

Ternium S.A.
Form 6-K
February 20, 2019
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 2/19/2019

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

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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 fourth 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: February 19, 2019

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Ternium Announces Fourth Quarter and Full Year 2018 Results

Luxembourg, February 19, 2019 – Ternium S.A. (NYSE: TX) today announced its results for the fourth quarter and full year period ended December 31, 2018.

The financial and operational information contained in this press release is based on Ternium S.A.'s operational data and consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and presented in US dollars (USD) and metric tons.

Summary of Full Year 2018 Results

	FY 2018	FY 2017		
Steel Shipments (tons)	12,951,000	11,597,000	12	%
Iron Ore Shipments (tons)	3,616,000	3,551,000	2	%
Net Sales (USD million)	11,454.8	9,700.3	18	%
Operating Income (USD million)	2,108.4	1,456.8	45	%
EBITDA ¹ (USD million)	2,697.7	1,931.1	40	%
EBITDA Margin (% of net sales)	23.6	% 19.9	% 364	bps
EBITDA per Ton ² (USD)	208.3	166.5	25	%
Net Income (USD million)	1,662.1	1,022.9	62	%
Equity Holders' Net Income (USD million)	1,506.6	886.2	70	%
Earnings per ADS ³ (USD)	7.67	4.51	70	%

EBITDA of USD2.7 billion in 2018, a 40% year-over-year increase mainly as a result of higher EBITDA per ton and shipments.

Earnings per ADS of USD7.67, a year-over-year increase of USD3.16 per ADS.

Capital expenditures of USD520.3 million, up from USD409.4 million in 2017.

Free Cash Flow⁴ of USD1.2 billion in 2018.

Net debt position⁵ of USD1.7 billion at the end of December 2018, a USD1.0 billion decrease and equivalent to 0.6 times net debt to last twelve months EBITDA.

Operating income in 2018 was USD2.1 billion, the highest on record, reflecting strong steel market prices in Mexico and the consolidation of Ternium Brasil. Ternium Brasil enabled us to integrate our operations and at the same time was able to take advantage of a strong slab market in 2018. Compared to 2017, operating income in 2018 increased USD651.6 million, mainly due to 1.4 million-ton increase in steel shipments and USD47 increase in steel revenue per ton, partially offset by an USD11 increase in steel operating cost per ton⁶. The increase in steel volumes was the result of higher Other Market's shipments, due to the consolidation of Ternium Brasil's slab sales since September 2017, partially offset by a 155,000-ton decrease in the Southern Region and a 78,000-ton decrease in Mexico. The increase in steel cost per ton mainly

reflected higher purchased slab and raw material costs, partially offset by higher integration in our operations.

Net income in 2018 was USD1.7 billion, reflecting the strength of our operations and a low effective tax rate. The effective tax rate in 2018 included a USD104.1 million tax gain due to the effect of an asset revaluation for tax purposes at Ternium's Argentine subsidiary. Compared to net income of USD1.0 billion in 2017, net income in 2018 increased USD639.2 million, mainly due to the above-mentioned higher operating income and low effective tax rate in 2018, and higher results from equity in earnings of Usiminas, partially offset by slightly higher net financial expenses.

Summary of Fourth Quarter 2018 Results

	4Q 2018	3Q 2018 ⁷		4Q 2017		
Steel Shipments (tons)	2,964,000	3,143,000	-6	% 3,411,000	-13	%
Iron Ore Shipments (tons)	857,000	914,000	-6	% 875,000	-2	%
Net Sales (USD million)	2,636.1	2,999.2	-12	% 2,767.5	-5	%
Operating Income (USD million)	382.7	708.9	-46	% 350.0	9	%
EBITDA ⁸ (USD million)	512.8	856.5	-40	% 502.3	2	%
EBITDA Margin (% of net sales)	19.5	% 28.6	%-910 bps	18.2	% 130 bps	
EBITDA per Ton (USD)	173.0	272.5	-37	% 147.3	17	%
Income Tax Expense (USD million)	(55.8)	(80.8)	-31	% (138.7)	-60	%
Net Income (USD million)	435.4	552.7	-21	% 198.0	120	%
Equity Holders' Net Income (USD million)	350.6	515.5	-32	% 180.2	95	%
Earnings per ADS (USD)	1.79	2.63	-32	% 0.92	95	%

EBITDA of USD512.8 million, 40% lower sequentially, with lower EBITDA margin and lower shipments.

Earnings per ADS of USD1.79, a sequential decrease of USD0.84 per ADS. EPADS in the fourth quarter 2018 included a non-recurrent tax gain of USD0.32 per ADS related to the effect of an asset revaluation for tax purposes at Ternium's Argentine subsidiary.

