

**BELL POTTER****SOUTH32 (S32)**

## FY16 result

RESULTS	PROFORMA	FY16	CHANGE	CONSENSUS	BELL POTTER ESTIMATES	COMMENTS
Revenue (US\$m)	7743	5812	(25%)		5811	21% reduction in the average realised price of commodities reduced revenue
EBIT (US\$m)	1001	356	(64%)	281	327	Underlying EBIT margin 6.7%. Reduced controllable costs by a substantial US\$386M in FY16,
Underlying NP (US\$m)	575	138	(76%)	95.7	83	
Dividend (US cps)	na	1	na		1.0	US1.0 cps maiden div- ex 15 Sep, Pay 6 Oct

- The Group generated Underlying EBITDA of US\$1.1B in FY16, for an operating margin of 21.5%- in line with our estimates
- Reported a net loss of US\$1.6 billion, compared to a US\$919 million loss in FY15 (Charges included write-downs against assets, exchange rate losses and restructuring costs)
- Net operating cash flow up 53.8% to US\$1030m

**Outlook:** "Looking to FY17, we have maintained production guidance for the majority of our upstream operations and will stretch performance to meet cost targets." We are well positioned to achieve the majority of our FY17 operational cost targets, which have been adjusted to reflect revised commodity price and foreign exchange rates. Cost targets for South Africa Energy Coal and Cannington are provided for the first time. Forecast corporate costs of approximately US\$70M per annum from FY17 are almost 50% lower than envisaged at the time of listing. Worsley Alumina and Brazil Alumina saleable alumina production guidance is largely unchanged. At South Africa Energy Coal, total coal production guidance for FY17 is maintained at approximately 31Mt, albeit with a higher proportion of domestic sales. Consistent with prior guidance and in response to challenging market conditions, Australia Manganese is expected to operate below recently expanded capacity of 5.3Mwmt (100% basis), with ore production of 3.1Mwmt projected for each of FY17 and FY18. Following the completion of our first annual planning cycle, we have optimised the longer term mine plan at Cannington, with silver and lead production guidance for FY17 reduced by 2% and 3%, respectively, and zinc production guidance increased by 3%."

**Today's share price reaction:** Down 5% to \$1.95 (11.12 am)

**Recommendation:** The analyst currently has a Neutral recommendation and this is likely to be retained given S32 has largely maintained production guidance for FY17 with focus on operational cost targets as priority which have been adjusted to reflect revised commodity prices and foreign exchange rates assumptions.

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