Orica 2015 full year financial results: Laying the foundation for long term performance

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Financial documents

* [ASX Announcement and Profit Report (PDF 265.3KB)](http://www.orica.com/ArticleDocuments/298/ASX%20Announcement%20and%20Profit%20Report_FINAL.pdf.aspx)
* [Orica 2015 Results Analyst Presentation (PDF 1.5MB)](http://www.orica.com/ArticleDocuments/303/FY15_Results_presentation.pdf.aspx)
* [Appendix 4E (PDF 880.9KB)](http://www.orica.com/ArticleDocuments/298/ASX_Appendix-4E-2015.pdf.aspx)
* [Appendix 3F (PDF 55.3KB)](http://www.orica.com/ArticleDocuments/298/2015%2011%2018%20Appendix%203F.pdf.aspx)
* [Group Compendium Combined September 2015 (XLSX 91.7KB)](http://www.orica.com/ArticleDocuments/298/20151118_Group-Compendium-Combined.xlsx.aspx)

Melbourne: Orica (ASX: ORI) today announced statutory net profit after tax (NPAT) for the year ended 30 September 2015 of a loss of $1,267 million. This included a non-cash impairment charge of $1,692 million (after tax) on the carrying value of the Ground Support business, ammonium nitrate (AN) assets and various other assets across the Company in light of the challenging market conditions and the oversupplied AN market. These were previously flagged by the Company on 7 August 2015.

Before the non-cash impairment charge, Orica’s full year NPAT1 was $417 million (compared to $564 million for the pcp), while EBIT1 was $685 million (pcp $863 million). The result is in line with Orica’s outlook update provided on 7 August 2015.

Other key components of the result include:

* Total AN volumes of 3.76 million tonnes, in line with the FY15 outlook provided at the 2015 half year results and confirmed in the 7 August update;
* Sodium cyanide volumes increased 7% on pcp;
* EBITDA1 of $978 million (pcp: $1,132 million);
* Transformation program delivered $175 million of benefits (with one-off costs of $81 million);
* Net operating and investing cashflow2 of $352 million (pcp: $461 million);
* Earnings per share3 of 113 cents (pcp: 153 cents);
* Net debt of $2,026 million, down 9% on pcp;
* Gearing of 40.4% (pcp 33.7%), within the target range of 35% to 45%;
* Final dividend of 56 cents per share, unchanged from pcp.

Orica Managing Director and CEO Alberto Calderon said: “2015 was a challenging year for Orica, our industry and our customers. However, we have taken decisive action in response to the industry headwinds to best position Orica through the cycle, including fundamentally changing our operating model, executive and senior leadership teams, improving our customer contract profile, and reducing production to balance Australia’s east coast AN supply.

“Our disciplined transformation program delivered a gross benefit of $175 million, 80% of which is sustainable over the long term.

“The industry is currently experiencing the most dramatic mining downturn in at least the last two decades. Despite this, the underlying performance of the business demonstrates Orica’s relative resilience within the sector.

“Our overall explosive volumes declined by 1% against the pcp. In terms of the reduction in EBIT, however, the majority of the reduction was due to market impacts that we consider temporary, such as changes in mine planning practices for some of our customers including lower strip ratios and high grading, rather than permanent mine closures or contestable contracts lost. Our expectations are that these are short to medium term actions. All the steps we have taken to further strengthen Orica’s resilience means we are well placed to capture the benefits as commodity volumes begin to recover,” he said.

Operations

Earnings before interest and tax (EBIT) from continuing operations before individually material items of $685 million was down $178 million or 21% on the prior year.

After excluding the impact from foreign exchange movements, one-off transformation costs in 2015 and one-off items in both 2014 and 2015, adjusted EBIT was down $81 million. This movement was driven by lower volume and pricing in both explosives and ground support markets, partially offset by transformation benefits.

Capital management

Dividend

The Board has declared a final dividend of 56 cents per share, unchanged from pcp. The dividend is 36% franked at 20 cents per share. The dividend record date is 27 November 2015 and is payable on 18 December 2015.

Share buy-back program

On 2 March 2015, Orica announced it would undertake an on-market share buyback of up to $400 million over 12 months.

