Speakers
Tom O'Leary, Managing Director
Doug Warden, Chief Financial Officer and Head of Strategy and Planning
Matthew Blackwell, Head of Marketing

Tom O'Leary: Thank you, and good morning everyone. Thanks for taking the time to join the call today. Joining me this morning are Doug Warden, CFO, Matthew Blackwell, Head of Marketing, and Adele Stratton, General Manager, Finance and Investor Relations.

You'll see from our release this morning that we've renamed our quarterly production report. It's now a quarterly review. This change, together with the call, are to provide a more fulsome quarterly update on the business. I'll first provide an overview of the September quarter, and then provide as much colour as I can on the references in the quarterly to Metalysis and US rehabilitation, before handing over to Matt to provide an update on the zircon and titanium feedstock markets. We'll then open up the call to Q&A.

With respect to production, we were pleased with the continued improvement at Sierra Rutile, with rutile production for the third quarter up 9% on Q2 to 47,000 tonnes. This improvement reflects better throughputs and run times at the mining units; improved recoveries and higher heavy mineral concentrate grades from our wet concentrate plants, with this higher-grade HMC contributing to improved recoveries through the mineral separation plant; and finally, opportunistic processing of minor rutile reject stockpiles.

You'll note that, year-to-date September, Sierra Rutile production now stands 126,000 tonnes, and that we've reaffirmed full-year guidance of 155,000 tonnes. This suggests Q4 production will be a little under 30,000 tonnes, well below the last two quarters, and reflects planned lower grade that we've been expecting to experience in Q4.

At the half, I mentioned that we were encouraged by progress being made on the mechanical condition of the dredge, and the oil reserves available to it in 2018. We continue to expect that the dredge will operate throughout 2018, and at this stage, we're expecting production from Sierra Rutile next year, broadly consistent with this year. So we'll provide some guidance on outlook at our investor day on 10 November.

Processing of all Murray Basin heavy metal concentrate was completed in early October, and the Hamilton plant has now been idled. The Murray Basin has contributed 57,000 tonnes of zircon, and 93,000 tonnes of rutile production in 2017, which will not continue going forward. Any future Murray Basin production is dependent on the development of Balranald, or of our fine mineral deposits.

Turning to zircon production, I note that third quarter zircon production was well down on Q2, which was due to planned maintenance work for the Narngulu separation plant in Western Australia in August and September. The shut led to draw-down of finished product inventory, and as anticipated, it will also reduce the length of future major maintenance outages.

The Narngulu works also coincided with the temporary closure of the Port of Thevenard for safety reasons, and I'm pleased to report that Flinders Ports has completed the repairs, and Thevenard is now fully operational.

Although year-to-date September Group zircon/rutile/synthetic rutile production was 656,000 tonnes, I note that our full-year production guidance is for 795,000 tonnes of Z/R/SR, which hasn't changed, and reflects the idling of the Hamilton plant, and the planned lower expected grades at Sierra Rutile.

On Metalysis, we know that it's likely we'll impair the carrying value of our investment, which is currently carried at AU$32 million in the 2017 full-year accounts. You'll recall we're one of many investors in Metalysis, and given confidentiality constraints, I won't be saying any more on the subject of Metalysis at this time.

We also noted in the release a possible change to the way we're planning to rehabilitate in Virginia. I appreciate that there will be interest in obtaining further details about financial impact, but there is a range of remediation alternatives being considered, with a pretty wide range of financial outcomes associated with some. We also need to engage with regulatory authorities, as you'd expect, about our rehabilitation plans.

In these circumstances, given the potential financial outcome is insufficiently definite, at this stage we're firmly of the view that to disclose further information might mislead the market as to the likely outcomes. Such disclosure would also not be in the interests of shareholders, as it could adversely affect the commercial outcome. Given that, I won't elaborate further on the matter at this time, nor will I provide a timeframe as to when that might change. To some extent, it will depend on the timing and progress of discussions with regulators.

However, in the interests of transparency and our continuous disclosure obligations, I can assure that as soon as a pathway forward becomes sufficiently clear, then we'll update the market.

Turning to other matters, continued strong cash flow for the quarter allowed a further reduction of net debt to $212 million as at 30 September, and that was after making the interim dividend payment of $25 million. We've also noted that we've entered into further foreign currency hedges of US$104 million across 2017 and 2018, to mitigate the risk of unfavourable movements in FX against contractors' sales.

