



steel&tube

2016 HY Update

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February 2016



Disclaimer

This presentation, February 2016, provides additional comment on Steel & Tube's financial results announcement for the period ending 31 December 2015. It should be read in conjunction with the documents attached to that announcement, which highlight future outlook expectations of earnings, activities and market conditions.

Financial Highlights

- ✓ Revenue: \$265.7m – up \$7.51m or 3%
- ✓ After-tax profit: Headline \$15.9m – up \$5.1m or 47%
- Underlying \$9.9m – down \$0.9m or 8%
- ✓ EBIT: \$22m – up \$5.21m or 31%
- ✓ Net operating cash flow: \$9.4m – down \$0.7m or 7%
- ✓ Net tangible assets / share \$1.59 – up 1 cent
- ✓ Dividend / share 9 cents

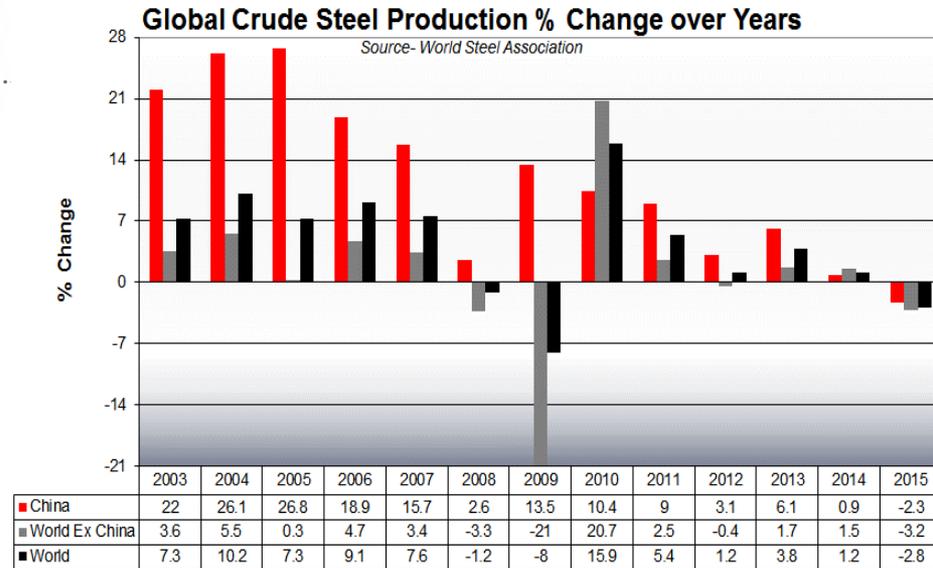
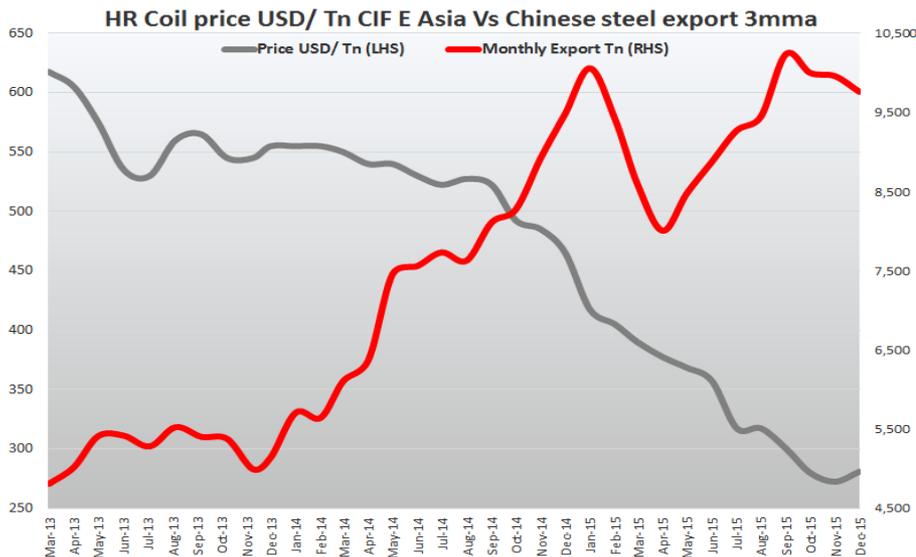
Highlights

- ✓ Sales at \$266m are a new half year high for S&T
- ✓ Despite the ongoing fall in global steel prices, underlying profit was still 92% of a comparable strong 2015 first half
- ✓ Facility consolidations and upgrades are progressing inline with plans. Bowden Rd sale helped improve headline results
- ✓ Cash flows remain strong with good controls on inventory and debtor management
- ✓ Two new acquisitions
 - ✓ MSL Fortress fastenings business acquired August 2015
 - ✓ Aquaduct plastic pipe manufacturing and Bosch Irrigation Limited acquired in September 2015
- ✓ S&T Stainless continues to meet expectations

Global markets

Steel production

- 2015 global steel production reduced by 2.8% compared to 2014
- This included most countries, with China reducing 2.3% (more than the entire UK output)
- The key exception was India which is now the third largest producer after China and Japan



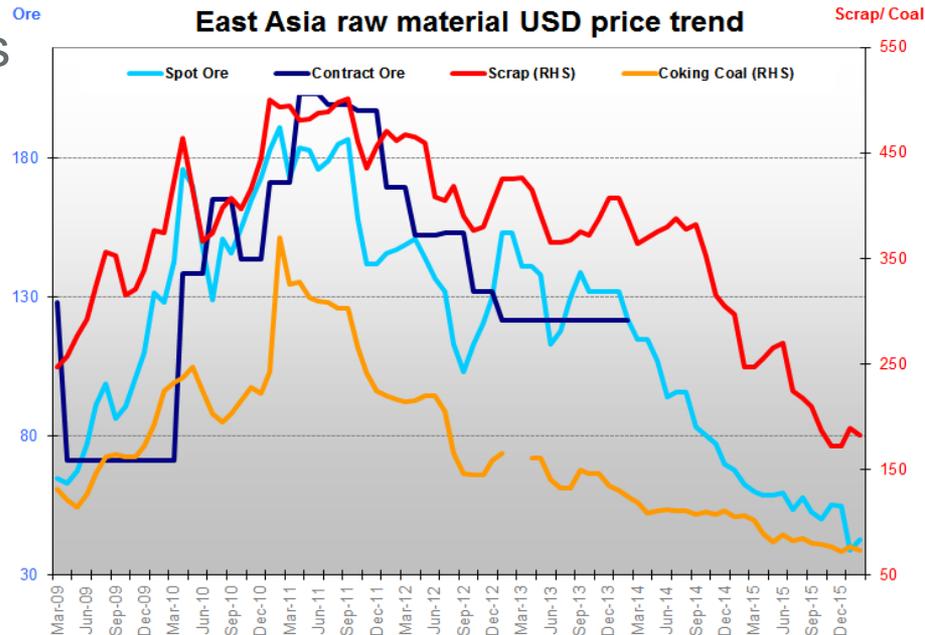
- However Chinese domestic demand has reduced considerably more than the decrease in production
- Mill utilisation globally has reduced to 64.6% with many losing money
- This has led to increasing Chinese exports; 112m tonnes in 2015
- Significantly impacting global steel prices

