

**Attention ASX Company Announcements Platform  
Lodgement of Open Briefing®**



Penrice Soda Holdings Limited  
Solvay Road Osborne  
South Australia 5017

---

**Date of lodgement:** 04-Nov-2009

**Title:** Open Briefing®. Penrice. MD on Capital Raising

**Record of interview:**

**corporatefile.com.au**

Penrice Soda Holdings Limited recently announced a capital raising comprising a non-renounceable pro-rata entitlement offer of \$21.3 million and an institutional placement of \$6.8 million. The funds are to be used primarily to pay down debt, with pro-forma net debt falling to \$60.5 million from \$86.6 million as at 30 June 2009, and pro-forma gearing (net debt/net debt + equity) falling to 41 percent from 58 percent. How is Penrice positioned to service this level of debt?

**MD Guy Roberts**

We continue to operate within our debt covenants and with the support of our banks. We're also seeing continued improvement in profits and cash flows, which should consolidate the improvement in our financial position post raising. On this basis, we're comfortable with the reduced level of debt and believe the raising secures the funding and liquidity needs of the business. In determining the size and structure of the raising, we considered the interests of all our stakeholders, particularly our existing shareholders.

**corporatefile.com.au**

You've indicated that up to \$8 million of the capital raising could fund the potential expansion of your sodium bicarbonate plant to 125,000 tpa from 100,000 tpa currently. Given the plant was expanded by 25,000 tpa over the past two years, what is the expected timing of the proposed new capacity and what gives you confidence the market will support this level of capacity expansion?

**MD Guy Roberts**

In principle the board has accepted the business case we've developed to support the further expansion of the plant and we plan to seek formal board approval at the end of March 2010 following completion of a detailed feasibility study. The expansion works would take up to a year, so we'd be commissioning the expanded capacity around the June quarter of 2011 and starting to sell product in the following months. On our current forecasts, we'd expect to sell out the expanded capacity within about 18 months, that is, by the December quarter 2012.

It's worth noting this potential \$8 million plant expansion is underpinned by technology that's very familiar to us and that it's simply an extension of our existing plant. We also have a good understanding of sodium bicarb demand dynamics. We have an order book we can't currently fulfil; we're being encouraged by our customers to supply more product into the areas where we've been experiencing strong uptake, largely the food, pharmaceutical, personal care, medical and industrial sectors in Asia. Further afield, we're seeing strong demand in Africa from the mineral processing sector and in Europe from the food and pharmaceuticals sectors. Demand for bicarb, given it's underpinned by human food consumption and health requirements, is fairly resilient through the economic cycle.

**corporatefile.com.au**

You've indicated that projected returns from the proposed sodium bicarbonate expansion would be well above your return on net assets (RONA) hurdle rate of 15 percent. The recent expansion is expected to add sales of \$13 million and EBITDA of \$4 million per annum by the 2011 financial year. Will the contribution from the new capacity be commensurate? What is the sensitivity of these projections to export demand and the Australian dollar exchange rate?

**MD Guy Roberts**

We expect the returns from the new expansion to be similar, with the potential upside from the lower capital requirement compared with the 2009 expansion offset by the potential downside from the impact on EBITDA of a higher Australian dollar. Most of the increase in production will go into export markets, predominantly into the food and pharmaceutical markets where demand is fairly robust. In addition, the customer mix is spread over a number of different countries and industries which mitigates the risk of customer or sector dependence.

**corporatefile.com.au**

You've previously indicated that your soda ash operation was not earning the hurdle RONA. What is the outlook for returns in the current year ending June 2010 given the recent renegotiation of the Amcor contract?

**MD Guy Roberts**

We've indicated returns from our soda ash business are suboptimal as a result of long-term legacy contracts that don't meet our hurdle rate. With the recent renegotiation of a number of these contracts and further renegotiations underway, we expect to improve returns in this business. We don't expect to achieve the hurdle return in the current year, but on the basis of the renegotiated contracts, we're confident our soda ash returns will exceed the hurdle RONA in the medium term.

**corporatefile.com.au**

First quarter performance was on budget and ahead of the previous corresponding period, and you remain confident that underlying net profit after tax (NPAT) for the current year will exceed the \$9.0 million reported in 2009. What assumptions underlie this expectation?