Before handing over to Matt to provide an update on markets, I'd make the following observations. In zircon, we continue to observe tight market conditions, which we believe are largely driven by supply constraints, and in titanium dioxide feedstocks, market conditions remained favourable, with pigment customers running at or near full capacity, which has driven strong demand for very high-grade feedstocks such as rutile and synthetic rutile.

In these favourable conditions, we have made good progress in advancing off-take discussions with customers in respect of the Cataby project, and we remain confident that we can reach agreement on sufficient off-take arrangements to give us confidence to proceed with the project in the near term.

With that, I'll hand over to Matt to comment on the state of our markets.

Matt Blackwell: Thanks, Tom. Good morning, everyone. Look, a solid quarter, and I won't go through the numbers in detail, but would observe that the most pleasing aspect for me is that we are seeing both volumes and prices contributing to our top-line growth, and that we're converting our revenue into cash more quickly than we have in the past.

So turning first to the zircon market, we continue to experience very strong demand for all of our zircon products. Iluka estimates that underlying demand was greater than production in 2016, with customers' demand met last year through the drawing down on producer inventories, and we estimate demand continues to be greater than production in 2017.

However, with the exception of Iluka, today there is insufficient producer inventory to meet customer requirements, and the market has tightened significantly. Attending the recent ceramics festival in Italy, I was very impressed, I've got to say, with the innovations I saw in the ceramics sector, which account for 50% of zircon demand - innovations such as the large tile formats, colourful tiles, more white tiles, ceramic furniture, building products, et cetera. It was exciting to see just how well the uptake of these innovations into consumer products, and I left feeling encouraged by how well that sector is doing.

The pigment market continues to perform very well, with pigment producers running their facilities hard and pushing through price rises, which have returned their businesses to profitability. I don't sense any appetite in our discussions amongst our customers to create an environment whereby this recovery is short-lived.

The smaller metals market is solid, but welding is stagnant on the back of limited shipbuilding. That said, the titanium feedstock market is now experiencing the pull created by the pigment industry, which of course accounts for 90% of TiO_2 demand, and this is evidenced, I think, in Iluka's high-grade chloride feedstock sales.

Due to the lag feedstocks have with pigment, and with the growing consensus that the feedstock market has another 18 months of expansion ahead of it, this suggests we still have a lot of runway in front of us. With that, Tom, I'll hand back to you.

Tom O'Leary: Thanks, Matt. Look, I'll now open up to any questions you may have.

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

Your first question comes from the line of Clarke Wilkins from Citi. Please ask your question.

Clarke Wilson: Good morning, Tom. Listen, a couple of questions. First off, that Narngulu maintenance shutdown, does that sort of increase the ability to not have maintenance shutdown in the future, change the expectation of how much zircon can be produced next year? I think the original expectation was around the 300,000-tonne mark of zircon production for 2018.

Also, just with the US, understand your comments earlier, but obviously for you to disclose it is has to be something material. What is the actual provision for rehabilitation in the US at the moment as a starting point? Because, given if one need to flag of it, and if there's no numbers around it, obviously we're left a little bit in the dark about how material the impact could actually be.

Tom O'Leary: Just going to your first question, no, the shutdown at Narngulu and the maintenance works there don't have any impact on the expected zircon production next year.

In terms of the rehabilitation provision in the US at the moment, it's $90 million, Australian that is.

Clarke Wilson: Great, thank you.

Operator: Your next questions comes from the line of Paul Young from Deutsche Bank. Please ask your question.

Paul Young: Yeah, good morning, guys. First question, Tom, is on Cataby. I know you said here, again, good progress has been made, but this is probably the fourth time you've copied and pasted that one line. I'm just curious, are you going to have some further news on this project at your upcoming investor day? That's the first question.

Then, on Sierra Rutile, did I hear correctly that next year's production is going to be about 155,000 tonnes? Is that correct?

Tom O'Leary: I said it would be broadly consistent.

Paul Young: Okay, alright. So, just help me out here, because you guys have made a lot of decent changes, so you're saying at least, and adjustment to the plants, yet the guidance when you made this acquisition was for 160,000 tonnes to 175,000 tonnes from 2017 through to 2019. So, I'm just curious as to how production could be 10% lower.