Global markets

Raw material and finished steel prices

- Raw material prices are now at their lowest level since 2005
- Investments have created significant excess capacity with more due online in 2016/17
- At a time when global demand and Chinese demand is easing
- Sector likely to see industry rationalisation

C&F USD East Asia Steel price trend

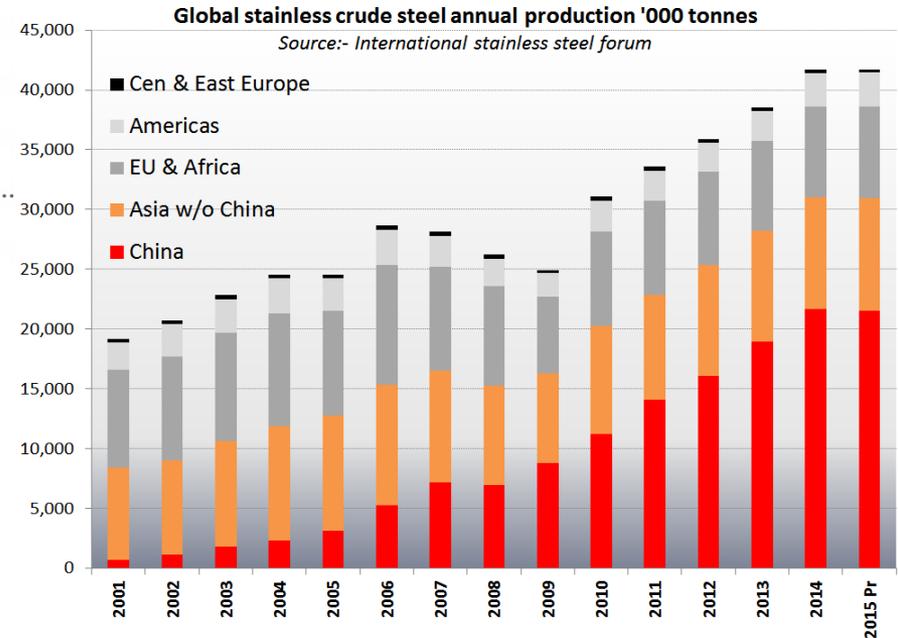


- Low raw material costs and Chinese exports have led to steel prices declining to their lowest levels since 2003
- The price decline accelerated in late 2014 through all of 2015
- Consequently numerous mills have been shutdown or companies liquidated
- Impacts distributors not just producers

Global markets

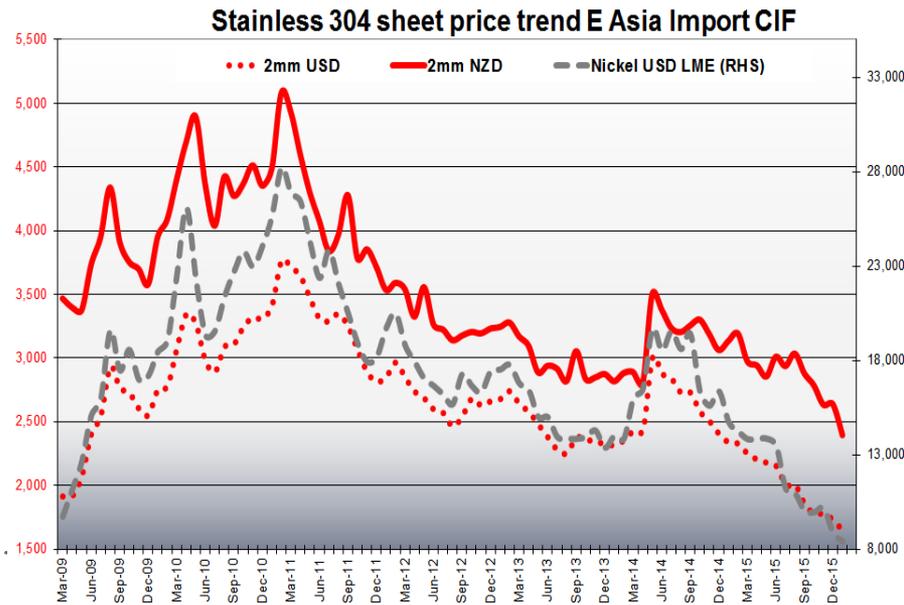
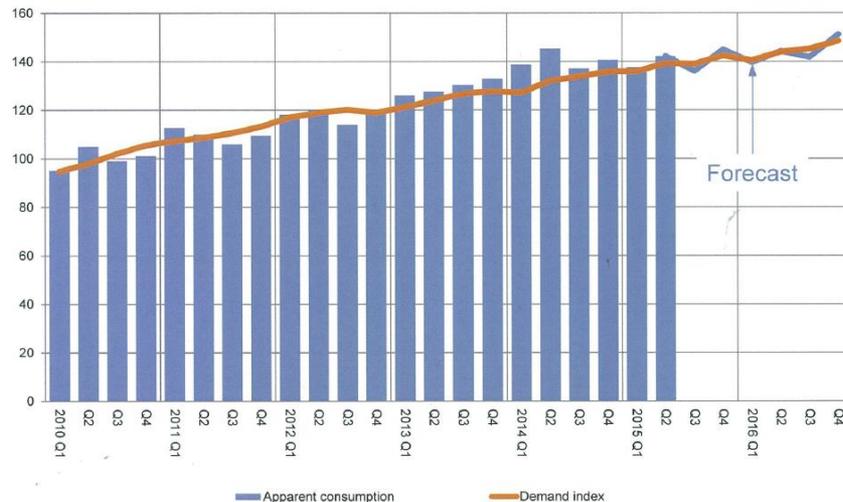
Stainless steel prices and production

- Following 5 years of growth since the GFC, 2015 production was flat
- Like carbon steel, China is now the major producer, consumer and exporter
- Prices correlate closely to nickel prices which remain volatile but trending down
- Current nickel prices of US\$7900 per tonne are the lowest since 2003



