Kagara Limited (ASX:KZL) Announce Financial Results for Year Ending 30 June 2011

23.08.2011 | ABN Newswire

Perth, Australia (ABN Newswire) - Kagara Limited (ASX:KZL) ('Kagara' or 'the Company') today announced an underlying net profit after tax (excluding non-recurring items) of $2.1 million for the 12 months to 30 June 2011. As a result of a total pre-tax impairment charge of $48.5 million including a write-down in the carrying value of some mining assets and resources, the Company reported a net loss after tax for the year of $32.2 million.

The decision to write-down the carrying value of two of the Company's underground mines, Mungana and Mt Garnet, and apply a conservative revaluation of its resources and reserves follows a company-wide strategic review initiated in April this year by Kagara's new Managing Director.

The impairment charges - together with other one-off restructuring costs associated with the implementation of the Company's new Business Improvement initiatives - reflect what has been a significant period of change and repositioning for Kagara. The adjustment of carrying values for these mineral assets will ensure that Kagara's balance sheet is appropriately restructured for the future.

The underlying net profit of $2.1 million - which compares with a $3.7 million net profit after tax for FY10 - was struck on sales revenue from the sale of zinc, lead and copper concentrates of $240.7 million, representing an 8 per cent increase on the previous financial year (FY10: $223.4 million). EBITDA for the year increased by 32 per cent to $49.2 million (FY11: $37.4 million), while gross profit was steady at $16.5 million (FY10: $16.4 million).

Depreciation and amortisation charges were $46.2 million (FY10: $32.3 million), while consolidated costs associated with expensing employee options totalled $3.2 million [KZL costs= $1.5 million; MUX costs = $1.7 million], compared with $0.5 million (consolidated) for FY10.

Finance costs were lower at $2.0 million for the year (FY10: $6.7 million). The average realised US$ exchange rate for the year was A$1.02 compared with an average of $0.88 in FY10.

Earnings were negatively influenced by the impact of the higher Australian Dollar and concentrate stockpile adjustments at year-end, offset by higher average copper and zinc prices for FY11.

The Company continued to invest in the future of the business, with a substantially increased exploration spend for FY11 of $25.1 million [KZL costs = $15.1 million; MUX costs = $10 million]. Of Kagara's direct spend of $15.1 million, approximately $9 million was incurred in Q4FY11, demonstrating a substantial ramp-up in exploration expenditure in the second half of the year. A total exploration budget of approximately $27 million [KZL direct] has been set for FY12.

In addition, Kagara spent a total of $24 million on capital development at its mining operations, of which the majority was incurred on the reconfiguration of the Thalanga concentrator from a copper-only circuit to a polymetallic circuit and the development of the nearby Vomacka open pit.

Kagara's net asset position as at 30 June 2011 was $496.6 million, a decrease of 2 per cent from the previous financial year. Cash on hand was $56.5 million [KZL = $25.3M; MUX = $31.2M] (FY10: $82.7 million) and receivables were $23.3 million (FY10: $16.5 million).

The Company had substantial concentrate stockpiles on hand and yet to be invoiced totalling 20,517t at year-end. These stockpiles comprised 10,272t of copper concentrate, 8,709t of zinc concentrate and 1,536t of lead concentrate with an estimated sales value of approximately $21 million based on closing metal prices as at 30 June 2011. This was a significant increase on the closing concentrate stockpile levels of 2,869t at the end of FY10.

The high level of concentrate stockpiles at year-end reflected a combination of significant production improvements during the June Quarter and a State-wide shortage of trucks which restricted the Company's ability to transport concentrate to points of sale.

Impairment Charges

The pre-tax impairment charge of $48.5 million predominantly comprises a write-down in the book value of the Mt Garnet and Mungana underground mines.

A pre-tax impairment charge of $10.3 million is attributable to the decision to place the Mt Garnet mine on care and maintenance in the first half of FY12. The mine will be reactivated once the zinc price rises to a level that makes further development of the deposit attractive. In the meantime, personnel and equipment will be re-deployed once mining operations cease.

At Mungana, a negative reconciliation of mine production against reserves resulted in an impairment charge of $31.6 million. This reflects a conservative rationalisation of the carry-forward values of resources and reserves at Mungana which was made after development drilling revealed that the ore body is less continuous between levels 1600 RL and 1450 RL.

Accordingly, the Company has decided to adopt a conservative approach to the remaining reserves and resources at Mungana until underground drilling and development indicates a return to the more robust nature of the deposit experienced in the upper levels.