Then also, further to that, just moving to the lower grade zone in the December quarter, I mean, production's dropping from - effectively by 17,000 tonnes in one quarter. So, just curious as to how you can see such a variation in production on a quarter-by-quarter basis. Thanks. So, starting with Cataby, that would be great.

Tom O'Leary: Okay, I'm just going to make a note of the next two. On Cataby, look, I think your question was, are we going to give a further update in November - at 10 November. Look, I don't want to impose false deadlines on commercial negotiations that are at a pretty sensitive stage, nor, Paul, do I think it's in our shareholders' interests to give a running commentary on those negotiations. I would reiterate that we're making good progress, and I remain confident that we will get this done in the second half.

On the next question - oh, sorry, go on.

Paul Young: No, you complete. I will run back.

Tom O'Leary: Okay. So, the second question was around our guidance. The original guidance was for a three-year average, and we'd anticipated a drop from 2017 to 2018 as the dredge came off. What I mention now is that it was going to be broadly consistent with 2017, and we're expecting, quite obviously, a pretty significant increase in 2019.

Your third question, I think, was around what's giving rise to variation in the quarterly production, and really that's just a geology issue. It's a mine plan going through lower grade. It's as simple as that. Having said that, I am pleased with the improvements we've made to the concentrator settings and mineral separation plant settings, and I think we're getting more from less, as I said.

Paul Young: Yeah, okay. So, is that variation in grade and production something we can expect going forward, where we jump around by 10,000 tonnes to 15,000 tonnes a quarter?

Then, back onto that production again, slide 14 of your acquisition presentation, saying, expected to average between 160,000 tonnes to 175,000 tonnes over that three-year period. We're below that bottom end. So, something clearly has gone wrong. So, I'm just wondering if you can explain why it's below what you guided to when you acquired.

Tom O'Leary: Yeah, Paul, I mean, it's mathematics, isn't it? You can have a three-year average and have one year lower than three-year average. So, that's all it is. As I've said, we're…

Paul Young: Okay, so it's interpretation.

Doug Warden: Well, Paul, just to add to that - it's Doug - look, the 2019 thing that Tom mentioned, where we expect it to be considerably higher, that's once the Gangama and Lanti expansions are up and running. So, the average incorporates that big boost from those expansions in 2019, which more than offset the dredge coming off in that year, in 2019.

Paul Young: Yeah, okay. So, maybe to rephrase again, it is therefore back-end weighted to 2019?

Tom O'Leary: Yeah, indeed.

Paul Young: Yeah, okay. Alright. Then, just on Cataby, I understand you're saying it's not in your shareholders' best interests to give a running commentary. It's certainly not something I expect, a running commentary on negotiations, but just a clarity on when we think this could be approved. That's all it is, as far as a timeframe is concerned.

Tom O'Leary: Yeah, okay. Well, I think I've given that in the second half. But to answer, we're pretty advanced in the second half at the moment, so draw your own conclusions.

To answer an earlier question though, Paul, you asked whether we can expect quarterly variations as we go through different grades. I think you can, so you know, really, you shouldn't be too focused, unless we say so, on those quarterly variations, but more on the annual guidance we're giving.

Paul Young: Okay. Alright, I'll pass it on. Thank you.

Tom O'Leary: Thanks, Paul.

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

Rahul Anand: Hi, thanks for taking the question. Just the first one - I'll do it one by one. First one's around pigment plant utilisation. I was just trying to understand if you're able to provide what sort of plant utilisation levels plants are at, at the moment. I've seen that slide in some of the old presentations, but that hasn't been provided in recent times. If anyone could help me on that, that would be great.

Tom O'Leary: Sure, I'll hand that over to Matthew.

Matt Blackwell: Rahul, it's Matt here. We think most Western chloride plants are in the low 90s.

Rahul Anand: In terms of the usual levels, what's the sort of stretch that they can get to, and at what level do you think new lines of production start coming on?

Matt Blackwell: Well, okay, there's two parts to that question. The actual utilisation varies. It will be in the mid-80s when demand is low. They will also be running - there are different parts of your plant. There's the front end and the back end, so they can sweeten up the front end with high-grade feedstocks to get more out of the back end. So, it does vary through the cycle, although we would expect, at this stage, with the continued leanness in inventory that we see through the pigment value chain, that plants continue to run at higher utilisation rates and capacities.