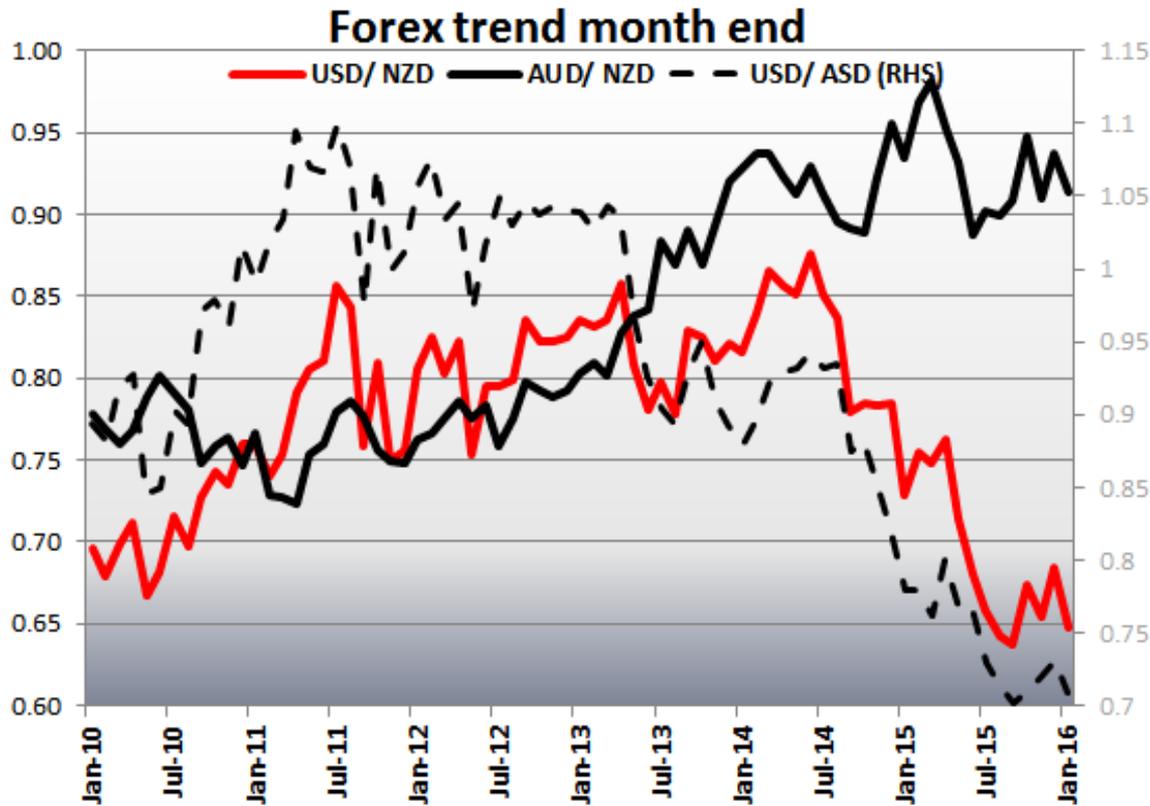
Global consolidation

Stainless steel all products consumption and demand index development [2010=100]



Global markets

Exchange rates

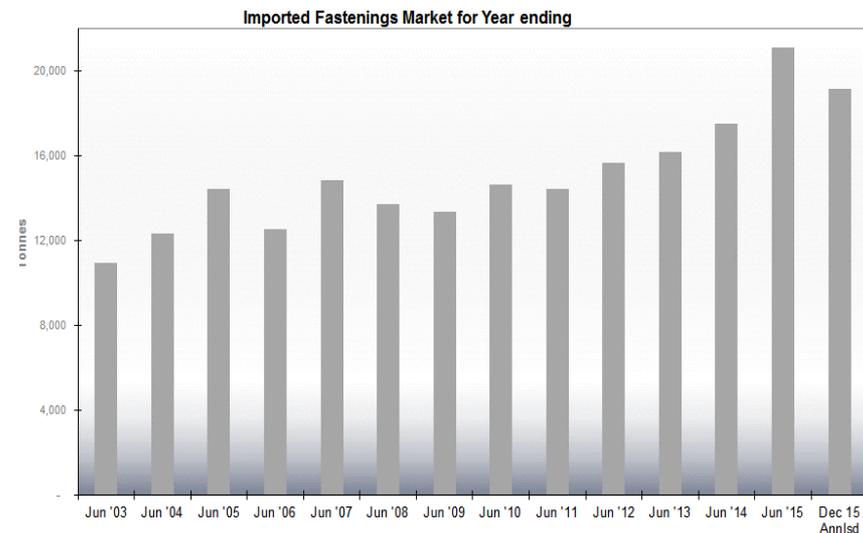
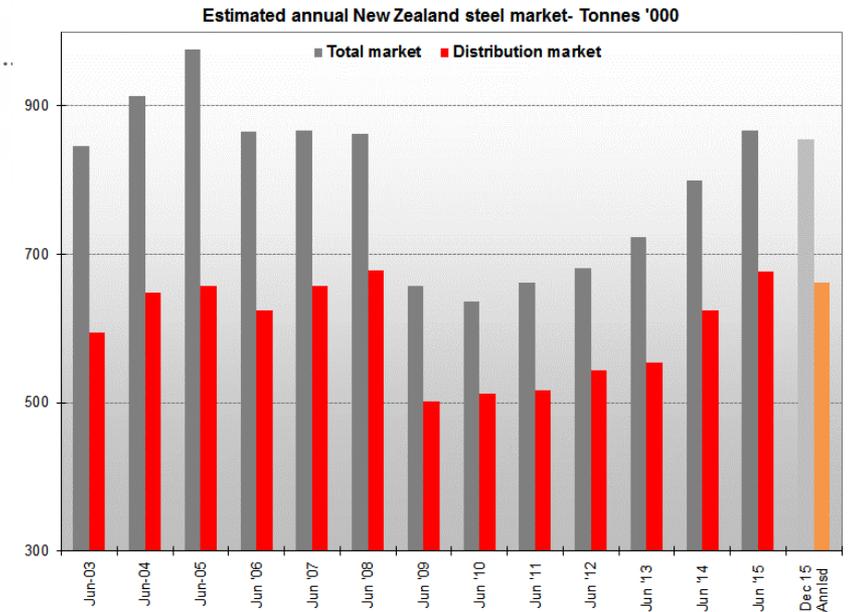
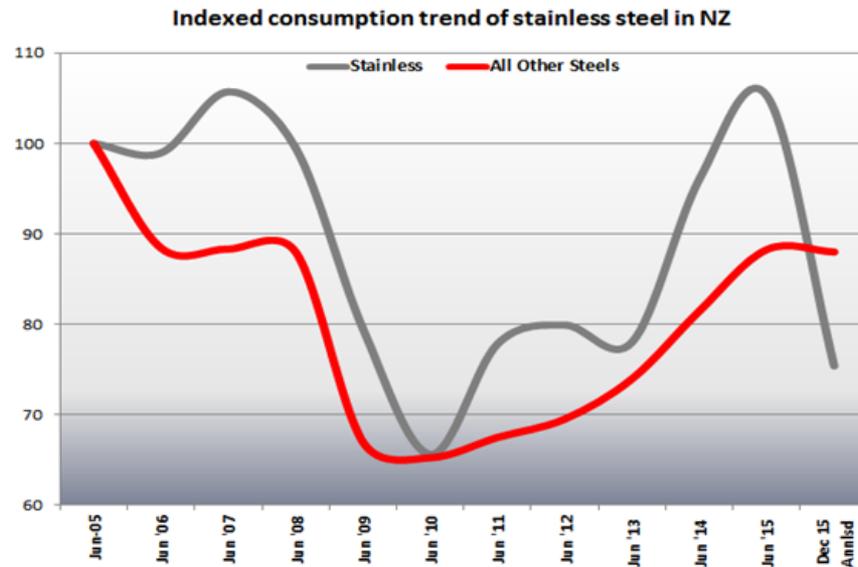