On 7 August 2015, Orica announced it would review the buy-back in the context of the business environment, Orica’s cash flow, dividend and gearing position. The total number of shares purchased under the buy-back was 2,629,765 for a total consideration of $53.5 million. There has been no further share buy-back activity since that time. Within the context of the challenging operating environment and following discussions with a range of stakeholders, including investors, lenders and rating agencies, Orica has cancelled the share buy-back program, with immediate effect.

Business improvement initiatives

The company has undertaken a number of initiatives to enhance Orica’s positioning through the cycle. These initiatives have focused on:

* leadership and culture;
* organisational operating model; and
* actively managing all the elements within Orica’s control (non-market impacts).

Mr Calderon said: “We have created a new management team, with experience from Orica and some of the very best multinational mining and mining services companies in the world.

“We are introducing a new operating model to ensure we are more competitive, and nimble, with better visibility of individual business performance and greater accountability across the business. Most importantly, our new operating model will ultimately make us better able to respond efficiently and effectively to our customers’ needs. Meanwhile, we have continued to control those elements that we can, with a number of initiatives undertaken during the second half of the year to help offset the challenging market,” Mr Calderon said.

These initiatives included:

* curtailment of AN production from Yarwun, balancing the Australian east coast;
* strengthening the contract profile in Orica’s key markets through to 2018;
* separation of Ground Support into a discrete business unit, with a dedicated and experienced management team, to focus on improving performance while providing greater transparency of and accountability for its results; and
* realigning the balance sheet to reflect the challenging market conditions.

Outlook

Mr Calderon said: “With all the actions we are taking, the recovery in volumes anticipated by market forecasters4, and subject to the forward price and volume curves for key commodities largely holding, we see some improvement in EBIT in FY16, as earnings stabilise, with further improvement in FY17.”

On this basis, key assumptions for FY16 are:

* Global explosives volumes in the range of 3.8 million tonnes (+/- 100kt), with reduced volumes in Australia offset by higher volumes in North America.
* Approximately $55 million to $60 million negative impact is expected in FY16 from price resets and contract renewals.
* Sodium cyanide volumes expected to be up approximately 5% to 10% compared to FY15. Continued growth in efficiencies will largely offset market impacts.
* Ground Support is expected to remain challenging. The separation of the business will ensure a focus on improving performance. The business is expected to remain cashflow positive.
* A continued focus on transformation initiatives, particularly in supplier and manufacturing efficiencies, is expected to deliver incremental net benefits of $50 million – $60 million. This will help offset a range of underlying cost pressures.
* Net interest costs to be approximately 25% to 30% higher than 2015.
* Depreciation and amortisation to be approximately $300 million.
* Effective tax rate to be slightly lower than 2015 tax expense of 29%.
* Capital expenditure to be broadly in line with 2015.

Mr Calderon said: “2015 has been challenging and has been a period of ‘reset’, in which we took the necessary steps to lay the foundation for improving our performance and embedding long term shareholder value.

“Orica is a business with strong fundamentals. We are the global market leader with unrivalled diversity of geography, commodity and customer. We continue to invest substantially in technology and innovation. We believe we are the clear industry leader in this regard, and this investment enables us to provide industry leading, value add products and services that have a proven track record in improving customer productivity.

“We have a market structure that leaves our fortunes tied closely to production volumes rather than commodity prices. On this, the medium term global commodity forecasts are for commodity volume growth5. In addition, the work we have done to strengthen our contract profile gives us greater comfort around our targets for FY16 and beyond,” Mr Calderon said.

2015 Full Year Results briefing and audio webcast:

Alberto Calderon, CEO, and Thomas Schutte, CFO, will brief analysts and investors on the 2015 results today, Wednesday 18 November 2015 at 10:30am (AEDT). A live audio webcast of this briefing will be available. The archived webcast will also be available on the company’s website. [Click here to register for the webcast](http://edge.media-server.com/m/p/i5o4o4av), or go to[www.orica.com/investors](http://www.orica.com/investors).

1 From continuing operations before individually material items
2 Excludes net proceeds of $652 million from sale of Chemicals business
3 From continuing operations before individually material items
4 Wood Mackenzie Long Term Forecast Q3 2015
5 Wood Mackenzie Long Term Forecast Q3 2015