutely be in a position to get that benefit. But we haven't included that as part of the analysis. That will be an improvement to the return outcomes of this project.

In broad terms, we're estimating that about $140 million of the spend will benefit from that accelerated depreciation, but we haven't built that into our numbers.

Nicholas D. Miller - *ADBRI Limited - CEO*

Yes. So Andrew, just on that, basically, there's an ability to split up some elements of the project and deliver and commission those by that June 2022 date. Consider that we have assumed $140 million will be spent by that date, which could be genuinely commissioned, and that's likely to be the clinker handling facility and the shed facility.

Operator

Your next question comes from Brook Campbell-Crawford from JPMorgan.

Brook Campbell-Crawford - *JPMorgan Chase & Co, Research Division - Analyst*

First one, just around the idea -- why do you rule out sort of moving to a cement import facility rather than importing clinker and then grinding it, just given some recent investments in Australia, [Southern Cross, Golden Lake and inside Australia], all opting for the importing powder option rather than investing in ball mills. That's -- probably my first question is the rationale in that.

Nicholas D. Miller - *ADBRI Limited - CEO*

Sure. Great. Thanks for the question, Brook. And absolutely, we looked at all options when we're doing the evaluation of this. One of the challenges, Brook, as I've touched on earlier, is the WA market is, in terms of the products we make, is very diverse. So your mining sector demand for [mine things] and the like is very different from a lot of the other markets whereby if you take, say, the New South Wales market, which is predominantly a GP market or a low shrinkage market, we produce multiple products in WA. So the first piece is your ability to service your customers with the specialized products they need and our ability to blend those products. That's the first piece.

Second piece is the model associated with importation of clinker and import [parity level] is still more attractive than that of bringing in powder. And one of the key drivers for that is bringing powder in, in bulk requires pneumatic ships. And your ability to get back loads on that shipping is very, very low, or alternatively for low volumes, you can utilize containerized or bags, but that's just not economic for the scale we're talking in terms of our markets. And we see this. We see this in the Melbourne market where we supplement -- we have, over the last 3 years, supplemented our supply from Birkenhead with some pneumatically delivered cement from Indonesia, and it's just not as competitive.

So if you're thinking long term, that's critical in terms of our low-cost production position in the market, and that's where our focus has been around the evaluation, so the flexibility and low cost.

Brook Campbell-Crawford - *JPMorgan Chase & Co, Research Division - Analyst*

Great. And then just one question for Theresa just to confirm, so the IRR of 15%, is that net of interest, tax? And then the second part of that question, what sort of maintenance CapEx are you assuming in the calculation? Because you're talking about $231 million CapEx for the old site, I think, over a 20-year period. What's the relative figure for the new site and -- once it's commissioned?

Theresa Mlikota - *ADBRI Limited - CFO*

Sorry, the future stay-in-business CapEx?

Brook Campbell-Crawford - *JPMorgan Chase & Co, Research Division - Analyst*

Yes. Just wondering what that is. You talked about what the CapEx would have been if you didn't go through this initiative. If you kept the -- or in the new sites, what would the stay-in-business CapEx per year.

Nicholas D. Miller - *ADBRI Limited - CEO*

It's very low because ultimately all we're doing is providing R&M on wear products. This facility will not require CapEx for a significant period of time. It will require ongoing R&M...

Theresa Mlikota - *ADBRI Limited - CFO*

Just $1 million to $2 million a year, Nick. That's about it for the -- is what we are projecting here for the year, if that's the question. Or is the question in relation to the foregone CapEx or the...

Brook Campbell-Crawford - *JPMorgan Chase & Co, Research Division - Analyst*

No. $1 million to $2 million is the number.

Theresa Mlikota - *ADBRI Limited - CFO*

Okay. Great. Sorry about that.

Brook Campbell-Crawford - *JPMorgan Chase & Co, Research Division - Analyst*

No, that's perfect. And then just the last one, Nick. Listen, just given the time of the year, I guess, separate to this announcement. Just wondering if at all, you could provide an idea of sort of recent trading conditions and sort of how you're feeling about FY '20, just note consensus NPAT is about $102 million as far as I can see, and your thoughts on that will be very helpful.

