

Ternium S.A.
Form 6-K
October 31, 2018
FORM 6 - K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer
Pursuant to Rule 13a - 16 or 15d - 16 of
the Securities Exchange Act of 1934

As of 10/30/2018

Ternium S.A.
(Translation of Registrant's name into English)

Ternium S.A.
29 Avenue de la Porte-Neuve – 3rd floor
L-2227 Luxembourg
(352) 2668-3152
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or 40-F.

Form 20-F a Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12G3-2(b) under the Securities Exchange Act of 1934.

Yes No

If “Yes” is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):
Not applicable

Edgar Filing: Ternium S.A. - Form 6-K

The attached material is being furnished to the Securities and Exchange Commission pursuant to Rule 13a-16 and Form 6-K under the Securities Exchange Act of 1934, as amended.

This report contains Ternium S.A.'s press release announcing third quarter 2018 results.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TERNIUM S.A.

By: /s/ Pablo Brizzio

Name: Pablo Brizzio

Title: Chief Financial Officer

By: /s/ Máximo Vedoya

Name: Máximo Vedoya

Title: Chief Executive Officer

Dated: October 30, 2018

Sebastián Martí
Ternium - Investor Relations
+1 (866) 890 0443
+54 (11) 4018 8389
www.ternium.com

Ternium Announces Third Quarter and First Nine Months of 2018 Results

Luxembourg, October 30, 2018 – Ternium S.A. (NYSE: TX) today announced its results for the third quarter and first nine months ended September 30, 2018.

The financial and operational information contained in this press release is based on Ternium S.A.'s operational data and consolidated condensed interim financial statements prepared in accordance with IAS 34 "Interim financial reporting" (IFRS) and presented in US dollars (USD) and metric tons.

Summary of Third Quarter 2018 Results

	3Q 2018	2Q 2018 ¹		3Q 2017	
Steel Shipments (tons)	3,143,000	3,322,000	-5 %	3,070,000	2 %
Iron Ore Shipments (tons)	914,000	916,000	0 %	938,000	-3 %
Net Sales (USD million)	2,903.0	2,936.2	-1 %	2,535.0	15 %
Operating Income (USD million)	689.3	563.1	22 %	349.8	97 %
EBITDA ² (USD million)	831.7	712.4	17 %	466.1	78 %
EBITDA Margin (% of net sales)	28.6	% 24.3	%	18.4	%
EBITDA per Ton ³ (USD)	264.6	214.5		151.8	
Income Tax Expense (USD million)	(75.9)	(189.6)		(103.8)	
Net Income (USD million)	523.4	304.2		232.7	
Equity Holders' Net Income (USD million)	488.5	305.9		194.9	
Earnings per ADS ⁴ (USD)	2.49	1.56		0.99	

EBITDA of USD831.7 million, 17% higher sequentially, with higher EBITDA margin and lower shipments.

Earnings per ADS of USD2.49, an increase of USD0.93 per ADS.

Free cash flow in the third quarter 2018 of USD340.0 million after capital expenditures of USD116.5 million.

Ternium's operating income in the third quarter 2018 was USD689.3 million, a USD126.2 million increase compared to operating income in the second quarter 2018 mainly due to a USD40 increase in steel revenue per ton and a USD13 decrease in the steel segment's operating cost per ton, partially offset by lower steel shipments. The company's shipments were 179,000 tons lower sequentially as a result of a 196,000 tons decrease in Mexico and a 58,000 tons decrease in the Southern Region, partially offset by an increase of 76,000 tons in Other Markets.

Compared to the third quarter 2017, the company's operating income in the third quarter 2018 increased USD339.5 million, due mainly to a 73,000-ton increase in shipments, an USD89 increase in steel revenue per

ton and a USD16 decrease in the steel segment's operating cost per ton. The increase in shipments mainly reflected the consolidation of Ternium Brasil as from September 2017, partially offset by lower demand for steel products in the Southern Region and Mexico. Revenue per ton increased mainly as a result of higher realized prices in Mexico and Other Markets, partially offset by lower revenue per ton in the Southern Region.

The company's net income in the third quarter 2018 was USD523.4 million, compared to USD304.2 million in the second quarter 2018. The USD219.1 million increase in net income was mainly due to the above-mentioned higher operating income and a lower effective tax rate, partially offset by higher net financial expenses. Significant changes in the value of the Mexican peso versus the US dollar (appreciation of 6% in the third quarter 2018 compared to depreciation of 8% in the previous quarter) produced sequential fluctuations in the effective tax rate due to changes on deferred taxes.

Relative to the prior-year-period, net income in the third quarter 2018 increased USD290.6 million, mainly due to higher operating income and lower effective tax rate (mostly as a result of the effect of foreign exchange rate fluctuations), partially offset by higher net financial expenses.

Summary of First Nine Months of 2018 Results

	9M 2018	9M 2017	
Steel Shipments (tons)	9,987,000	8,186,000	22%
Iron Ore Shipments (tons)	2,759,000	2,676,000	3%
Net Sales (USD million)	8,551.9	6,932.8	23%
Operating Income (USD million)	1,701.0	1,106.8	54%
EBITDA (USD million)	2,144.9	1,428.8	50%
EBITDA Margin (% of net sales)	25.1	% 20.6	%
EBITDA per Ton (USD)	214.8	174.5	
Net Income (USD million)	1,210.8	824.9	
Equity Holders' Net Income (USD million)	1,137.4	706.0	
Earnings per ADS (USD)	5.79	3.60	

EBITDA⁶ of USD2.1 billion in the first nine months of 2018, a 50% year-over-year increase mainly as a result of higher EBITDA per ton and higher shipments.