**MD Guy Roberts**

We expect the main drivers of our improved profit to be the sales from our 2009 sodium bicarbonate plant expansion and the uplift in revenue from our renegotiated soda ash contracts, although the full-year impact of a number of these contracts won't be realised until the 2011 financial year. We also expect continuing strong sales of aggregate into the civil and construction markets in Adelaide, including the major Northern Expressway project. Operationally, we expect these commercial outcomes to be underpinned by the improved reliability of our chemical assets following our investment under the Way Forward Plan, and by a lower cash operating cost at our mine reflecting the reduction in the rate of overburden extraction.

**corporatefile.com.au**

The Australian dollar exchange rate averaged US\$0.90 in the September quarter, compared with an average of US\$0.75 in the 2009 financial year. What impact is this having on Penrice's export demand and overall earnings?

**MD Guy Roberts**

Since we're an importer as well as manufacturer of soda ash, our direct exposure to the stronger Australian dollar is offset to some extent. But, there's likely to be some increase in competitive activity as a result of the US dollar price of chemicals decreasing in Australian dollar terms. We have a very strong market franchise in Australia and we'd expect to maintain our position, as we have to date, through providing excellent levels of customer service and a compelling value proposition.

On the export side, we have a large export order book in sodium bicarb, which is sold in US dollars. So while export demand for bicarb isn't impacted by exchange rate variances, and hasn't been impacted by the global financial crisis, our Australian dollar earnings will be impacted. On the basis of our forecast net US dollar receipts, on an unhedged basis for every 1 cent movement in the AUD/USD exchange rate there would be an impact of approximately \$200,000 at the NPAT line over a full 12-month period. Under the hedging program we have in place, the NPAT impact is expected to be about \$130,000 for each 1 cent movement up to 89 cents to the US dollar and \$30,000 for each 1 cent movement above 89 cents to the US dollar.

**corporatefile.com.au**

You've indicated you expect to resume paying dividends for the 2010 financial year based on a payout ratio of 40 to 50 percent of net profit. No dividend was paid in 2009. Given Penrice's actual payout was above 60 percent in the past, what is the rationale for reducing the ratio?

**MD Guy Roberts**

The board has carefully considered the level of dividends and has attempted to take a long-term view of the business and its sustainability. The reality is this business is a heavy industrial chemical business with a large quarry and mining operation. We need to set the business up for long-term success by reinvesting in the chemical assets and ensuring the mine is capable of producing long-term limestone supply.

The board's decision as to when it will recommence the payment of dividends will depend on a number of factors including the financial performance of the company through the remainder of the financial year.

**corporatefile.com.au**

In July, Penrice held an EGM at which one of your substantial shareholders sought to remove Chairman John Heard, who has chaired the company since its listing in 2005. John retired from the board at last week's AGM. To what extent was the chairman's retirement prompted by shareholder dissatisfaction with the performance of the company since its listing? Will you seek a replacement for John on the board?

**MD Guy Roberts**

John determined that it was an appropriate time to retire given he's successfully installed me as CEO along with a new executive team, developed and executed the Way Forward Plan which invested \$50 million over three years and is on track to deliver an improvement of \$9 million per annum in EBITDA, and successfully got this capital raising underway. John has been a director of Penrice for seven years and has been a very successful chairman, hugely committed to improving the company. Our incoming Chairman David Trebeck is clearly very well credentialed, as a director of a number of listed companies and a director of Penrice for two years.

The board has been very pleased with the support we've had for the capital raising from existing shareholders and new investors. We look forward to working with our new chairman to deliver improved profits and returns for our shareholders going forward.

**corporatefile.com.au**

Thank you Guy.

---

For further information on Penrice Soda Holdings Limited visit [www.penrice.com.au](http://www.penrice.com.au) or call CFO Frank Lupoi on (08) 8402 7280

To read other Open Briefings by Penrice, or to receive future Open Briefings by email, please visit [www.corporatefile.com.au](http://www.corporatefile.com.au)

**DISCLAIMER:** Corporate File Pty Ltd has taken reasonable care in publishing the information contained in this Open Briefing®. It is information given in a summary form and does not purport to be complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We strongly advise that you seek independent professional advice before making any investment decisions. Corporate File Pty Ltd is not responsible for any consequences of the use you make of the information, including any loss or damage you or a third party might suffer as a result of that use.