Nicholas D. Miller - *ADBRI Limited - CEO*

Yes. As you're aware, Brook, we -- with our guidance and our position that we've been stating now for some months is that performance is in line with the expectation. What we have seen, Brook, in the last quarter has been, certainly in markets like Victoria, some response to what I describe as pent-up demand. So we've seen a strong November, and prior to the heavy rains in Queensland and New South Wales, we are seeing an equally strong December. So we're trading in line with expectation, Brook.

Operator

Your next question comes from Lee Power from CLSA.

Lee Power - *CLSA Limited, Research Division - Research Analyst*

So just to confirm, $1 million to $2 million CapEx in the next 10 years, that's versus $160 million under the old plant. What should we be assuming for D&A?

Theresa Mlikota - *ADBRI Limited - CFO*

Depreciate over 20 years.

Lee Power - *CLSA Limited, Research Division - Research Analyst*

Okay. And then Nick, can you maybe just talk a little bit more around like the previous projects and why you think -- kind of the level of experience in the business and how that has you in a position to manage this. It's obviously a pretty big project. And then maybe as part of that, are you bringing in anyone else new to help with it? Or is it going to be solely internal?

Nicholas D. Miller - *ADBRI Limited - CEO*

Absolutely. So look, the previous project that I touched on there were also significant projects. And importantly, they're actually brownfields projects. So the upgraded [kiln 7 in] Birkenhead, the bag filter installation at Munster and the recent installation of bagging and dry mix and [bleeding] plants, really complex projects. Now the value of those projects may not be as high. The largest of those projects was $70 million, but you are operating in a brownfields environment, amongst a production plant that's continuing to produce with complex outages that are minimized.

This project, one of the great benefits of actually building this project in Kwinana is the work that we have done at Kwinana to date has all been planned to have this project come onstream at this point in time.

So 95% of this project can be built without interruption to the existing operations, and then there's the tie-ins, which are relatively straightforward. So in terms of scale, yes, it's larger. We accept that. But in terms of complexity, in terms of a brownfields environment where interface risk is high, it is much lower than some of those projects.

Having said that, there's been a lot of discussion with the project team and the Board around the governance of the project and the disciplines around project management on a job of this scale and cost control interface risk. A lot of that starts, from the experience I've had in the construction sector over many years, around real clarity on scope and development of the design to an extent where the unknowns become knowns, when you're scoping and pricing the work. So I'm really comfortable that we've designed this to a point well in excess of what you would typically see in the design and construct as we wanted that confidence.

We've done extensive geotechnical testing. And the geotech on the site is obviously sand. So it's relatively low risk. But the site has been a lot of boreholes in that done. So we've got to deeply understand the geotech on the site in terms of foundation design, which is where a lot of the exposure around cost overruns are. We then got a construction specialist with over 30 years of experience that has been in and assisted us with a complete independent review of the design, the interface risk and the packages. And then we'll overlay that with the normal disciplines around the project management plan, the risk assessment, the risk analysis and how we're going to deliver the project and what that team is.

One of the areas in these type of projects outside the design risk, which is important, is the commissioning risk. And often in project delivery like this, the commissioning expertise is not brought in early enough. We've made sure we have costed that early to have that resource on site, and we've actually also increased that risk as a result of the COVID environment in terms of our risk assessment.

The final piece is an appropriate contingency for a project of this size. And that hasn't just been an exercise of whacking the 10% contingency, for example, over the number. We've broken the project down, looked at the risk weighting and applied a contingency that is appropriate for that risk rating. So now, do we have a project director team on the shelf to deliver this project? No, we don't. We're talking to a number at the moment, and we will be bringing in a person to lead this project that's got real expertise in terms of project delivery. And I'm very confident of the team that we've got onboard internally. So with the expertise that we have in this type of M&A project to contribute heavily to that and the governance processes that we'll have in place.

So the opportunity for us is really around managing that risk as opposed to giving it to a turnkey party and paying away dollars for risk that we still ultimately would carry in that model. So it's been very extensively reviewed.

Lee Power - *CLSA Limited, Research Division - Research Analyst*

Okay. And then maybe just following up on my D&A question. What's the reduction in D&A from the old site? Like what would have we thought if it was being $230 million over the next 10 years?

Theresa Mlikota - *ADBRI Limited - CFO*

Yes. Darryl will circle back on that particular question.