- Significant NZD depreciation to the USD over 2015
- Helped to off-set the decline in global finished steel prices domestically
- Remains elevated against the AUD impacting manufacturing exports

New Zealand markets

Steel volumes

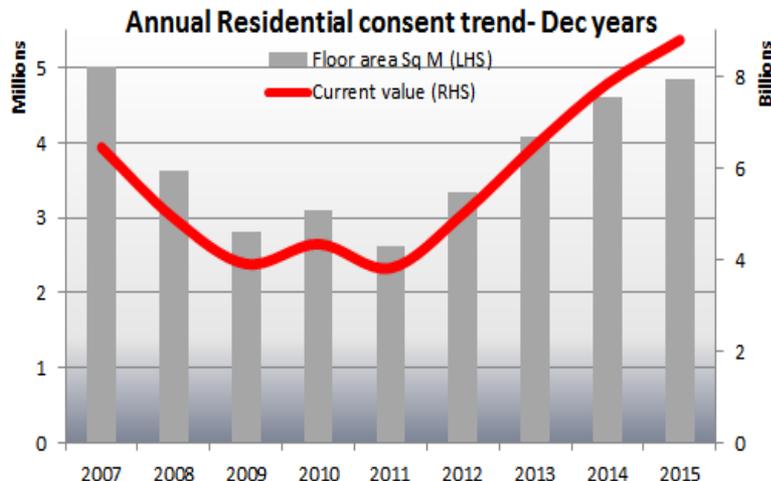
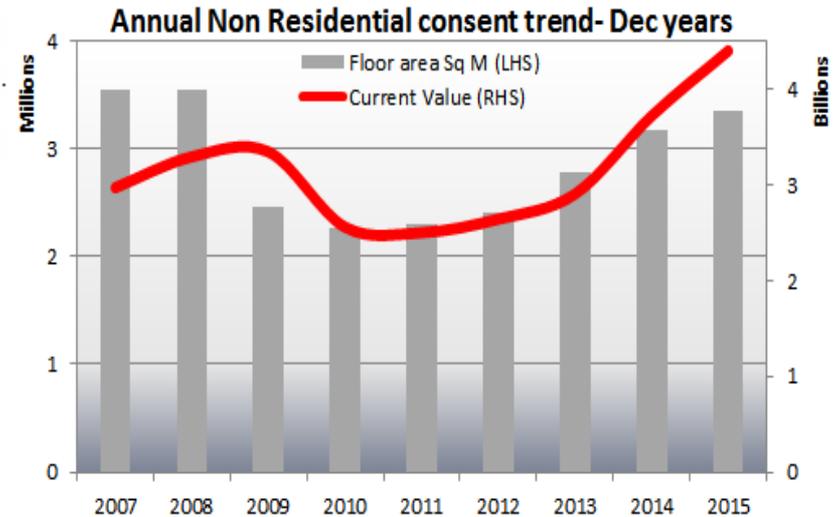
- After 5 years of recovery, steel demand is moderating in line with the overall economy
- However construction aligned products continue to grow
- Stainless has been impacted by the downturn in dairy investments
- Fastenings has also eased a little



New Zealand markets

Building consents

- Year to Dec. 2015 **Non Residential** building consent floor area increased by 6%
- Driven by a 20% increase in Canterbury and a 5% increase in Auckland
- Although the current \$ values are higher, floor areas are still 5% below the 2007 levels
- Key categories include office, education shops and storage

