Iuka Resources Limited (ASX: ILU)

2017 Full Year Results Teleconference Transcript
27 February 2018

Speakers:

Tom O'Leary, Managing Director and CEO

Doug Warden, Chief Financial Officer and Head of Strategy and Planning

Matthew Blackwell, Head of Marketing, Mineral Sands

Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Iluka Resources 2017 full year results conference call. At this time, all participants are in a listen only mode. There will be a presentation followed by a question and answer session at which time, if you wish to ask a question you will need to press star one on your telephone. I must advise you that this conference is being recorded today, Tuesday 27 February 2018.

I would now like to hand the conference over to your first speaker today, Mr Tom O'Leary, Managing Director of Iluka Resources Limited. Thank you, sir. Please go ahead.

Tom O'Leary: Good morning and thanks for joining me on the call. I'm Tom O'Leary Managing Director of Iluka Resources. With me today are Doug Warden Chief Financial Officer, Matthew Blackwell Head of Marketing, Simon Hay Head of Resource Development and Adele Stratton General Manager Finance and Investor Relations.

Today I'll provide an overview of the key highlights from our results for the year ended 31 December 2017 before handing over to Doug to address the financial results and then I'll close with some comments on the outlook for 2018 before opening up the line for questions.

In summary, following a year of substantial transition at Iluka we're pleased to report significantly higher revenues, higher cash flows and improved underlying profitability achieved on the back of improved prices and volumes for the Company's product. This enabled Iluka to deliver a solid dividend to shareholders and reduce net debt significantly post the acquisition of Sierra Rutile in December 2016. With the transition complete, delivery is our core focus for 2018. Our ability to execute on our operational and expansion priorities will determine the extent to which we can deliver sustainable value over the coming year and indeed in the years ahead.

This year of transition has also extended to safety activities as we integrated our operations in Sierra Leone into Iluka's safety culture. The focus at Sierra Rutile has been on ensuring we capture and record all safety incidents and on improving the level of awareness around safety and Iluka's expectations. Sierra Rutile recorded a total recordable injury frequency rate of 2.2 and this will be the base year for future reporting. Iluka's total recordable injury frequency rate excluding Sierra Rutile increased from 4.4 to 4.8 in 2017 with one less injury offset by slightly fewer hours worked. The safety of our people is the foundation of Iluka's business and we're especially mindful of this as the business expands with development projects in Western Australia, South Australia and Sierra Leone in 2018.

Turning to operational and financial performance, let me start by saying I'm pleased with our underlying performance. 2017 saw a welcome return to improved mineral sands market conditions with moderate underlying demand growth combined with supply constraints. This is consistent with Iluka's expectations and what we've been saying over the past couple of years. It's led to higher sales volumes and in combination with Iluka's marketing approach, has led to higher prices across Iluka's core product suite of zircon, rutile and synthetic rutile. As a result, mineral sands revenue is up 40% and underlying EBITDA is up 140%.

Free cash flow generated during the year was strong at $322 million. As I mentioned earlier, this allowed us pay down a significant amount of debt with net debt down 64% and to declare a final dividend of $0.25 per share fully franked, which together with the interim dividend will amount to 40% of free cash flow.

Disappointingly, we recorded a net loss for the year of $172 million. This reflected a number of decisions the Company made over the year which we disclosed to the market at the time including changes to rehabilitation provisions and impairments of our Hamilton mineral processing plant and the Metalysis investment.

Turning to mineral sands markets, Iluka successfully implemented three price rises for zircon over 2017 with the fourth quarter average realised zircon price of US$1128 a tonne being 40% above where we started the year. We have today announced an increase to the zircon reference price effective for a six-month period from 1 April 2018, taking it to US$1410 per tonne. Retail prices also increased in 2017. Pricing for rutile is typically set on a bi-annual basis and the second half price increased 13% from the start of the year. For the first half of 2018 we've increased prices by around 8%. As you'd be aware, this positive market environment led to the restarting of mining and concentrating at our flagship zircon mine Jacinth-Ambrosia in December.