Operator

Your next question comes from Chloe Lim from Crédit Suisse.

Chloe Lim - *Crédit Suisse AG, Research Division - Research Analyst*

Just starting off on maintenance CapEx. Theresa did touch on this before. But just to confirm, the $1 million to $2 million in maintenance CapEx expected for the new site versus $231 million with the old plant, should we expect a step-down in maintenance CapEx at an absolute level going forward?

Theresa Mlikota - *ADBRI Limited - CFO*

Across the group?

Chloe Lim - *Crédit Suisse AG, Research Division - Research Analyst*

Yes.

Theresa Mlikota - *ADBRI Limited - CFO*

Yes.

Chloe Lim - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. Great. And then just a housekeeping one. Should we expect any accelerated depreciation in the next couple of years associated with end-of-life of existing assets?

Theresa Mlikota - *ADBRI Limited - CFO*

In relation to this project, no.

Nicholas D. Miller - *ADBRI Limited - CEO*

It's -- Chloe, the existing facility is well depreciated, given it was constructed in '55 through to '60, there's not a lot of value on the books for the cement side of the assets. The lime side of the assets still got significant value against them because they are more recently constructed. I'm not too keen to give asset value on the books on assets that are older than me, Chloe.

Theresa Mlikota - *ADBRI Limited - CFO*

No, there's not a lot of NP -- sorry, NBV on those numbers. So no, there's no need to accelerate any substantial numbers.

Operator

Your next question comes from Keith Chau from MST Marquee.

Keith Chau - *MST Marquee - Building Materials & Packaging Analyst*

First one, Teresa, just want to check with you on the net debt figure or the peak net debt figure of $535 million. Can you just confirm what year that's going to be in, whether there needs to be any adjustments to the dividend payout in the next couple of years to get to that number and whether that does factor in any accelerated depreciation benefits, please?

Theresa Mlikota - *ADBRI Limited - CFO*

So the -- that's in -- the peak debt is in 2023. And that, we do take into consideration accelerated depreciation across the group as part of that calculation.

Keith Chau - *MST Marquee - Building Materials & Packaging Analyst*

And by what quantum are the benefits for that accelerated depreciation?

Theresa Mlikota - *ADBRI Limited - CFO*

I would have to -- again, we'll revert on that specific number. I don't have that number to hand.

Keith Chau - *MST Marquee - Building Materials & Packaging Analyst*

Okay. And just another one. I don't know if I heard you correctly, but please correct me if I'm wrong. Did you say that the peak leverage in the business was going to be 2.2x net debt-to-EBITDA?

Theresa Mlikota - *ADBRI Limited - CFO*

At that same -- yes, I did. And that's the same in that 2023 period. That assumes an ongoing payout ratio in relation to dividends of 65%.

Keith Chau - *MST Marquee - Building Materials & Packaging Analyst*

Okay. And in that peak leverage of 2.2x, I mean, the underlying assumption for EBITDA is going to be something around kind of $240 million to $245 million. Does that assume any recovery in the lime volumes that have been lost or will be lost by then? And does it assume any property profits as well, please?

Theresa Mlikota - *ADBRI Limited - CFO*

That does not include any property profits, but it does include -- it doesn't include any substantial recovery of Alcoa volume, if that's what you're referring to. There'll be the natural growth in the -- in our volumes as dictated by the sort of any macro monitors data or any growth data that we've built into our budgets.

Keith Chau - *MST Marquee - Building Materials & Packaging Analyst*

Okay. And then just another one on your current operations in WA. Noting the capacity of the plant at the moment is 1.1 million tonnes. If I understand correctly, I think your volumes in WA at the moment are around 600,000 to 650,000. So just wanting to confirm whether that is the case. And it seems to me your assets or the full capacity of your new assets, 1.5 million, which, if my numbers are correct, would be a million miles away from where current production volumes are. So just keen to try and understand where in your investment case do the volumes get to, to get to the $125 million in NPV post tax?