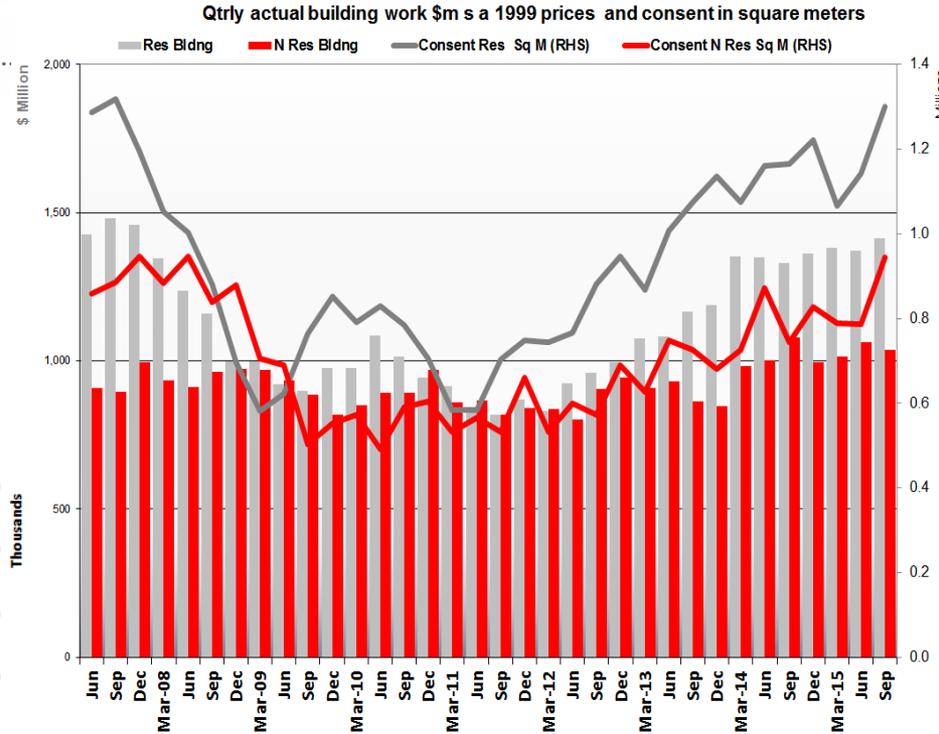
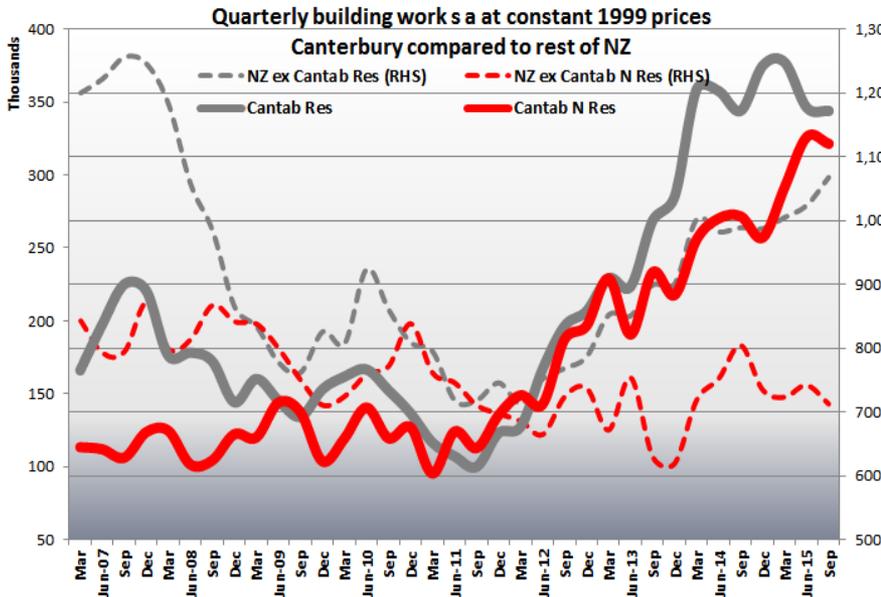


- Year to Dec. 2015 **Residential** consent floor areas increased by 5%
- Driven by a 14% increase in Auckland negating a 9% reduction in Canterbury
- Although the current \$ values are 36% higher than 2007, floor areas are still 3% lower
- Other regions experiencing growth are Bay of Plenty and Waikato

New Zealand markets

Actual building work (\$m quarterly)

- **Non Residential** work volumes increased by 5% to the year ending September 2015
- Driven by a 18% increase in Canterbury



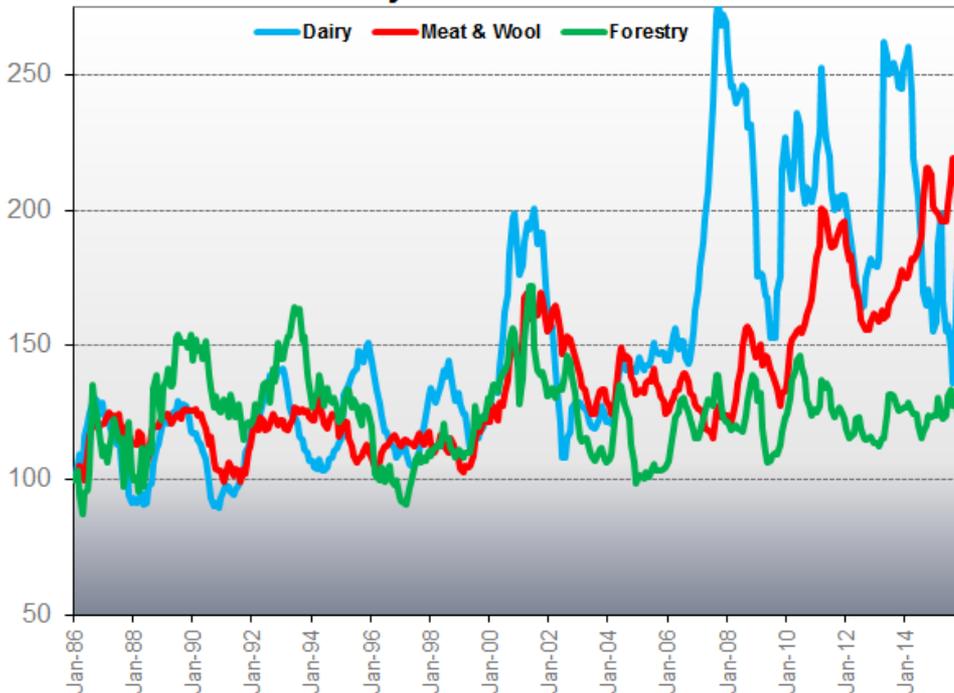
- **Residential** work volumes also increased by 6% to the year ending September 2015
- Driven by a 7% increase in Canterbury