Sierra Rutile has continued to perform positively recording 168,000 tonnes of rutile production for the year. This compares to our guidance issued in January 2017 of 150,000 tonnes. Again, I'm pleased with the operational improvements we've been able to make in the short time since Iluka took control of the operation. They reflect both the commitment and dedication of our workforce in Sierra Leone and Iluka's mineral sands expertise.

A highlight for the year was the announcement in December to develop the Cataby project in Western Australia. The project ensures continuation of synthetic rutile production and financial returns are underpinned by offtake agreements secured for 85% of synthetic rutile production for a minimum of four years. The structure and tenor of these agreements delivers customers certainty of supply and greater line of sight to feedstock pricing while in return creating an unprecedented level of revenue certainty to Iluka's synthetic rutile business.

I'll now hand over to Doug to take you through the results in more detail.

Doug Warden: Thanks, Tom, and good morning everyone.

The reported loss of $172 million was negatively impacted by previously announced impairment charges of $185 million associated with the closure of Hamilton and the write-down of Metalysis and a $127 million increase to the US rehabilitation provision. These charges were obviously clearly disappointing. On a more positive note we did experience the best market conditions in five years which led to a considerable improvement in the underlying net profit of $96 million.

Key highlights were as follows. Underlying group EBITDA of $361 million represented 140% improvement as Tom has said, on 2016. Much of this improvement was due to improvement was due to higher prices and volumes with an increase in US dollar Z/R/SR prices of 11% and Z/R/SR sales volumes up 27%. In addition, there was a $62 million reduction in non-production costs associated with exploration, resource development activities and corporate. This is a direct result of the sustainable business review that we undertook in late 2016. The Mining Area C contribution of $60 million represented a 25% increase from 2016 on the back of higher iron ore prices and volumes.

These factors were partially offset by a 6% increase in unit cost of goods sold from $700 a tonne in 2016 to $743 a tonne. This was associated with the inclusion of Sierra Rutile as well as the sale of some relatively high cost US zircon inventory and concentrates produced as part of our rehabilitation activities in that region. In addition, the higher Aussie dollar had a $24 million negative impact with the average exchange rate for 2017 being $0.023 higher than 2016.

Turning to free cash flow and net debt, as Tom has said free cash flow of $322 million for 2017 represents a $275 million improvement on 2016. As well as a strong free cash flow a $0.05 appreciation in the Aussie dollar from the start of the year to the end reduced the Aussie dollar value of our US denominated net debt by $29 million. After taking into account the $0.06 interim dividend these factors led to a reduction in net debt to $183 million at year end. Key drivers of the strong improvement in 2017 free cash flow were obviously the underlying EBITDA improvement referred to earlier and the substantial drawdown of inventory totally $215 million for the year. January was another very strong free cash flow month which together with the appreciation in the Aussie dollar resulted in net debt reducing further to $147 million at the end of January.

Now for a few comments on the operational performance and I'd refer you to pages 26 and 27 of the Annual Report. The Australian operations recorded a 28% increase in EBITDA contribution of $359 million with this improvement due largely to the positive price and volume impacts I referred to in the Group overview. As outlined on page 26 of the Annual Report, the EBIT contribution of $54 million was adversely impacted by the impairments I mentioned earlier.

Overall unit cash costs of production in Australia were $350 a tonne and 4% lower than 2016 and also below the original guidance of $375 a tonne. I would highlight that this number benefited from considerably lower mining and concentrating costs as we processed and drew down HMC stockpiles from both the WRP mine in the Murray Basin and JA.

Turning to Sierra Rutile which generated an EBITDA contribution of A$31 million for 2017, whilst the headline EBIT loss of A$0.6 million was disappointing as Tom said we are encouraged by the significant improvement in operational performance with rutile production of 168,000 tonnes being 12% higher than the original guidance we'd provided. In US dollar terms the unit cash costs of $598 a tonne were slightly lower than the guidance of $615 a tonne. As we have said previously, it's important to note that the Sierra Rutile result was negatively impacted by the fact that 40% of SRL's 2017 sales were contracted prior to Iluka taking control. Tom will cover the 2018 outlook for Sierra Rutile and the rest of the business shortly.