Brad D. Lemmon - *ADBRI Limited - Executive General Manager of Cement and Lime*

I might start there, Keith. The -- in terms of the capacity, your assessment of the market demand is about right. Obviously, that moves around a little bit, but that's -- in broad terms, it's about right. When we build capacity, though, we -- whilst we talk about a nominal annual capacity capability, there's a few factors there. Nick mentioned the ability to optimize around off-peak power. So that gives us a lot of flexibility to do that, particularly in the earlier years. But also the nature, particularly in WA, but we see this across most markets is the variability in the market and seasonal variation. So you have to have -- it's important to have sufficient capacity in your system to deal with peak -- seasonal peaks. But also specifically in WA, which is a very cyclical market, we have periods of time where demand is quite high. So having that spare capacity in the system is quite helpful.

Theresa Mlikota - *ADBRI Limited - CFO*

So just to answer your question, we get to about 1 million tonnes in 20 years' time.

Keith Chau - *MST Marquee - Building Materials & Packaging Analyst*

Right. Okay. It seems reasonable at this stage. But I guess it is what it is for the time being. Okay.

Nicholas D. Miller - *ADBRI Limited - CEO*

I think the other point is that we did evaluate the option of staging a second mill. But the NPV, it wasn't attractive because of the ability to use 2 mills not having changeover products and also this off-peak power benefit that we gained by running the mills outside peak payload periods.

Keith Chau - *MST Marquee - Building Materials & Packaging Analyst*

Okay. Okay. I think -- I can't remember who mentioned it earlier, but I think the comment was made that 95 -- 90% or 95% of the project could be done without any interruptions to existing operations. During the transition phase between the old assets and the new assets, do you need to change your sourcing of clinker to bulk cement for a period before reverting back to clinker? Or can you back-to-back the processes so that you don't need to change your supply?

Nicholas D. Miller - *ADBRI Limited - CEO*

No, no. We would just continue with the current supply arrangements which are in place with our clinker supplier. No need to swap over because the [carbon] process will be straightforward, and we've still got significant storage on site. So no, we won't be changing our supply for that reason.

Keith Chau - *MST Marquee - Building Materials & Packaging Analyst*

Theresa, just going back to an earlier question, and this one is just more of a follow-up. The net CapEx for the group going forward for stay-in-business CapEx in the longer term, can you give us a quantum of where you think that's going to sit after this project is completed?

Theresa Mlikota - *ADBRI Limited - CFO*

Yes. Again, we'll take that one off-line with Darryl so that we can be a bit more specific about that.

Keith Chau - *MST Marquee - Building Materials & Packaging Analyst*

Okay. Just a couple more quick ones to finish off. The CapEx that's been spent at Kwinana and Munster over the last 3 to 5 years, Theresa, can you give us a sense of what that has been and how that compares to the CapEx that's going to be avoided in the years ahead?

Theresa Mlikota - *ADBRI Limited - CFO*

Not off hand. I don't have that number specific to Munster.

Keith Chau - *MST Marquee - Building Materials & Packaging Analyst*

Okay. And then the last one, Nick, off-topic. Just want to have a chat about the news article talking about the potential lime project in Kalgoorlie. I think the article in itself seems to be reasonably bullish, but just keen to understand in reality how significant your lime supply into lithium projects could be, please?

Nicholas D. Miller - *ADBRI Limited - CEO*

Yes, sure. Well, as we mentioned last time we called out, we -- we're undertaking a complete review of the lime strategy. And one of the options that we've been considering is decentralizing, if you like, our exposure to the Munster site. And clearly, with the growth opportunities that exist in the Goldfields market. And given we have a rural limestone resource out in that area, one of the scenarios we have been considering is the optionality of investing closer to the client demand. But very early days. And Lynas is looking at projects out in Kalgoorlie, and they do have lime demand. And we're evaluating that, but it's too early to comment on at this point.

Keith Chau - *MST Marquee - Building Materials & Packaging Analyst*

Could you pass comment on the potential range of outcomes for volumes if that project were to go ahead?

Nicholas D. Miller - *ADBRI Limited - CEO*

Yes. Notionally, I think we could consider that plus -- the Lynas site plus some other sites is a couple of hundred thousand tonnes potentially in that area.

Operator

Your next question comes from James Brennan-Chong from UBS.

James Brennan-Chong - *UBS Investment Bank, Research Division - Associate Director and Mining Associate Analyst*

Most of my questions have been answered. Just one thing. Thank you for the comments around the volume outlook going from 650,000 to 1 million tonnes in 20 years' time. Can you also just talk about what price assumptions you've got in your NPV of $125 million as well, please?