New Zealand markets

Rural

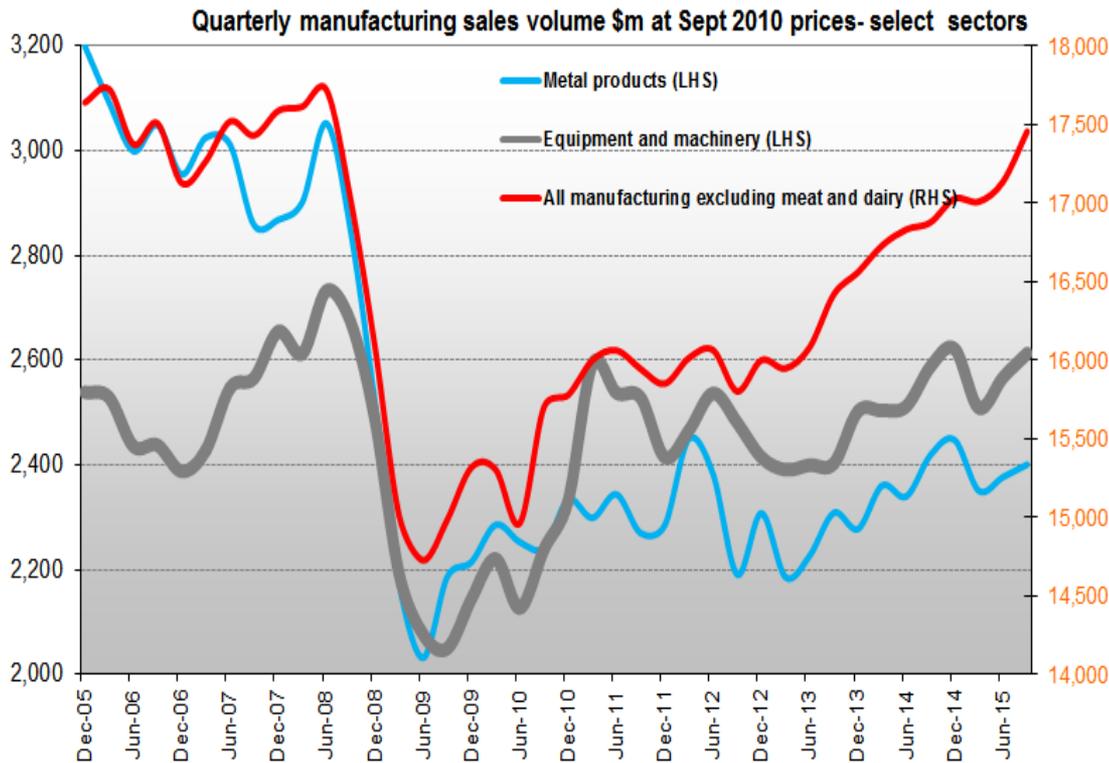
NZD Commodity Price Index-Jan 1986 base



- International dairy prices continue to decline, pay-out for the 2015-16 season was reduced by 45 cents to \$4.15 excluding dividend
- The drop in prices have been attributed to poor demand from oil producing regions, uncertainties in emerging markets, slow recovery in China for milk and excess supply from the EU following embargo by Russia
- The reduced pay-out is likely to be below the direct cost of many of the dairy operators
- Meat and wool prices while volatile, seems to be on an upward trend and a space to watch, although recent declines making sector anxious

New Zealand markets

Manufacturing (\$m)



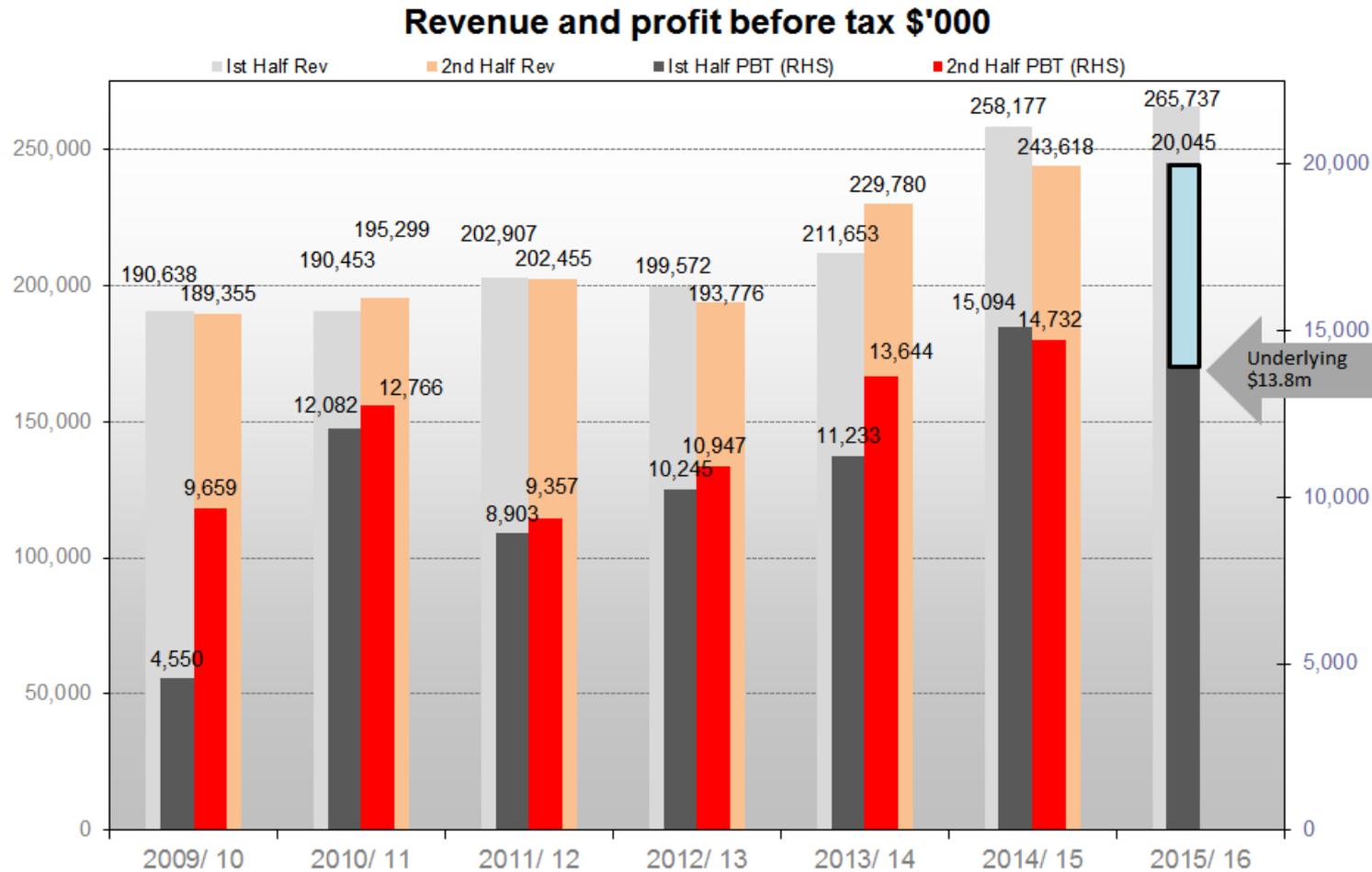
- Generally volatile, but solid growth from non food sectors
- Equipment and machinery manufacturers remain resilient
- Metal (steel and aluminium) producers are impacted by the commodity slump
- ‘All manufacturing except meat and dairy’ upswing led by petroleum and chemical manufacturing activity

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Business performance – revenue and profit



