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Analyst Briefing
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Summary

Good afternoon and thank you for joining us. We are very pleased to share with you our operating and financial results in the first six months.

First, let me summarize our first-half performance.

- We delivered very strong growth compared to last year. Our revenues increased 164% in the first six months;
- Operating margin was 12.5%, and EBITDA margin was 21.4%;
- Our team did a great job managing costs and bringing down cash operating cost by 17% per volume sold;
- We generated ₱453.1 million cash from operations and invested about ₱83 million in capital expenditure;
- And, we continued to return a substantial amount of cash to shareholders through share repurchases, amounting to over ₱93.5 million as of June 30.

With that said, let's get into the details on how we achieved these results.

Operational successes drive growth in volume

Turning to slide 4, let's take a closer look at our operations.

It was a successful first half by many measures. All made possible through the efforts of our dedicated team members and contractors.

We shipped 35 vessels from April to June, despite facing more rainy days this year. In fact, we even increased operating hours by 7%. The last time we've seen such volume was in 2014 when we reached 6.3 million WMT annual shipment!

Starting this year, we increased the number of our contractors to 11 from 7 last year. Each of these contractors bring manpower, equipment and expertise to conduct mining operations efficiently. They are given specific target volumes and mining area to make sure that our business interests are aligned.

The significant increase in our volume was primarily a result of a 30% increase in equipment productivity. This is measured by analyzing ore production relative to operating hours and equipment utilized.

A quick recap on our mining method. In surface mining, we need to remove waste including topsoil and boulders before we can directly mine the ore. We did that last year. Therefore, with improved access to the ore body, our waste ratio is down by 81% and our contract hire cost per WMT sold is also lower.

It also helped that we were disciplined in maintaining adequate stockpile. It meant that we were able to drawdown from stockpile during rainfall and continue our loading operations.

So we're excited to share that we reached a record high shipment for the month of June, amounting to 1.1 million WMT. This is the highest in our 10-year history and it represents a 30% increase compared to our average June shipment in the past three years.

Likewise, we reached a record high of 48,068 WMT production loaded in one day.

With these results up to June, we feel good about our loading rate and our positioning to deliver on our full-year target of 6 million WMT.

Flexible product mix captures varying customer needs

I'd now ask you to turn to slide 5 where I'll discuss our product mix. Recall that last year, our shipments were mostly low-grade nickel ore. Our sales mix was around 80% low-grade; 20% medium grade. This year, our ratio was closer to 60:40.

On this slide, we have identified two of our key customers—Baosteel and Tsingshan. Both are large and well-established stainless steel producers and at the same time, are also international trading companies. Both also require a range of nickel grades and iron contents in their specific products.

Our flexible ore supply and well-developed grade control procedures allow us to serve the varying needs of our customers. As a result of this differentiated capability, our shipped volume was up 76% to 1.9 million WMT in the first half of the year. And the good news is that, we believe the market conditions look set to remain favorable thanks to solid demand.

This leads me to the next section which is Market Review.

Large addressable markets support long-term demand outlook

On slide 7, I'll offer thoughts as to what's driving our business.

As a reminder, two-thirds of global primary nickel go into stainless steel. It can be used in a wide range of infrastructure applications such as energy supply, bridges, harbors, airports, and water and sewage. The consensus view is that nickel demand will increase by 3% annually from 2017-2020 owing to stainless steel.

Now, the non-traditional use of nickel.

Increasingly, nickel is being sought for the development of key parts of battery systems that power electric vehicles. There are two current leading technologies for EV battery—NCA chemistry (nickel-cobalt-aluminum) and NCM (nickel-cobalt-manganese). These technologies are already being used by Tesla, BMW and other leading car manufacturers. Taking market projections into account, new demand may start to kick-in by 2018, when mega battery projects come on-stream.

So while nickel in batteries only represents a small portion of its end-use today, it would be a mistake to ignore this emerging application of nickel. Just a few years ago, the car of the future was merely a concept. But today, a number of industry players are aiming to roll out their fully autonomous cars by 2020—that's only a few short years away!

Declining inventory levels for nickel ore boost market prices

To help us gauge the prospects for nickel ore, we actively track a series of economic data and indicators in China because it remains the largest consumer of nickel in the world, representing 50% of the total demand.