Theresa Mlikota - *ADBRI Limited - CFO*

[Gabe], do you want to respond to that one?

Nicholas D. Miller - *ADBRI Limited - CEO*

[Gabe], you're on mute?

Theresa Mlikota - *ADBRI Limited - CFO*

You're on mute, [Gabe].

Unidentified Company Representative

Can you now hear me?

Nicholas D. Miller - *ADBRI Limited - CEO*

We can now.

Theresa Mlikota - *ADBRI Limited - CFO*

Yes, we can now.

Unidentified Company Representative

Okay. Yes. The starting point would be whatever the market pricing is. And we're taking into consideration what we expect our mix going forward is in terms of customers, of products and take into consideration CPI and other factors and work out a long-term growth rate. So we factor in what our history has been. And then -- so there's no specific percentage I can point to, but it takes into consideration our historic track record in terms of price increases and projected out into the future.

James Brennan-Chong - *UBS Investment Bank, Research Division - Associate Director and Mining Associate Analyst*

Right. Got it. And just want to delve into a little bit more detail on the choice to size this at 1.5 million tonnes. I appreciate those comments around seasonality and peaking. But was there anything else in terms of the constraints or thought processes that went into -- as to why you chose 1.5 million and not another number?

Brad D. Lemmon - *ADBRI Limited - Executive General Manager of Cement and Lime*

James, it's sort of -- really, it's a function of the size of the mills that we've selected. So the 2 ball mills that we'll be installing will have a nominal capacity of around about 90 tonnes per hour, 85 -- sorry, 100 tonnes per hour, sorry, which will give us -- that effectively gives us, based on the expected duty, different types of products, that delivers that 1.5 million tonnes. So there's not a lot of specific science in terms of getting to the 1.5 million. It's about creating that capacity on a day-to-day and on a seasonal basis.

Operator

Your next question comes from Abraham Akra from Jefferies.

Abraham Akra - *Jefferies LLC, Research Division - Equity Associate*

I'll just be quick with a few questions. Over the next 3 years, from FY '21 to FY '23, what is the projected total group CapEx now following the approval of Kwinana upgrade?

Theresa Mlikota - *ADBRI Limited - CFO*

Look, we'll have -- again, same answer as before, we'll provide that off-line through Darryl. We'll give the detailed sort of feedback on depreciation and capital off-line.

Abraham Akra - *Jefferies LLC, Research Division - Equity Associate*

Yes. Okay. Sure. Also, you previously communicated the total project cost was $150 million. Can you talk to the drivers that put this to $199 million?

Nicholas D. Miller - *ADBRI Limited - CEO*

I think certainly the scoping, the risk dollars we've put against the contingency, and we've selected some further enhancements around the mill control systems and the SCADA capability to reduce the labor content associated with operating the facility. So it's a combination of those elements and FX changes that we've seen emerge as well. So it's a combination of those items.

Abraham Akra - *Jefferies LLC, Research Division - Equity Associate*

Got it. Also, has this been an EPA-driven investment decision based on noise and dust pollution, given there has been some considerable community concerns from this?

Nicholas D. Miller - *ADBRI Limited - CEO*

The -- certainly, no, there hasn't been. So just to be clear, there hasn't been community concerns in terms of our cement production facility at Munster. We have experienced some community concerns in terms of odor associated with the lime production at Munster. But fundamentally, as a good corporate citizen, we always need to weight our capital decisions with an overlay of social responsibility. And as I mentioned earlier, should this business get to 1 million tonnes a year in a number of years' time, that's 1 million tonnes of product that won't be catered by 40-tonne trucks on local roads. So absolutely, it's got benefits from that point of view. And certainly, in terms of the carbon footprint, as I touched on earlier, 7,000, 8,000 tonnes per annum of reduced carbon emissions, associated with transitioning to the new project. So yes, as with all of our capital decisions now, there's a degree of weighting that goes towards the sustainability benefits on projects such as this.

Abraham Akra - *Jefferies LLC, Research Division - Equity Associate*

Got it. And lastly from me. You've talked to the construction being divided into 3 phases, that being design and planning, construction and commissioning. What does the biggest risk lie in terms of cost and timing across these 3 phases?