In addition, Kagara has decided to change its company-wide valuation method for resources, resulting in a decision to reduce the carrying value of its resources from 100 per cent to 70 per cent, reflecting an achievable conversion rate based on recent mining experience.

Production

The financial results were based on copper production for the year of 22,530t (FY10: 20,214t) and zinc production of 40,125t (FY10: 43,970t).

Metal production for the year was impacted by the prolonged wet season, with the main effects being a delay in the commencement of mining at the Vomacka open pit at Thalanga and in reconfiguring the Thalanga concentrator from a copper-only circuit to a polymetallic circuit, reduced haulage of higher grade Mungana ore to Mt Garnet as a result of road closures and some plant down-time during the passage of Cyclone Yasi.

However, beyond these weather related impacts, production improved significantly in Q4FY11, demonstrating the capacity of the operations to deliver significantly increased production; of particular note was an increased in zinc production to an annualised run rate of 62,000t for the quarter and 120,000t for the month of June.

Copper cash operating costs after by-product credits from the Mt Garnet copper circuit were US$1.75/lb of payable copper produced (FY10: US$1.44/lb). Polymetallic cash operating costs after by product credits were US$0.80/lb of payable zinc (FY10: US$0.56/lb) from the Mt Garnet and Thalanga polymetallic plants.

At the Lounge Lizard nickel operation in Western Australia, production totalled 48,628t of nickel ore grading 3.6% nickel. This ore was a combination of stope and development ore. A total of 42,978t were processed during the year for 1,434t of nickel in concentrate and stockpiles at year end were approximately 6,658t at 4.8% nickel.

Commentary and Outlook

As announced during Q4FY11, an exploration budget of approximately $27 million [KZL direct] has been set for North Queensland during FY12. The aim of this exploration program is to outline an 8-12 year production profile at each of the Company's Queensland operating provinces (Mungana, Mt Garnet and Thalanga).

A further $3-4 million has been budgeted for nickel exploration and development in the Forrestania region of Western Australia. Business improvement and optimisation programs are continuing across the organisation, with the results of some of these new initiatives to be announced during September.

Commenting on the results, Kagara's Managing Director and CEO, Geoff Day, said:

'The 2011 financial year marked a significant turning point for Kagara in a number of respects. The financial performance of the business for the year was clearly disappointing, and we have had to make a number of tough decisions particularly with respect to the carrying values of the Mt Garnet and Mungana operations. We believe this to be a prudent and responsible measure, which will effectively clear the decks and reposition the Company for future growth.

'We have embarked on a number of initiatives to improve and optimise Kagara's operations, including the establishment of an internal Business Improvement team, assisted by external consultants Partners in Performance.

'Some of these improvements have already been reflected in reduced cash operating costs and stronger production in the June Quarter - and our focus is now on maintaining this momentum over the coming Quarters.

'We are now investing heavily in the future of the business, with a $27 million exploration budget for FY12 for North Queensland. When drill rigs are turning it is always an exciting time and, given the potential of Kagara's tenements, we are very optimistic of success in the coming year.

'The Company is currently preparing a comprehensive 5-year strategy update and outlook, which will include detailed production guidance for FY12. This will be announced to the market on 21 September as part of a previously announced investor site visit to our North Queensland operations. Accordingly, we will not be releasing a detailed outlook statement as part of these financial results

'Kagara has outstanding assets and outstanding people and, with the range of initiatives underway within the Company, I am confident that the future is extremely bright. I look forward to updating the market on our progress in September and outlining our proposed pathway to becoming a dominant ASX-listed zinc and copper producer.'

About Kagara Limited:

Kagara Limited is an S&P ASX 200 Australian resources group and one of Australia's lower cost producers of zinc, copper, lead and nickel.

The Company's base metals operations centre on the Mt Garnet-Chillagoe region of north Queensland, with three underground mines, one open pit mine and three processing facilities and a substantial production profile targeting copper production of 23,000 tonnes in FY2011 and zinc production of 100,000 tonnes in FY2012.

Production is also underway at the Lounge Lizard Nickel Project in Western Australia at a targeted nickel ore production rate of 50,000 tonnes per annum.

In addition, Kagara holds an extensive portfolio of high quality development and exploration assets, including the world-class Admiral Bay zinc-lead-silver-barite deposit in Western Australia, capable of delivering long term growth for the Company's shareholders well into the future.

Source:

Kagara Limited

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