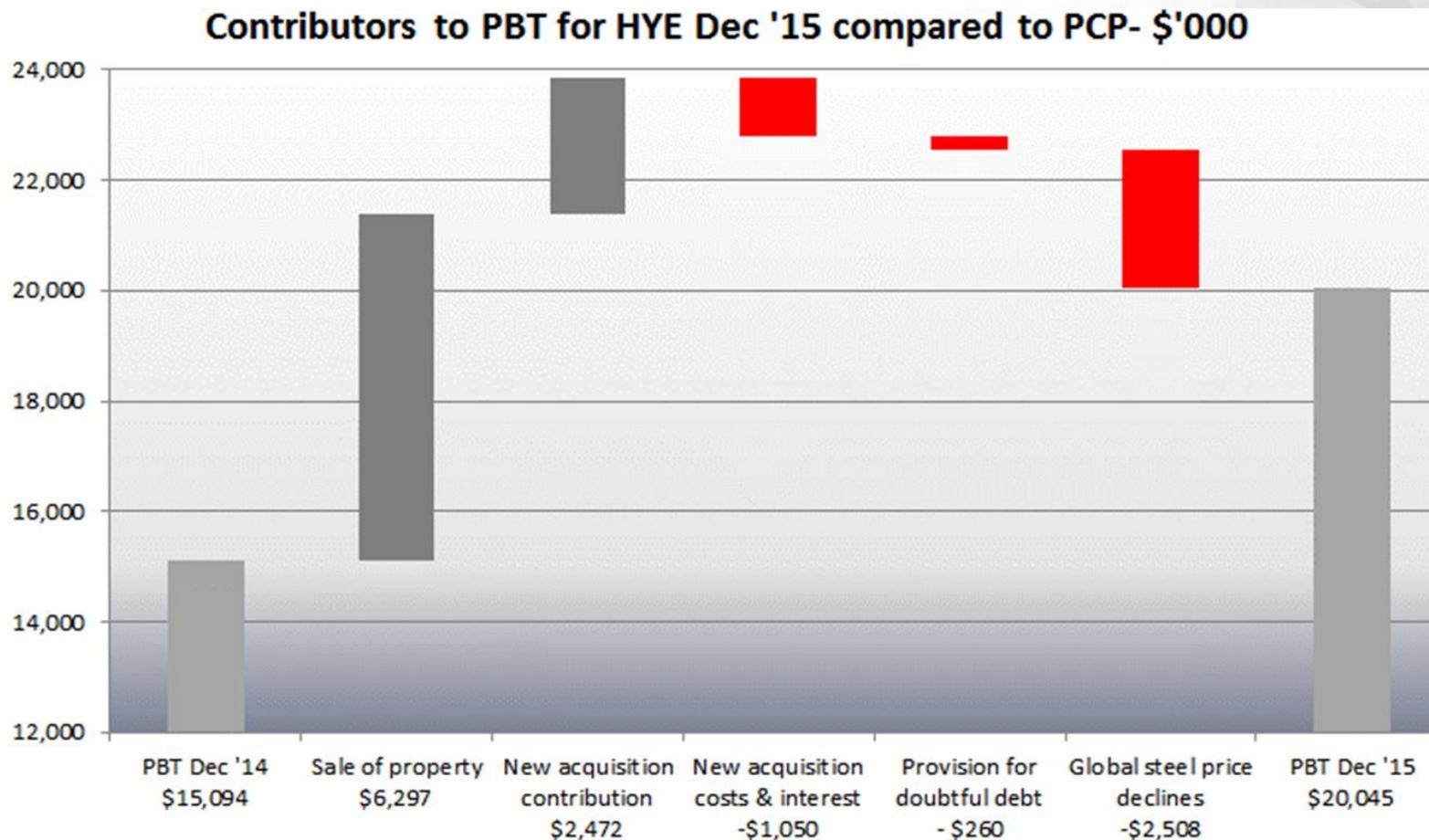
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Business performance – key profit contributors

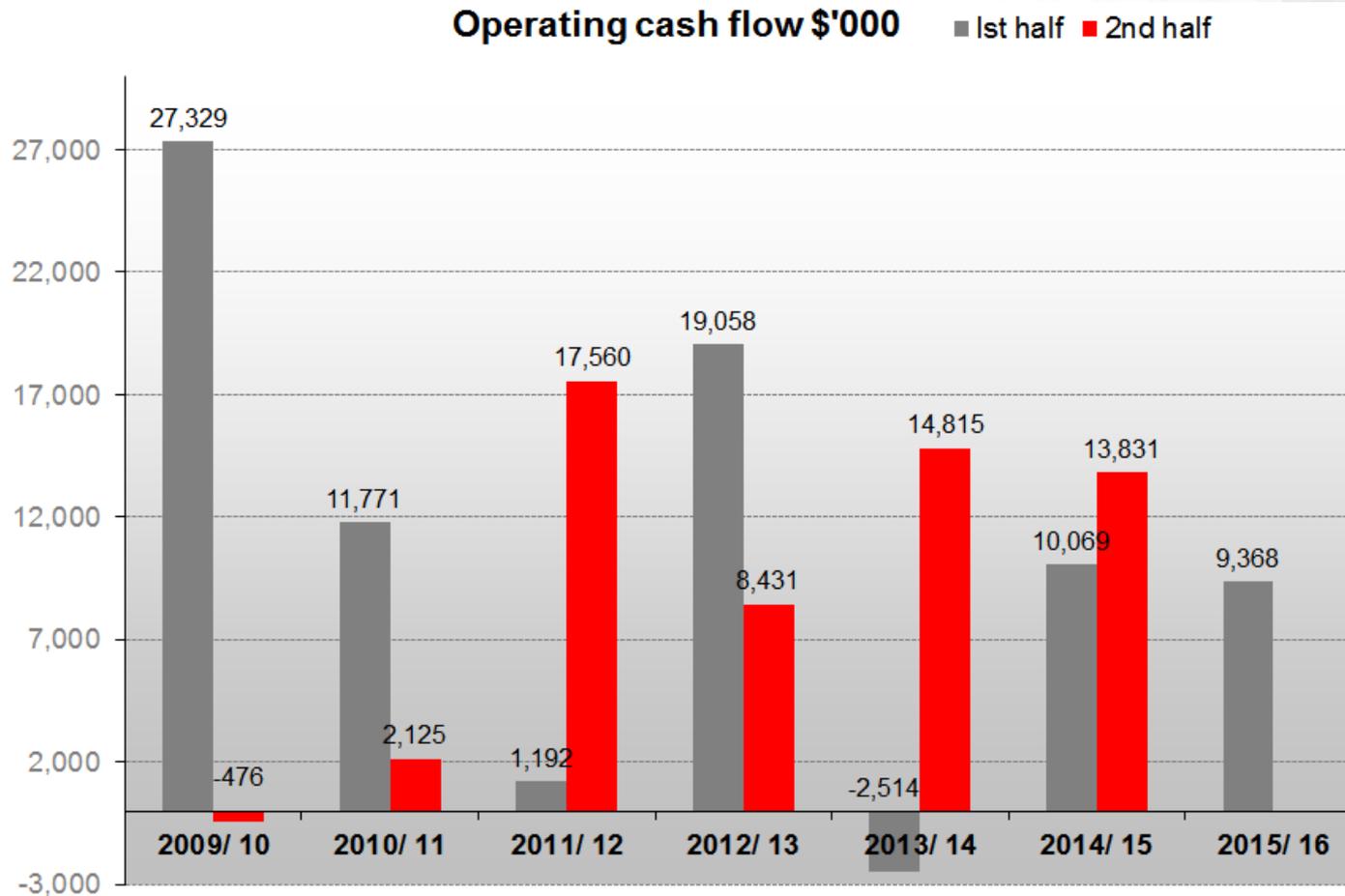
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Note: Depreciation & amortisation for the six months to Dec. 2015 is \$2.92m (Dec. 2014 \$2.47m)