Free cash flow⁹ in the fourth quarter 2018 of USD360.4 million after capital expenditures of USD164.6 million.

Ternium's operating income in the fourth quarter 2018 was USD382.7 million, reflecting healthy operating margin and slightly weak shipments. Compared to record-high operating income in the third quarter, operating income in the fourth quarter 2018 decreased USD326.2 million mainly due to USD55 decrease in steel revenue per ton, USD31 increase in steel operating cost per ton, 179,000-ton decrease in steel shipments and USD34.6 million decrease in other products net sales. The increase in steel cost per ton mainly reflected higher purchased slab, raw material, energy and labor costs. The decrease in steel volume was the result of 136,000-ton decrease in Other Markets, mainly due to lower slab shipments to third parties, and 41,000-ton decrease in the Southern Region, reflecting lower steel demand in Argentina. The decrease in other products net sales was mainly related to seasonally lower electricity prices in Mexico.

Compared to the fourth quarter 2017, the company's operating income in the fourth quarter 2018 increased USD32.7 million, due mainly to a USD94 increase in steel revenue per ton partially offset by 447,000-ton decrease in steel shipments, USD48 increase in the steel segment's operating cost per ton and a USD64.5 million decrease in other products net sales. The decrease in steel volume was the result of 216,000-ton

decrease in Other Markets, mainly due to lower slab shipments to third parties, 140,000-ton decrease in the Southern Region, reflecting lower steel demand in Argentina, and 91,000-ton decrease in Mexico. The increase in steel cost per ton mainly reflected higher purchased slab and raw material costs. The decrease in other products net sales was mainly related to an extraordinary gain in connection with a price adjustment of sales of electricity in Mexico in the prior-year period.

The company's net income in the fourth quarter 2018 was USD435.4 million. This figure includes the above-mentioned tax gain in connection with the asset revaluation for tax purposes at Ternium's Argentine subsidiary. In addition, there was a gain in net financial results in the fourth quarter 2018, associated with the effect of the Argentine peso appreciation against the US dollar on Ternium Argentina's US dollar financial position, and the effect of inflation on Ternium Argentina's short net monetary position in the period. Compared to net income of USD552.7 million in the third quarter 2018, net income in the fourth quarter 2018 decreased USD117.3 million mainly due to the decrease in operating income, partially offset by better financial results, higher results from equity in earnings of Usiminas and a slightly lower effective tax rate. The sequential improvement in financial results mainly reflected the above-mentioned effects on Ternium's Argentine subsidiary of the Argentine peso fluctuation against the U.S. dollar.

Relative to the prior-year-period, net income in the fourth quarter 2018 increased USD237.4 million, mainly due to the increase in operating income, better financial results, higher results from equity in earnings of Usiminas, and a lower effective tax rate. The year-over-year improvement in financial results mainly reflected the above-mentioned effects on Ternium's Argentine subsidiary of the Argentine peso fluctuation against the US dollar and of inflation adjustment, and Ternium's lower net indebtedness.

Annual Dividend Proposal

Ternium's board of directors proposed that an annual dividend of USD0.12 per share (USD1.20 per ADS), or approximately USD235.5 million in the aggregate, be approved at the company's annual general shareholders' meeting, which is scheduled to be held on May 6, 2019. If the annual dividend is approved at the shareholders' meeting, it will be paid on May 14, 2019, with record-date of May 9, 2019.

Outlook

Looking ahead to 2019, global steel demand is expected to show slightly positive growth, and margins are expected to normalize in the steel industry after a very strong 2018. Global steel prices have been decreasing over the last few months, and the iron ore market has become more challenging with rising costs for steel makers. Under these market conditions, Ternium will continue working on increasing efficiency at its operations and reducing production costs with the aim of maintaining its consistent margin leadership in the Americas.

Global steel overcapacity continues to be a risk to fair trade, as steel production in China continues to increase and its economy is decelerating. Many countries around the world reacted to this situation, putting in place safeguard duties to prevent damage to their industries. This is causing a diversion of steel exports to less protected markets, something that was evidenced by the recent increase in Latin America's participation among China's main export destinations. The expected ratification of the United States Mexico Canada Agreement (USMCA) in 2019 and the eventual agreement on section 232 import tariffs among the current NAFTA partners should help normalize steel trade flows in this region. This result would have a positive effect on Ternium's business in Mexico, which is the company's main steel market, as current trade conditions are placing undue strain on the Mexican market. In 2019, expectations of growth in the United States should create a healthy environment for the

Mexican manufacturing industry, although weak public and private investment in Mexico will continue to negatively affect the country's construction market.