Your second question is when do they bring on new lines. We don't see any – and it's an interesting quandary that the pigment market faces, and something that's been talked about as recently as the pigment conference in Spain a couple of weeks ago, that there isn't any new pigment capacity, certainly, being built in the West, in chloride. There is some being built in China, but the capacity that is being built there even, is less than long-run demand growth.

Now, there is still some spare capacity in China in sulphate in areas, but in the West, it's just not there. The last production to come online was Altamira, which was Chemours' plant in Mexico. So, we don't see any other plants available to be turned back on.

Rahul Anand: Okay, excellent. So, that's going to help the switch to higher-grade feedstocks, then.

Matt Blackwell: Yeah, it bodes well for continued use of higher grade feedstocks through this part of the cycle, absolutely.

Rahul Anand: Excellent. Just on the price renegotiations, when do you usually go and - are there specific times of year when you go - and negotiate prices for feedstock?

Matt Blackwell: Look, there is, sort of, a traditional mating season, if you like, around now. It leads up to November when people are trying to get set for the following year. That's more for the stock volumes. There is the other - it depends when your contracts run off. We have a variety of arrangements in place, but people certainly tend to get more clarity about how the next year's going to pan out around this time.

Rahul Anand: Excellent. Okay, and the second one, while I have you, Matt, is just around zircon. I guess the next price update is around the first quarter of next year. I just wanted to get some understanding around where the concentrate and high-grade mix is tracking to at the moment, and I've noticed the discounts have started to taper off as well, as demand has improved.

Matt Blackwell: Yeah.

Rahul Anand: How's that going, and where do you expect it to go, into next year?

Matt Blackwell: Okay, so there's probably - I think there's three questions in there. Let me answer the last one first, in terms of discounts.

You'll recall, a couple of years ago, we switched to the reference pricing mechanism, which is sort of - it has a bit more logic to it for customers, and yes, built into that were certain - it's a loyalty structure. At times like now and going forward you would expect that - that incentive section of that pricing formula to be less than it would be when the market's not as buoyant.

So, what we're actually seeing is, in some cases, people will be paying above the reference price, so you have a positive negotiation for X. That's the first - I think that answers your last question.

Going back to your first question about concentrate mix - I think we said last year, and again this year, and we're pretty consistent and we remain on track that concentrate sales, this year, will be, maybe, in line, a little bit less than last year, and we would expect them to be less next year, as we had used these two years to clean up some legacy materials.

Our sales of premium are doing very well, and continue to be the bulk of our revenue source from zircon. What I would say is that the delta between premium and standard is also closing, and it's something you've probably picked up, or you've picked up in the pricing as we get closer to a, you know, a realised price which is closer to the reference price.

Rahul Anand: Yeah. Yeah, noted. Then, just lastly, the next price movement is probably after the first quarter, right? The quiet period?

Matt Blackwell: Yeah, look. We were very deliberate this year in going out for six months, as we said in our commentary, to demonstrate to the industry that we felt that sustainable price rises over a period of time is more appropriate than a short-lived peak.

Rahul Anand: Excellent. Thanks a lot for all that. I'll pass it on.

Matt Blackwell: Thanks, Rahul.

Operator: Your next question comes from the line of Steuart McIntyre from Blue Ocean Equities. Please ask your question.

Steuart McIntyre: Good morning, guys. I'm just looking for a bit more colour on zircon markets, and particularly producer inventories. We've heard, anecdotally, that most producer inventories are essentially gone, and that Iluka is the only player out there with any sort of material inventories, although they've been drawn down quite a lot too.

I mean, to the extent possible, can you provide a little bit more colour on that? I've had a number of questions from investors on that front.

Tom O'Leary: Yeah, sure Steuart. I'll hand that over to Matt as well.

Matt Blackwell: Yeah, Steuart, what occurred last year, when there was a period of rapid price depreciation in second quarter, was that producers moved to unload inventories, and consumers bought at those lower prices. What we saw was a clearing of the decks, and as an example, if there was roughly 200,000 tonnes of producer inventories held in China, in warehouses, our competitors probably unloaded about 80,000 tonnes over the period of six months, and then the bulk of the material that was stillleft in China after that was our material.

So, that's the sort of magnitude of stock unwind that occurred last year.

Steuart McIntyre: Okay.