Turning to the hedge book, as I've said before our hedging philosophy is very simple. If you hedge one side of a transaction, in our case priced by 2022 price contracts, then you need to address the other side being the FX exposure in the form of a relatively certain US dollar revenue stream. Although our SR contracts are not fixed price contracts they do provide some level of certainty as to US dollar receipts. As outlined in the December quarterly, at the end of last year we took out some additional US dollar hedging, the details of which are outlined on slide 18. To put this into perspective, the total hedge cover for 2018 of US$119 million would have represented approximately 15% of the 2017 US dollar revenue. We remain exposed to both price and FX associated with all zircon and rutile revenue in the short to medium term.

In respect of Sierra Rutile, I would emphasise that we see the largely US dollar cost base as a sufficient natural hedge to its US dollar revenues. In addition, our debt is drawn in US dollars and designated as a natural hedge against the Sierra Rutile net assets with the movement in the Australian dollar value of the net assets and the debt being booked through the foreign currency translation reserve.

Finally, a few comments on capital management. As Tom has said, we've declared a $0.25 fully franked final dividend which together with a $0.06 interim constitutes a full year dividend of $0.31 representing 40% of free cash flow. I also note that we have reintroduced the dividend reinvestment plan which will be offered at a 1.5% discount to the allocation price. Notwithstanding the significant capital investment required over 2018 and 2019 the final dividend reflects the strong 2017 free cash flow, our positive outlook on market conditions while balancing our stated intention to maintain credit metrics in line with investment grade.

With that I'll hand back to Tom.

Tom O'Leary: Thanks, Doug.

On the outlook for 2018 we have a lot on and I expect it to be a good year for mineral sands markets and Iluka's results both operationally and financially. We've entered 2018 with positive pricing and supply/demand dynamics in both zircon and high-grade titanium feedstock markets. On zircon, supply is expected to remain tight with limited scope for short-term supplier response coupled with moderate growth in demand. For titanium feedstocks the continued reliance on high-grade feedstocks to maintain yield through pigment plants because of higher demand and supply disruptions especially in China, is expected to provide support for prices. Against that backdrop we're conscious of the imperative to maintain a sustainable price environment for Iluka's products.

For our operations and projects, the Cataby team is working hard on delivering that project on time and on budget and we expect first production in the first half of 2019.

Jacinth-Ambrosia is back at full production and we're looking at an upgrade project that will partially offset the grade decline of that mine in the years ahead. Updates on this will be provided in due course through the normal channels.

At Sierra Rutile the Lanti dry and Gangama mine expansions were approved by the Board in December and detailed engineering and construction planning and procurement activities are advancing. Both projects are expected to commission in 2019. Other works are also progressing at site including upgrades to the mineral separation plant and port and other infrastructure.

Given the project delivery task ahead on these major expansions, developments and upgrades and in the context of the operational improvements already implemented at Sierra Rutile, we've decided to defer the development of the Sembehun mine for one year.

If I can elaborate a bit here, the increased rutile production achieved at Sierra Rutile to date has provided us with some optionality around timing of the expansions that underpin the acquisition case. The deferral allows us to focus this year on executing the Lanti and Gangama expansions in Sierra Leone and on the Cataby project and Jacinth-Ambrosia upgrade in Australia. It also allows us to target a smoother rutile production profile and to develop reasonable estimates of the Sembehun project cost based on the outcome of the definitive feasibility study that is currently underway. We'll update the market on these results following the completion of that definitive feasibility study.

Our full suite of guidance parameters can be found at the back of the presentation slides. To note a few points, 2018 zircon/rutile/synthetic rutile production is expected to be around 705,000 tonnes with sales expected to exceed this as inventory is drawn down to normal levels.

Unit cash costs of production are guided at $575 per tonne, up on previous years when a large proportion of production was drawn from inventory but certainly in line with recent history when compared with years characterised by similar operational settings.

Unit costs of goods sold which includes the impact of inventory sales are lower than 2017 and expected to be around $710 a tonne.

