



# Global Ferronickel Holdings, Inc.

Dante R. Bravo  
President of Global Ferronickel Holdings, Inc.  
Analyst Briefing  
25 October 2017

## SUMMARY

Good afternoon everyone and thank you for joining us.

This was another strong quarter for FNI. It continues to be a good turnaround story and we've got a lot more yet to go.

Here are a few highlights.

Total revenues for the first nine months were up by 72% year-over-year to ₱4.6 billion. Net income was ₱780 million, earnings per share was ₱0.14 and EBITDA margin was 30%.

Underneath that, what I'd like to emphasize is the team's strong execution notably over the past few months. Our operational metrics have been very satisfactory and I'll discuss them with you in more detail shortly.

## MARKET REVIEW

We spend a lot of time thinking about how demand and supply will impact our market. So before we discuss our operating and financial performance, I'd like to summarize the key developments in our industry and the overriding themes.

### **Supply-side structural reforms in China stimulate upward pressure on ore prices**

First, I'd like to cover the supply side.

We have all witnessed the rapid growth of China's economy. Annual gross domestic product (GDP) growth averaged nearly 10% in the past 30 years through 2016—the fastest sustained economic growth in history. This growth was driven by three major forces namely capital investments, exports and consumption—all of which from the demand-side of the economy.

With the realization that demand-side policies had run their course and had given rise to structural imbalances and financial risks, supply-side structural reform (SSSR) has emerged as China's main economic policy framework in order to sustain growth. It focuses the government's efforts on the challenges facing the economy such as excessive production capacity, high levels of corporate debts and costs.

In line with the supply-side structural reform, the government recently implemented regulatory measures for environmental management and financial markets. In August, a new round of



## Global Ferronickel Holdings, Inc.

environmental inspections was announced to enforce more stringent environmental standards while also removing excess capacity particularly for steel. And in mid-September, Shanghai Futures Exchange tripled transaction fees on nickel futures contract and imposed stricter position limits.

These regulatory adjustments may have led to price spikes in nickel ore prices in the third quarter. But it cannot be denied that physical market is indeed tight as evidenced by the declining nickel ore inventory at major ports in China.

### **End-demand in China remains robust along with stainless steel restocking**

Turning to the demand side, China economy has been better than what most of us have expected entering the year. All leading indicators relevant to us are growing by high-single digit to double-digit growth.

Among the key takeaways include:

- Fixed Assets Investment, up by 7.5% year-over-year although slightly lower than the 8.1% growth in Jan-Dec 2016
- Overall Industrial Production, up by 6.7% higher than the 6% growth in Jan-Dec 2016
- Retail Consumption, up by 10.4% growth since June this year
- Sales of New Energy Vehicles (NEVs), up by 79.1% to a total of 78,000 units in September. Year-to-date, sales of NEVs reached 398,000 units, rising 38% from the same period last year.

To summarize, while we view that political trends whether near-term or long-term may affect the supply-side and become increasingly important, demand-side fundamentals lead us to expect a continued momentum.

With that, let's get into the details of our operations.

### **OPERATIONS UPDATE**

#### **Operational efficiencies drive growth in volume**

Through our productivity agenda, we took steps to address the challenges we had in the past. We continued to build our ability to withstand nickel price shocks as we optimize our operations and improve our cost structures.

I am pleased to report that year-to-date, we have shipped 90 vessels containing 4.9 million wet metric tons (WMT), up by 27 vessels or 43% compared to the same period last year. Let me point out that we experienced more frequent and prolonged rainy days this year by about 28% or 13 days but that did not impact our operating hours meaningfully, rather we made good progress both in production and loading. I just thought I'd mention it so that you'd have a sense of the operational improvements we've applied over the past year.



So building on our previous record high of 48,068 WMT, we have achieved a new high of 58,768 WMT production loaded on July 30 as we continue to systematically improve our barging operations which we have brought back in-house and which we're now seeing in our results.

Moving to our exploration results on slide 9.

### **EXPLORATION UPDATE**

Earlier this month, we have announced the results of our recently concluded drilling activities at Cagdianao (CAGA) deposit areas 2 and 3.

The photo you see in this slide shows the geological map of the Cagdianao project. The seven areas share a similar geological setting and among which CAGA 2 and 4 were explored and developed first.

#### **Continuous exploration increases resource estimate to 54 million DMT**

Just quickly, I'd like to point out that Mineral Resources are subdivided into three categories in order of increasing geological confidence—Inferred, Indicated and Measured categories.

Philippine Mineral Reporting Council (PMRC) regulations do not allow inferred resources to be included in the statement of mineral resources because it has a lower level of confidence than indicated or measured. It is common though that majority of inferred resources would be upgraded to indicated or measured but it should not be assumed that such upgrading will always occur.

If you look at our historical exploration, we haven't done new drilling activities for CAGA 1 and 5 since 2014 and we haven't surveyed CAGA 6 and 7. So we're excited about the potential of these four other deposit areas.

Our 2017 to 2018 exploration program will concentrate on CAGA 1, 6 and 7, with results expected to be published in 3Q2018.

#### **and mineral reserve estimate to 36 million WMT**

As a recap, resources estimates are primarily based on geological factors. When economic, legal and technical factors are taken into account, the estimates become reserves which demonstrate that they can be mined profitably.

Following our successful exploration drilling program, we were able to expand our reserves despite having shipped over 5 million WMT since June last year. Our combined proven and probable mineral reserves now stand at 36.3 million WMT with an average grade of 1.22% nickel and 31.7% iron.

Based on the PMRC Competent Person Report, we will also be looking at other commodities identified in the area such as limestone and chromite.



# Global Ferronickel Holdings, Inc.

## FINANCIAL HIGHLIGHTS

### **Flexible product mix captures varying customer needs**

Our volumes have approached 4.9 million WMT. Recall that at the beginning of the mining season, we said we will ship more medium-grade this year compared with last year. We followed our plan. Our sales mix at the end of third quarter was 58% low-grade and 42% medium.

With higher volumes and efficiency measures, we improved our margins on all fronts. I'll now take you through the numbers.

### **9M2017: Turnaround continues**

Turning to slide 13. Our continuous improvement and teamwork are generating results.

Revenues in the third quarter reached ₱2.8 billion, bringing to date revenues to ₱4.6 billion, up by 72% from the same period last year. This reflects higher volume shipped, higher prices of nickel ore, better product mix and favorable exchange rate.

As regards costs, contract hire and depreciation and depletion increased due to the rise in production and shipped volume compared to prior period. Operation overhead also increased in relation to the cost of confirmatory drilling incurred for the operating mines CAGA 2 and 4.

### **Aggressive share repurchases reinforce confidence in growth prospects**

Finally, we remain committed to returning capital to our shareholders.

We generated net cash flows from operations of ₱1.4 billion, which we used to pay bank loans amounting to ₱645 million and make shareholder returns of ₱637 million through share buyback.

We have repurchased over ₱654 million worth of FNI stock since we announced our share buy-back program in June 2016, 97% of which were bought this year. And we did this without raising debt levels—meaning we financed this buyback from free cash flow because we are focused on long-term shareholder value. We have reduced the number of publicly held outstanding shares in the hope that it will lead to a higher stock price in the medium to long run.

But let me be clear. We know we can do so much more. We continue to believe that the stock is meaningfully underpriced despite our aggressive share repurchases.

With only a few days left before we close the mining season, I'm confident that we'll finish the year strong and we'll continue to invest in opportunities we see ahead for 2018 and beyond.

With that, let's open up the call for questions.