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Business performance – operating cash



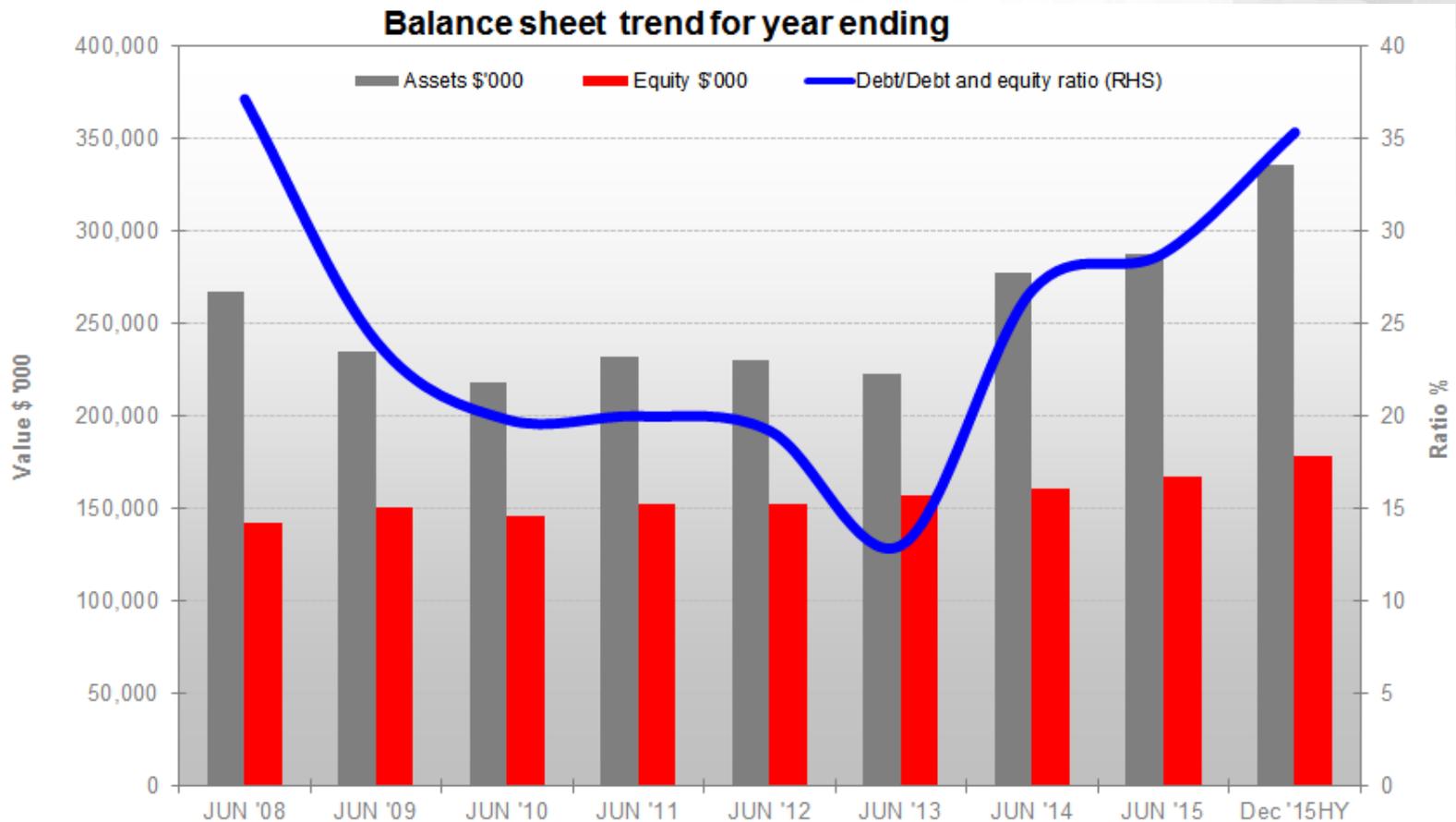
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Business performance – balance sheet and gearing


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Key milestones

Facility consolidations and upgrading

- **Reinforcing & Wire Processing, Auckland**
Is a state of the art processing facility for Auckland and the North Island. Officially opened in August 2015 by the Prime Minister
- **Coil & Purlins Processing, Auckland**
Is a state of the art processing facility for the North Island

Two strategic acquisitions

- **MSL**
Recognized for their Fortress brand with a leadership position in fastening and related products
- **Aquaduct & Bosch Irrigation (S&T Plastics)**
Acquired out of receivership, manufacture, install and service large bore polyethylene pipe primarily for farm irrigation



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Outlook

- The New Zealand's economy has moderated from the 2014 peak, nevertheless appears reasonably resilient
- Sectors important to S&T have mixed outlooks: Construction is expected to continue to underpin performance while the lack of investment in the rural sector will continue to hinder some parts
- The global commodity slump has and will continue to impact the world steel industry. Steel demand remains soft and with excess capacity for both raw materials and finished steel, prices are likely to remain soft in the medium term
- However, there are signs global finished steel prices may have bottomed
- S&T remains focussed on delivering the key initiatives that are reshaping the business
- The new acquisitions will strengthen and add to S&T's range of products, services and capabilities
- And will help offset the impact of the slower parts New Zealand economy and the on-going softness in global finished steel prices
- Consequently 2016 underlying results are expected to be consistent with 2015



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Thank you