Finally, you'll note capital is guided at $410 million, significantly up from previous years and reflective of the busy project schedule we have ahead of us this year. I'd again emphasise that delivery is the core focus for the Company in the near term.

I'll now open up the line to questions.

Operator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question today, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request at any time, please press the pound or hash key.

Your first question today comes from the line of Hayden Bairstow from Macquarie. Please go ahead.

Hayden Bairstow: (Macquarie, Analyst) Hi guys. Thanks for that. A good set of numbers. I just wanted to touch on two things. Firstly, just on the CapEx guidance and how lumpy that looks this year - obviously $400 million was certainly higher than what I had - and just getting some sort of indication of how that tails off once you get through most of the Cataby spend. Just given the size of the CapEx, just the decision around the dividend and whether you considered holding some cash back given the increased spend into 2018? Cheers.

Tom O'Leary: On CapEx, I think if you look back at the presentation we made in November we gave some guidance around 2017 to 2020 CapEx. With the approval of Cataby certainly that adds significantly to the 2018 number and it's clearly a significant number. You'll be aware that we've also flagged the Gangama and Lanti approval in December. 2018 was always going to be a pretty significant year for CapEx. We're not updating guidance 2017 to 2020 again at this call. We're just giving you guidance for 2018 but I think all the indications are there for you to come to your own conclusions about that, Hayden.

In terms of the dividend, the Board considered very carefully the financial position of the Company before declaring the dividend yesterday. Our dividend framework calls for 40% of free cash flow before investing in capital requirements and with the current position of the Company and the outlook we decided that that was an appropriate level for the dividend.

Hayden Bairstow: (Macquarie, Analyst) Okay.

Operator: Your next question comes from the line of Rahul Anand from Morgan Stanley. Please go ahead.

Rahul Anand: (Morgan Stanley, Analyst) Hi. Thanks for the opportunity and congratulations for a good set of numbers. Just wanted to delve a bit deeper into the guidance metrics please if I could. Just wanted to double-check and confirm that the resource development and corporate costs is inclusive of exploration just because comparing it to last year, the layout is slightly different.

Tom O'Leary: Yes, it is, Rahul.

Rahul Anand: (Morgan Stanley, Analyst) Excellent. Just in terms of the 40% uncontracted volumes for the first half of this year for rutile, just wanted to understand when we think about the general spot-based activity in the rutile market. If you could basically give us a bit of an update in terms of firstly the pricing dynamics and secondly if we're starting to see any premiums emerge perhaps especially when we tied back the capacity utilisations running above 90% now for the pigment producers. Thanks.

Matthew Blackwell: Rahul, I can answer that. It's Matthew. The 40% you referred to is actually - I think you're referring back to last year, the tonnages that we had for SRL or you might be referring to that in January we said we already had 60% of rutile contracted and when we came out quarterly for the beginning…

Rahul Anand: (Morgan Stanley, Analyst) [That's the one in the quarterly, so you're] talking about January, yes.

Matthew Blackwell: Yes, that one. More than that 60% has now been committed to customers for the first half. We announced that our pricing had lifted by $70 a tonne to $895. That I can say is probably the lowest price we're getting for rutile globally and the spot market and other substantial volumes, we've seen traction in pricing for rutile as well.

That goes to the second part of your question, is there a premium for high-grade ore in the market today? The answer is yes. On a purely REV basis we see rutile trading at a premium to other comparable feedstocks. I would say that given the underlying traction we're seeing in pigment pricing and other parties' views on where some of our competitors' prices might go, you would expect that premium to be continuing.

Rahul Anand: (Morgan Stanley, Analyst) Okay and just one follow up on that. Just sticking to that 60% volumes being committed, the other 40%? Are they going to be placed in the spot market or what's the plan for those?

Matthew Blackwell: Sorry, maybe I wasn't clear. We've already sold some of that other 40%. It was sold to spot or to customers that we had essentially engaged with or allocated product to but not necessarily committed to when we came out with the quarterly result in January.

Rahul Anand: (Morgan Stanley, Analyst) Right. I guess I'm trying to basically understand how much of the volumes for first half I should think would get spot pricing versus pricing that's fixed.