Ternium expects EBITDA to decrease slightly in the first quarter 2019 compared to the fourth quarter 2018 as a result of lower margin partially offset by higher shipments, with an increased participation of slabs in the sales mix. The company anticipates EBITDA per ton to sequentially decrease in the first quarter 2019 mainly due to lower revenue per ton in Mexico, after the reset of industrial customer contract prices and slightly lower prices in the spot market, while cost per ton should remain relatively stable.

Analysis of Full Year 2018 Results

Net income attributable to Ternium's equity owners in 2018 was USD1.5 billion, compared to USD886.2 million in 2017. Including non-controlling interest, net income for 2018 was USD1.7 billion, compared to net income of USD1.0 billion in 2017. Earnings per ADS in 2018 were USD7.67, compared to earnings of USD4.51 in 2017.

Net sales in 2018 were USD11.5 billion, 18% higher than net sales in the 2017. The following table outlines Ternium's consolidated net sales for 2018 and 2017:

	Net Sales (million USD)		
	FY 2018	FY 2017	Dif.
Mexico	6,134.0	5,378.6	14 %
Southern Region	1,933.4	2,313.6	-16 %
Other Markets	3,023.6	1,699.0	78 %
Total steel products net sales	11,091.0	9,391.2	18 %
Other products ¹	362.4	309.1	17 %
Steel segment net sales	11,453.4	9,700.3	18 %
Mining segment net sales	282.0	271.5	4 %
Intersegment eliminations	(280.6)	(271.4)	
Net sales	11,454.8	9,700.3	18 %

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

Cost of sales was USD8.5 billion in 2018, an increase of USD1.1 billion compared to 2017. This was principally due to a USD883.5 million, or 15%, increase in raw material and consumables used, mainly reflecting a 12% increase in steel shipments and higher raw material and purchased slab costs, partially offset by lower energy costs; and to a USD196.8 million increase in other costs, mainly including a USD108.1 million increase in depreciation of property, plant and equipment due to the full consolidation of Ternium Brasil and the effect of inflation adjustment in Argentina, a USD47.6 million increase in services and fees, and a USD39.1 million increase in maintenance expenses.

Selling, General & Administrative (SG&A) expenses in 2018 were USD876.8 million, or 7.7% of net sales, an increase of USD52.5 million compared to SG&A expenses in 2017 mainly due to higher freight and transportation expenses and labor costs, partially offset by lower services and fees expenses.

Other net operating income in 2018 was a USD13.7 million gain, compared to a USD16.2 million loss in the 2017. Other net operating income in 2018 included a recovery of tax credit in Ternium Brasil.

Operating income in 2018 was USD2.1 billion, or 18.4% of net sales, compared to operating income of USD1.5 billion, or 15.0% of net sales, in 2017. The following table outlines Ternium's operating income by segment for 2018 and 2017:

USD million	Steel segment		Mining segment		Intersegment eliminations		Total	
	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017
Net Sales	11,453.4	9,700.3	282.0	271.5	(280.6)	(271.4)	11,454.8	9,700.3
Cost of sales	(8,524.9)	(7,465.8)	(239.9)	(212.9)	281.5	275.6	(8,483.3)	(7,403.0)
SG&A expenses	(860.9)	(811.5)	(15.9)	(12.8)	—	—	(876.8)	(824.2)
Other operating income (expense), net	12.9	(17.0)	0.7	0.8	—	—	13.7	(16.2)
Operating income	2,080.6	1,406.0	26.9	46.6	0.8	4.1	2,108.4	1,456.8
EBITDA	2,618.5	1,830.5	78.3	96.4	0.8	4.1	2,697.7	1,931.1

Steel reporting segment

The steel segment's operating income was USD2.1 billion in 2018, an increase of USD674.6 million compared to the operating income in 2017, reflecting higher net sales, partially offset by higher operating cost.

Net sales of steel products in 2018 increased 18% compared to 2017, reflecting a 1.4 million-ton increase in shipments and a USD47 increase in steel revenue per ton. Shipments increased 12% year-over-year mainly due to higher shipments in Other Markets, due to the consolidation of Ternium Brasil since September 2017, partially offset by lower shipments in Southern Region, reflecting lower demand for steel products, and slightly lower shipments in Mexico. Revenue per ton in 2018 was higher than in the previous year as a result of higher steel prices in Ternium Mexico and in Other Markets. Although steel prices in Southern Region were relatively stable year-over-year, revenue per ton decreased due to the effect of inflation adjustment.