Matt Blackwell: So, what we have seen in the market is that - and evidenced, I think, by the fact that people are coming to us and asking for more material, and asking us to step into the gap where other producers have been unable to supply - that producer inventories must be low, because, you know…

Steuart McIntyre: You're hearing it from your customers, yeah.

Matt Blackwell: Well, yeah. TZMI recently came out - actually, reported yesterday - and said that their average price year-to-date is $9.33 CIF, and our average price at standard and premium is $9.23 FOB. So, unless people are shipping around $12, we're not the cheapest game in town. So, if people are coming to us, it tells me that no one else has material.

Steuart McIntyre: Indeed, indeed. Okay, thanks Mark. That's very helpful.

Operator: Your next question comes from the line of Glyn Lawcock from UBS. Please ask your question.

Glyn Lawcock: Good morning, Tom. Just a few quick ones. Just on Metalysis, are you still contributing any money into that at the moment, or is that done?

Tom O'Leary: That's done, Glyn.

Glyn Lawcock: Okay, cool. Virginia, you gave Clarke the number for the provision. Is there cash in a fund, or is it just the cash on the balance sheet that will be used for rehabilitation?

Tom O'Leary: The latter.

Glyn Lawcock: Okay, thanks. And just the hedging policy, obviously you've done quite a bit. I just want to make sure I understand your new policy, or how you're going to attack this going forward. You talk about - you want to hedge contracted sales. Does this mean you're talking about every tonne? Because I would imagine, right now, you've got zircon price locked away until end of March, rutile pricing locked away until end of calendar 2017, and SR locked away until the next cycle with Cataby.

So, are you hedging 100% or all contracted, or is it 50%? How should I think about how you approach this?

Tom O'Leary: Yeah, fair comment, Glyn. I'll pass over to Doug to expand a little bit on it.

Doug Warden: Yeah, Glyn, it's not like that. It's really - when we talk about contracted, we're talking about longer-term contracts. So, beyond a year, perhaps, is how you might think about it.. Where we've got some level of surety around the US dollar price, even though it might not be absolutely fixed, there might be a floor price with potential upside, but we know we're going to get a certain level of US dollar revenue from those contracts.

We're simply trying to match what is effectively a form of hedging of that price with customers with a commensurate fixing, if you like, or some sort of surety over the FX with derivatives. So, going back many, many years, Iluka had long-term SR contracts, as you know, which were largely fixed in US dollars, and did minimal hedging around the FX in the early 2000s, and as the Aussie appreciated against the US, it resulted in a significant margin crunch as you went from, ultimately, $0.50 back in 2000 to parity and beyond. There was some hedging in those very early years, but it dropped off.

So it's really just to mitigate the fact that, if you only deal with one leg of the transaction, you leave yourself exposed to a rising Aussie dollar. But it won't necessarily be all with forwards. It has been to date. It could be that we use a mixture of forwards and Aussie dollar call options so that we have some exposure to the downside.

But at the moment, you're talking US$150 million, or US$140 million, out of US$500 million or US$600 million of revenue, so it's not hugely material. Significant, but it's not like we're talking all of our contracted sales.

Glyn Lawcock: No, but I guess, because you've only got contracted out until the end of March for rutile - think for zircon it's the end of this calendar year…

Doug Warden: We're not hedging the rutile - we're not hedging the rutile and the zircon. It's just for the SR.

Glyn Lawcock: Oh, this is just - this is all just SR, is it?

Doug Warden: At this stage, yeah.

Glyn Lawcock: Oh, okay. Just to clarify, then. You said it's a mixture of forwards and options.

Doug Warden: It could be, going forward. At the moment, it’s only forwards.

Glyn Lawcock: Okay, so you’re 149 and 79. You have to just think about how much SR you’re going to sell this year, and that would be - that’s all locked away, and then the rest is just next year, if I’m trying to split the 149 between…

Doug Warden: Correct. Most - about two thirds of it is - two thirds of that is next year.

Glyn Lawcock: Two thirds in calendar - and spread over 2018.

Doug Warden: Correct.

Glyn Lawcock: No worries. Thanks very much for that, appreciate it.

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

Tom O’Leary: Okay. Look, thank you all for dialling in. I appreciate you taking the time, and I look forward to seeing some of you at the investor day in Sydney on 10 November. In the meantime, have a good day. Thank you.

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