Matthew Blackwell: Between now and the end of the half?

Rahul Anand: (Morgan Stanley, Analyst) Yes.

Matthew Blackwell: We've basically committed all of our rutile now for the first half but 60:40 might be a reasonable split between what is the contracted versus spot pricing. It's a bit - you're talking about the first half, Rahul, right?

Rahul Anand: (Morgan Stanley, Analyst) Yes, first half calendar year 2018.

Matthew Blackwell: We've committed pretty much all of our rutile now for the first half. Some of that will be sold at spot and some has been sold at spot prices, some of it's sold perhaps closer to that price that we talked about, the contracted, earlier. I can't give you the exact split.

Rahul Anand: (Morgan Stanley, Analyst) Right, okay. That's fair enough. That's all from me. Thank you very much.

Matthew Blackwell: Okay, Rahul.

Rahul Anand: (Morgan Stanley, Analyst) Cheers.

Operator: Your next question comes from the line of Paul Young from Deutsche Bank. Please go ahead.

Paul Young: (Deutsche Bank, Analyst) Morning, gentlemen. First question's around zircon. Just looking at zircon sales, you sold 380,000 tonnes in 2017. Question around likely or possible levels this year and the question is more around if you look at your production of 300,000 tonnes and if you add in your finished inventory, do you have enough production and inventory to sell the same amount as 2017?

Tom O'Leary: That's a good question, Paul, but we're not guiding on sales for zircon for 2018. It's fair to say that we do have inventory of zircon so, sales are likely to exceed production but beyond that we're not guiding.

Paul Young: (Deutsche Bank, Analyst) Okay and then on looking at sales this year, maybe a question for Matt, how do you think about what's actually been contracted this year versus what percentages could be sold at spot to maybe capture the opportunities in the market over and above the price increase you've just announced?

Matthew Blackwell: Well first of all in terms of contracting we have certain arrangements with the customers under the Iluka rewards program. We don't have contracts per se for zircon. That's not how that market works. We've announced an increase in the reference price to US$1410 which we believe is the appropriate price in the market to give us sustainable pricing growth which is a 15% increase on the reference price previously. We don't go out and opportunistically try and sell one tonne here or one tonne there at a higher price. That's not our modus operandi. We sell some product above the reference price and some at it but we're not the speculator and we don't think that speculation in the market is helpful.

Paul Young: (Deutsche Bank, Analyst) Alright and then just looking at the price realisation. Should we assume roughly that US$100 a tonne below the CIF price to get an FOB? Is that still a rough…

Matthew Blackwell: Yes, it's compressed a little bit, Paul. What we've seen is if we go back to the bottom of the market 2016 the reference price is now 48% above where it was in 2016. Our realised prices will be more like high 60% above that. If you think about the margin expansion over that period of time, it's outstripped the price appreciation. If you go back and you have a view at what you think realised price was versus reference price back in 2Q16 and then do those two numbers, you can get a bit of an idea of where the numbers are landing.

Paul Young: (Deutsche Bank, Analyst) Okay and then also, Matt, will you be selling less concentrate this year, more premium standard than last year?

Matthew Blackwell: Well the mix is similar to last year. As we said, we haven't guided exactly on the tonnage that we're selling but you could assume a similar mix to prior years.

Paul Young: (Deutsche Bank, Analyst) Okay, that's helpful. Then turning to Sierra Rutile, a couple of things here. Just on the unit costs, I see your guidance is $615 a tonne. Back at investor day last year the guidance for the next three years is $480 to $590 a tonne. It's a small increase there but I do note that the guidance you gave at investor day was based on 2015 dollars. Is this really just a resetting to adjusting for inflation over those three years or is it more that you're seeing some general inflation come through?

Matthew Blackwell: It's more the former, Paul. It's some inflation coming through is basically the difference there in relation to 2018.

Paul Young: (Deutsche Bank, Analyst) Okay, great. Then just on Sembehun, the expansion, maybe one for Tom. I understand about the basic project timing and not having too much on your plate to deliver that project. Just wondering, so far, you've done the PFS, looking at the capital estimates that Sierra Rutile put out, they put out a US$100 million number on that development. What's PFS shown as far as the capital estimate? Is it in that ballpark?