Earnings per ADS of USD5.79, a year-over-year increase of USD2.20 per ADS.

Capital expenditures of USD344.4 million, up from USD282.9 million in the first nine months of 2017.

Net debt position of USD2.1 billion at the end of September 2018, down from USD2.7 billion at the end of December 2017 and equivalent to 0.8 times net debt to last twelve months EBITDA.

Operating income in the first nine months of 2018 was USD1.7 billion, a USD594.2 million increase compared to operating income in the first nine months of 2017 mainly due to a 1.8 million-ton increase in steel shipments, stable steel revenue per ton and a USD24 lower steel operating cost per ton. The increase in volume was mainly a result of the increase in Other Market's shipments, due to the consolidation of Ternium Brasil's slab sales since September 2017. Cost per ton decreased mainly reflecting higher integration in our operations and lower semi-fixed costs, partially offset by higher purchased slab costs.

Net income in the first nine months of 2018 was USD1.2 billion, compared to net income of USD824.9 million in the first nine months of 2017. The USD385.9 million increase in the year-over-year comparison was mainly due to higher operating income, partially offset by higher net financial expenses and slightly higher effective tax rate mostly as a result of the effect of foreign exchange rate fluctuations.

Application of IAS 29 in financial reporting of Argentine subsidiaries and associates

IAS 29 requires that the financial statements of entities whose functional currency is that of a hyperinflationary economy be adjusted for the effects of changes in a suitable general price index and be expressed in terms of the current unit of measurement at the closing date of the reporting period. As previously anticipated, Ternium applied IAS 29 as from July 1, 2018 to the financial reporting of its subsidiaries and associates located in Argentina, and adjusted accordingly the previously reported figures for the first and second quarters of 2018.

Outlook

Ternium expects EBITDA to remain healthy in the fourth quarter 2018, although lower than the record level reported in the third quarter of the year. The company anticipates a slight sequential decrease of steel shipments in a seasonally weak quarter, including a reduction of slab sales to third parties mainly due to lower shipments to the United States and higher internal sales.

In Mexico, industrial markets continue showing steady demand, while commercial markets, usually driven by construction activity, remain weak. The company anticipates sequentially lower revenue per ton in the country in the fourth quarter 2018, reflecting a decrease of steel prices over the last three months. Ternium also expects cost per ton to rise sequentially at its Mexican subsidiary, as higher prices of previously purchased slabs gradually flow through cost of sales.

In Argentina, financial market volatility and high interest rates continue to have a negative impact on the industrial sector's production rates and in construction activity and, consequently, in steel demand. These macroeconomic events, together with a value chain destocking process caused by the high financing costs, will affect the level of steel shipments in the country in the fourth quarter 2018.

Analysis of Third Quarter 2018 Results

Net gain attributable to Ternium's equity owners in the third quarter 2018 was USD488.5 million, compared to net gain attributable to Ternium's equity owners of USD194.9 million in the third quarter 2017. Including non-controlling interest, net gain for the third quarter 2018 was USD523.4 million, compared to net gain of USD232.7 million in the third quarter 2017. Earnings per ADS in the third quarter 2018 were USD2.49, compared to earnings per ADS of USD0.99 in the third quarter 2017.

Net sales in the third quarter 2018 were USD2.9 billion, or 15% higher than net sales in the third quarter 2017. The following table outlines Ternium's consolidated net sales for the third quarter 2018 and the third quarter 2017:

Net Sales (million
USD)

	3Q 2018	3Q 2017	Dif.
Mexico	1,518.4	1,348.6	18
Southern Region	415.8	618.8	203
Other Markets	865.8	495.4	370
Total steel products net sales	2,800.0	2,462.8	337
Other products ¹	102.8	72.2	30
Steel segment net sales	2,902.8	2,535.0	368
Mining segment net sales	66.6	84.3	18
Intersegment eliminations	(66.4)	(84.3)	
Net sales	2,903.0	2,535.0	368

¹ The item "Other products" primarily includes Ternium Brasil's and Ternium México's electricity sales.

Cost of sales was USD2.0 billion in the third quarter 2018, an increase of USD40.2 million compared to the third quarter 2017. This was principally due to a USD30.7 million, or 2%, increase in raw material and consumables used, mainly reflecting a 2% increase in steel shipment volumes and higher purchased slabs, scrap and zinc costs; and to a USD9.5 million increase in other costs, mainly including a USD21.7 million increase in depreciation of property, plant and equipment, a USD10.1 million increase in services and fees, partially offset by a USD10.3 million decrease in maintenance expenses, a USD5.5 million decrease in labor costs and a USD3.1 million decrease in amortization of intangible assets.

Selling, General & Administrative (SG&A) expenses in the third quarter 2018 were USD206.0 million, or 7.1% of net sales, a decrease of USD5.3 million compared to SG&A expenses in the third quarter 2017.

Operating income in the third quarter 2018 was USD689.3 million, or 23.7% of net sales, compared to operating income of USD349.8 million, or 13.8% of net sales in the third quarter 2017. The following table outlines Ternium's operating income by segment for the third