	Net Sales (million USD)			Shipments (thousand tons)			Revenue/ton (USD/ton)		
	FY 2018	FY 2017	Dif.	FY 2018	FY 2017	Dif.	FY 2018	FY 2017	Dif.
Mexico	6,134.0	5,378.6	14 %	6,544.8	6,622.8	-1 %	937	812	15 %
Southern Region	1,933.4	2,313.6	-16 %	2,301.1	2,456.0	-6 %	840	942	-11 %
Other Markets	3,023.6	1,699.0	78 %	4,105.2	2,517.7	63 %	737	675	9 %
Total steel products	11,091.0	9,391.2	18 %	12,951.1	11,596.6	12 %	856	810	6 %
Other products ¹	362.4	309.1	17 %						
Steel segment	11,453.4	9,700.3	18 %						

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

Operating cost increased 13% due to the above-mentioned 12% increase in shipment volumes and a 2% increase in operating cost per ton.

Mining reporting segment

The mining segment's operating income was a gain of USD26.9 million in 2018, lower than a gain of USD46.6 million in 2017, reflecting higher operating cost, partially offset by higher iron ore sales.

Net sales of mining products in 2018 were 4% higher than those in 2017, reflecting a 2% increase in shipments and a 2% increase in revenue per ton.

	Mining segment		
	FY	FY	Dif.
	2018	2017	
Net Sales (million USD)	282.0	271.5	4 %
Shipments (thousand tons)	3,616.33	3,551.12	%
Revenue per ton (USD/ton)	78	76	2 %

Operating cost increased 13% year-over-year mainly due to 11% increase in operating cost per ton and the above -mentioned 2% increase in shipment volumes.

EBITDA in 2018 was USD2.7 billion, or 23.6% of net sales, compared to USD1.9 billion, or 19.9% of net sales, in 2017.

Net financial results were USD179.6 million loss in 2018, compared to USD165.1 million loss in 2017. During 2018, Ternium's net financial interest results totaled a loss of USD109.9 million, compared with a loss of USD95.2 million in 2017, reflecting higher average indebtedness and a lower average cost of debt.

Net foreign exchange results included a USD112.2 million negative year-over-year difference mainly related to the effect of the fluctuations of the Argentine and Mexican peso against the US dollar. In 2018, the Argentine peso depreciated 51% against the US dollar compared to 15% in 2017, resulting in a non-cash negative impact in Ternium Argentina's US dollar financial position (which applies the Argentine peso as functional currency).

Change in fair value of financial instruments included in net financial results was a USD99.3 million loss in 2018 compared to a USD3.1 million gain in 2017. The loss in 2018 was mainly related to certain derivative instruments entered into to compensate for the interest rate charges derived from Ternium's Argentine subsidiary's local currency denominated financial debt and currency derivatives in Mexico.

The effect of inflation on Ternium's Argentine subsidiaries and associates' short net monetary position was a gain of USD191.4 million as a result of the application of IAS 29 from 2018.

Equity in results of non-consolidated companies was a gain of USD102.8 million in 2018, compared to a gain of USD68.1 million in 2017 mainly due to better results from Ternium's investment in Usiminas.

Income tax expense in 2018 was USD369.4 million, or 18% of income before income tax, compared to an income tax expense of USD336.9 million, or 25% of income before income tax in 2017. The unusually low effective tax rate in 2018 was mainly the result of a USD104.1 million tax gain related to the effect of an asset revaluation for tax purposes at Ternium's Argentine subsidiary. In 2017, the effective tax rate included a non-cash gain on deferred taxes due to the 5% appreciation of the Mexican peso against the US dollar during the year which reduces, in U.S. dollar terms, the tax base used to calculate deferred tax at our Mexican subsidiaries (which have the U.S. dollar as their functional currency).

Net gain attributable to non-controlling interest in 2018 was USD155.5 million, compared to a net gain of USD136.7 million in 2017.

Analysis of Fourth Quarter 2018 Results

Net gain attributable to Ternium's equity owners in the fourth quarter 2018 was USD350.6 million, compared to net gain attributable to Ternium's equity owners of USD180.2 million in the fourth quarter 2017. Including non-controlling interest, net gain for the fourth quarter 2018 was USD435.4 million, compared to net gain of USD198.0 million in the fourth quarter 2017. Earnings per ADS in the fourth quarter 2018 were USD1.79, compared to earnings per ADS of USD0.92 in the fourth quarter 2017.

Net sales in the fourth quarter 2018 were USD2.6 billion, or 5% lower than net sales in the fourth quarter 2017. The following table outlines Ternium's consolidated net sales for the fourth quarter 2018 and the fourth quarter 2017:

Net Sales (million
USD)

4Q 2018 4Q 2017 Dif.