Tom O'Leary: Paul, what we've said is that we're conducting a definitive feasibility study on the Sembehun project and that will give us clarity on likely cost of Sembehun. That definitive feasibility study was approved by the Board yesterday and will be carried out over the course of this year. As I said in my opening comments, we'll update you on likely cost as the year goes by.

Paul Young: (Deutsche Bank, Analyst) Okay, great. Alright and then last question from me. Just on the rehab in the US, the provision, just the work you're doing there to assess the potential rehab dollar amounts. Can you give us an update there, please?

Tom O'Leary: I can tell you that we continue to engage with the Virginia regulators, but I can't really update more than we did back in the middle of December and say that that engagement with the regulators is likely to be extensive and ongoing. As soon as we have some clarity there again, Paul, we'll update the market.

Paul Young: (Deutsche Bank, Analyst) Okay. Alright, thanks, gents. I'll see you this afternoon.

Tom O'Leary: Great.

Operator: Just a reminder, ladies and gentlemen, if you do wish to ask a question today please press star one on your telephone. Thank you.

Your next question comes from the line of Clarke Wilkins from Citi. Please go ahead.

Clarke Wilkins: (Citi, Analyst) Good morning. Thanks for taking the question. I jumped on the call a bit late and apologies if I missed this but just with the change and delays to the projects at SRL is there any change to the guidance around the rutile, the average $260 for the 2018 to 2020? Also, just that $270 million CapEx average, has that been impacted based on the CapEx this year being $410 million which is probably a bit higher than expected?

Tom O'Leary: Thanks, Clarke. What we've said is that the Gangama and Lanti projects were approved at the Board last year as planned. No change to those. No change to timing. What we've also said is that, in the context of the delivery task ahead of us, we have decided to defer the Sembehun project for a year. That means that we won't be doing the early works and so on this year. The capital associated with Sembehun will be lower this year, will be a different profile over the 2017 to 2020 period and there'll be lower Sembehun tonnes in 2020 because that had been proposed to come on in 2020. Now we're targeting commissioning in 2021 so it'll impact tonnes out there.

As I said earlier, we're guiding now for 2018. We're not updating the guidance for the 2017 to 2020 period in this call.

Operator: Your next question today comes from the line of Peter O'Connor from Shaw and Partners. Please go ahead.

Peter O'Connor: (Shaw and Partners, Analyst) Good morning, Tom. Congratulations. A question for Matt and by the way, third best result in 20 years. Got to like that.

Matt, just thinking more I guess philosophically about the premiums for high-grade product and thinking what's happening in other industries particularly in the rust belt side, so steel and [the bulks], how we're seeing a stratification of premiums. Is the pricing reflective of just productivity and the need to get more tonnes out of plants or is it reflecting environmental changes and therefore more structural? Is there an underlying change which is quite significant or is this more about running full gas at the moment given demand?

Matthew Blackwell: Good questions, Peter. In summary it's both. What you're seeing is certainly as demand for pigment has increased over the last couple of years and there's a shortage of supply of pigment and that's flowing through to feedstocks, people are looking to upgrade or sweeten the blend to their plants if they run a chloride process. That bodes well as you know for synthetic rutile, rutile and some of our competitor products like UGS.

What we have also seen more so in China but to some extent in the west, is the environmental crackdown particularly on the basic sulphate pigment processes, which were in a very water consuming, lots of effluents produced and perhaps not treated in the same way you would in the west. There is a trend towards chloride pigment in China away from sulphate. That's for an environmental perspective but what is also - and if you look into actually some of the trade stats and the numbers you'll see an increase in sulphate slag being produced as well. That's being produced and exported because it produces less waste at the sulphate plant than, say, sulphate ilmenite. Collectively that suggests a trend towards chloride feedstocks and higher-grade feedstocks across the board.

Peter O'Connor: (Shaw and Partners, Analyst) Okay so it sounds there is an element of structural as well. Thanks, Matt. Much appreciated.