On slide 8, we show a graph of China Laterite Ore inventory. This data represents weekly inventory totals in major ports in China. We see more and more that inventory has been depleting since January 2014 and in April this year, it dropped to its lowest in 10 years at around 3.1 million WMT. Compared to last year, average ending inventory is down by 35% in June.

Alongside the destocking in the previous months, nickel prices at the London Metal Exchange rebounded by 13% on average and nickel ore prices at the Shanghai Metals Market by as much as 68% from a year ago.

And just to give you a more recent data point, LME has remained above US$10,000 since July 25. As of last Friday August 4, LME was at US$10,250.

Strong end-demand environment in China

On slide 9, three major China economic datasets remain on a positive trend, with high single-digit to double-digit growth from last year.

Fixed Assets Investments refers to the total workload on construction and purchase for fixed assets as well as related expenses. It is up by 8.6% which is higher than the cumulative growth of 8.1% in Jan-Dec 2016. Of the total investments, the private sector accounts for 60.7%, which continued to grow at 7.2% in the first six months.

Next, I want to comment on industrial production. This data is regarded as a rough proxy for economic growth. It measures the output of mining, utilities and manufacturing sectors. These industries are critical to us and to our customers given that they consume a substantial amount of metals. Based on the latest June data, China's industrial production continued to grow at 6.9% increase year-on-year, higher than the growth of 6% Jan-Dec 2016.

To form a holistic view towards China's economy, we also monitor retail sales consumption. This data tracks the resale of new and used goods to the general public, for personal or household consumption based on the value of goods sold. Overall retail consumption continued to post strong double-digit rate at 10.4%.

Let's move on to the next three slides which summarize the factors driving the expectations of nickel demand. These factors include strong growth in fixed assets investment in real estate and continued development of new energy vehicles.

From slides 10 to 12, we broadly categorize the relevant statistics as real estate, infrastructure, and automobile.

Healthy leading indicators for real estate development

Several market analysts highlight that stainless steel is a commodity driven by consumer demand.

In China, we've seen sharp and rapid increases as the country moves to middle-income economy. These set of economic data support our view that a rising household wealth could mean an increased demand for stainless steel for real estate development.

Healthy leading indicators for infrastructure

The charts on slide 11 also show that there are pockets of opportunity in power, gas, water and railway infrastructure.

Healthy leading indicators for automobile

Earlier, I mentioned that the growth of the EV market is a transformational event which will lead to a surge in new demand for nickel.

On slide 12, we'll see that car sales which has become a favorite macro-indicator of commodity demand shows another strong quarter.

With the success of electric vehicles (EV), notably by Tesla, and recent announcements by the global car giants to increase EV mass production, there is a growing realization that the disruption in the auto sector is likely to be felt faster than expected. And that it maybe just a matter of time before the market starts to recognize the EV impact on nickel and price it accordingly.

So, we feel that the medium/long term outlook is therefore fundamentally more positive with this new demand for nickel.

Now, let me move to our financial highlights.

1H2017: Beginning of turnaround momentum

As previously discussed, our product mix was split between low grade and medium grade at approximately 60:40. This ratio resulted to an average realized price of US$19.44 per WMT, which is 44.2% higher compared with the previous year. This recovery in price combined with over 75% increase in shipment delivered strong revenue growth of 164% year-on-year.

Going forward, we anticipate our operational improvements to provide a stable foundation for our Cagdianao operations and we continue to expect to finish the year strong with 6 million WMT target shipment.

Aggressive distribution of cash to shareholders

Finally, this slide centers around how we are driving value for our shareholders. We continuously look at alternatives to deploy our capital whether organic development or returning cash back to shareholders.

Since last year, we’ve been very focused on building efficiencies and expansion strategies that will support our future growth. At the same time, we've been returning a significant portion of cash to shareholders through share buyback. We've actually reduced our outstanding shares by 1%.

This reflects our confidence on three things:

1. the considerable efforts we made last year to adapt to low-price environment as well as the ongoing initiatives to prepare for the future;
2. the cash-generation capability of our business; and
3. the more promising broader market outlook

So, to sum up, we believe we're strategically and operationally aligned to execute our strategy and deliver superior shareholder value.

This concludes my remarks. Thank you very much.

Now, we would like to open the floor for questions. Before asking your question, please identify yourself with your name and the name of the organization that you're representing. We've got about 10 minutes. I’m happy to take any questions.