Nicholas D. Miller - *ADBRI Limited - CEO*

Yes. Look, we've gone through an extensive process just to address timing. To start off, we've looked at variability associated with schedule. We've built appropriate floating relative to the risk. So we're confident that our timing is appropriate for the risk profile of the project. If there was another significant COVID impact globally, then those sort of issues are beyond our control. But we've demonstrated through the last 12 months, as an organization, we have managed the COVID risk particularly well in the organization. We have commissioned a bagging plant in South Australia and also dry mix plant is in commissioning phase in Victoria during the COVID phase. So we've got processes and procedures around that.

Look, in terms of risk exposure outside that, getting the design right and the constructability of design is critically important in terms of cost control. And we've put a lot of time into that, not just with designers, but with construction experts and commissioning experts. We've got that in hand. And then as I touched on earlier, the final point for me is robust governance during construction and making sure you've got the A team on the job and making sure that your commissioning resources are adequate to be onboard during the construction phase. So the commissioning processes and design can start early. And there's a tail on that to make sure we complete the commissioning process as efficiently as possible.

Now the benefits on this project of delivering early are significant. You can see the $19 million. So we'll certainly evaluate how we can accelerate the project, but we think there's adequate flows on that.

Brad D. Lemmon - *ADBRI Limited - Executive General Manager of Cement and Lime*

Nick, if I can just add to that. Your comments are right in terms of commissioning. That tends to be where we see projects of this nature where the issues sort of start to manifest. The way we'll be managing this, we'll have the benefit of, firstly, we'll have an existing plant that we'll continue to operate. So in terms of interruption to the market, that's not an issue. We'll be able to commission a number of components of the project as we move through. So this won't all -- we won't start commissioning the whole thing at the end. We'll -- it's likely the clinker shed and the fleet systems, et cetera, will go in much earlier. Those things can be commissioned quite early.

So we're actually managing that commissioning risk in a phased way right throughout the project. And then finally, just really what you're saying. But it's the -- we've got very, very experienced people who ran and operated equipment like this for many, many years. They'll be paired up with experts from the various equipment manufacturers. And yes, between that combined team, we'll be very diligent in terms of managing a very strict and disciplined commissioning process.

Nicholas D. Miller - *ADBRI Limited - CEO*

Look, team, I'm sorry, but we're about 5 minutes overtime now. So we're going to have to wrap up. We can take 1 more question. And then we'll have to divert those questions through Darryl, and we can respond to them individually off-line. So one more question, and we'll wrap up.

Operator

Your final question comes from Robyn Luu from Macquarie.

Robyn Luu - *Macquarie Research - Analyst*

I just have one question on -- so you talked about $19 million of cost savings around maintenance and transport. Just curious on what you expect these costs to be post commissioning, the ongoing spend on these costs, I should say.

Theresa Mlikota - *ADBRI Limited - CFO*

The ongoing savings?

Robyn Luu - *Macquarie Research - Analyst*

No, the ongoing spend on the -- yes, post commissioning of the plant.

Nicholas D. Miller - *ADBRI Limited - CEO*

Okay. So whether we call it R&M or maintenance capital, we've got between $1 million and $2 million per year in the model associated with that because ultimately, [as we're going to restart our] new plant, you'll be replacing wear parts only. So that's how that's been structured. The $19 million as Theresa outlined, is made up in those 5 different buckets of how that's built. And obviously, as volumes increase, then you expect to get an increased cost savings because every tonne that goes through this plant is more efficient than the old plant.

Right. Thanks for your questions. And I'll just -- sorry, we're just going to have to wrap up in here. I just want to thank you for your interest. I've been involved with lots of construction projects over many years. This is a really exciting project for ADBRI. It's got significant financial benefits. It demonstrates our commitment to the Western Australian market, and it demonstrates our laser-like focus on being the lowest cost producer in the markets that we operate at the right quality.

So very excited to get this project approved by the Board. The gestation of this, as I said, started in 2012. There's been an enormous amount of financial evaluation and detailed engineering go into the process. We think we've got the right solution. We demonstrated our commitment to Western Australia, and we will have the lowest cost solution at the end of this -- to see us sustainably go into the future. So thanks for your interest. And look forward to catching up in the new year.

Operator

That does conclude our conference for today. Thank you for participating. You may now disconnect.