Operator: Your next question comes from the line of Glyn Lawcock from UBS. Please go ahead.

Glyn Lawcock: (UBS, Analyst) Good morning, Tom.

Tom O'Leary: Morning, Glyn.

Glyn Lawcock: (UBS, Analyst) I just wanted to talk a little bit more philosophically about the pricing environment and your approach to it. Firstly, just on the zircon side, it seems we've now gone the six-monthly not quarterly. Just wondering how that's playing out for you, why the move, customer feedback and you're leapfrogging Tronox a little bit I guess, just how you want to play that market.

Then secondly on rutile, you talk positively about the market, the spot market is probably materially above what you contracted at for the first half. When I say material, I mean greater than 10%. You went for an 8% to 60%. Just wondering why the hesitation? If the spot market's so much more buoyant why only an 8% rise for rutile and where you think the longer-term trend would be as well? Are we nearer the peak at the moment now or do you still feel that there's more room to go? Thanks.

Tom O'Leary: Thanks, Glyn, lots of questions. On zircon first, what we've been saying to the market, to shareholders, to customers alike over the last couple of years or certainly over the last 18 months and I understand for a period before that as well, is that we're looking for sustainable price trajectory in zircon. We're not looking to push price so hard that we invoke substitution and a shrinking of the overall global demand profile as happened earlier in the decade. That's what we've said and that's what we're going to do over the years ahead to pursue that sustainable price trajectory.

You mentioned Tronox earlier. We're running our own race in respect of zircon price trajectory and we'll make our own decisions about what we think is best for our shareholders and also the future of the zircon market overall.

On titanium, you mentioned the 8% rise this half. I think we are really at the market. We are driving market pricing in titanium and I'm pretty comfortable with what we're seeing there. To Peter's comment earlier, there are some structural forces at play that I think are going to continue to see that push for higher quality feedstock. The outlook I think for titanium pricing and the gapping away of higher grades like those we sell will continue to be seen over coming periods. In terms of whether we're at the peak, I'm not going to be drawn into that but just generally I think the outlook for pricing remains pretty strong.

Glyn Lawcock: (UBS, Analyst) Tom, is it a case of - it sounds a little bit like you want to a sustainable price rise for rutile hence you didn't go anywhere near where base spot price is or has the spot market just strengthened more since you negotiated the first half of 2018?

Tom O'Leary: As I said, I think we're doing well in the rutile market, but I'll just let Matt elaborate a little there.

Matthew Blackwell: Glyn, I think if you asked our customers and others they would say that our contracted prices and what we're selling for is probably - you might call it spot but it's a premium to what other people might be calling spot at the market. I think in that particular market at the moment we're very - I don't think anyone could accuse us of leaving any dollars on the table at all.

Glyn Lawcock: (UBS, Analyst) Alright, that's great. Thanks very much.

Tom O'Leary: Thanks, Glyn.

Operator: Your next question comes from the line of Tony Mitchell from Ord Minnett. Please go ahead.

Tony Mitchell: (Ord Minnett, Analyst) Congratulations on an excellent result. I'm just wondering why you won't give us the zircon sales for 2018.

Tom O'Leary: Well that would be a departure, Tony, from our track record and we like to be fairly consistent about our approach to guidance and the like. What I've said is that sales are likely to exceed production overall and in zircon as well as we draw inventory back to more normal levels.

Tony Mitchell: (Ord Minnett, Analyst) Can I ask this question? You've mentioned this drop in production for this coming year. Will the inventories you've got enable you to have higher sales for zircon and rutile in 2018 than over 2017?

Tom O'Leary: That's a pretty similar question to one we got earlier, Tony. I think the answer's that we've given as much guidance as we plan to on that score.

Tony Mitchell: (Ord Minnett, Analyst) Right, okay. Thank you.

Tom O'Leary: Pleasure.

Operator: There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

Tom O'Leary: Okay, thank you all for your time. As I said, we're pleased with the set of numbers and we entered 2018 with some momentum. It's going to be a busy year at Iluka and I look forward to keeping you up to date on our progress. Thank you.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

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