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Interim results for the six months ended 30 June 2024, ordinary cash dividend declaration and share repurchase

THUNGELA RESOURCES LIMITED
(Incorporated in the Republic of South Africa)
Registration number: 2021/303811/06
JSE Share Code: TGA
LSE Share Code: TGA
ISIN: ZAE000296554
Tax number: 9111917259
('Thungela' or the 'Company' and, together with its affiliates, the 'Group')

Interim results for the six months ended 30 June 2024, ordinary cash dividend declaration and share repurchase

THUNGELA REPORTS INTERIM RESULTS IN LINE WITH 2024 GUIDANCE AND UPGRADES ENSHAM PRODUCTION OUTLOOK

GROUP PERFORMANCE MEASURES

- Lowest total recordable case frequency rate (TRCFR) of 0.99 in South Africa and continue to make significant progress on safety in Australia
- Group export saleable production at 7.8Mt, with South Africa at 6.2Mt and 1.6Mt (on an 85% basis) for Ensham - exceeding initial estimates and leading to guidance upgrade for Ensham
- Group capital expenditure of R1.5 billion, reflecting the disciplined execution of the life extension projects in South Africa
- Profit of R1.2 billion, including R419 million from Australia, demonstrating the benefits from the Group's geographic diversification
- Total shareholder returns of R441 million, consisting of an ordinary interim cash dividend of R281 million (R2.00 per share) and a share buyback of up to R160 million - in aggregate 47% of adjusted operating free cash flow*

KEY FINANCIAL INFORMATION(1)

Financial overview (R'million) 30 June 2024 30 June 2023 % change
Revenue 16,752 14,359 17
Profit for the reporting period 1,186 3,005 (61)

Earnings per share (cents/share) 952 2,245 (58)
Headline earnings per share
(cents/share) 952 2,246 (58)
Dividend per share (cents/share) 200 1,000 (80)
Alternative performance measures*
Adjusted EBITDA 2,146 4,380 (51)
Adjusted EBITDA margin (%) 13 31 (18pp)
Adjusted operating free cash flow 936 4,298 (78)
Net cash 6,683 13,579 (51)
Capital expenditure 1,541 893 73

pp – percentage points change year on year

MESSAGE FROM JULY NDLOVU, CHIEF EXECUTIVE OFFICER

Thungela's results for the first six months of the year demonstrate our track-record of disciplined execution of our strategic priorities as we build a long-life, competitive business. We remain unwavering in our commitment to operate a fatality-free business and are proud to report that we have been operating for 18 months without a loss of life. Our operational performance is in line with 2024 guidance in South Africa and ahead of full year guidance in Australia. As a result, we are upgrading the production guidance at Ensham. Capital expenditure for our two life extension projects remains on track and on budget. We remain steadfast in our focus on controlling the controllables.

Thungela Marketing International, which was established in the United Arab Emirates, is now fully operational and is responsible for the marketing of our South African and Australian coal. This provides us with an opportunity to leverage our equity coal, by maximising value from the extraction of the resource in the ground to delivering the product to end-users and customers.

Safety has always been our first value and we have reinforced its primacy by establishing safety as a dedicated pillar in our strategic priorities framework. Our increased focus on accountability, safety culture and independent reviews on critical controls effectiveness, is delivering meaningful safety improvements. The Group TRCFR for the period under review was 1.75 compared to 2.53 in the comparative period, including Ensham. In South Africa, we recorded our lowest TRCFR at 0.99, down from 1.21(2) in the comparative period. In Australia, the TRCFR significantly improved to 11.64, from 22.01 for the six months ended June 2023, reflecting proactive efforts to align Ensham's safety systems with Thungela's work practices, where appropriate.

The softer price environment across the Richards Bay and Newcastle Benchmark coal prices, together with the continued underperformance by Transnet Freight Rail (TFR), has negatively impacted our financial results in comparison to the same period last year. The Group generated adjusted EBITDA* of R2.1 billion and net profit of R1.2 billion, with Ensham (which has been reflected in our financial results since the acquisition date of 31 August 2023) contributing R419 million to net profit for the period under review, showcasing the benefits of our geographic diversification strategy.

In South Africa, we achieved export saleable production of 6.2Mt, at a free on board (FOB) cost* of R1,189 per export tonne excluding royalties for the first half of 2024, in line with our guidance. Capital expenditure of R1.3 billion in the first half of the year is progressing in line with guidance, with R457 million spent in sustaining capital* and R799 million in expansionary capital. Our two life extension projects at Elders and the Zibulo North Shaft are key to improving our long-term competitiveness as some of our older mines naturally come to the end of their lives. These projects will extend our life of mine for the South African operations, from the initial eight years at listing in 2021, to approximately 15 years.

In Australia, Ensham recorded strong production results for the period under review, with export saleable production of 1.6Mt (on an 85% basis), or 1.9Mt (on a 100% basis), as the mine focuses on improving productivity and leverages from the Group's operational expertise. FOB cost per export tonne excluding royalties* was accordingly below guidance at R1,360. We spent R285 million on sustaining capital* (on an 85% basis), in line with guidance for the full year.

We have initiated a resource development plan review at Ensham, which, once completed, will enable us to understand the full potential of the asset, by identifying brownfield opportunities and the related capital requirements.

Navigating thermal coal markets and rail performance

Global demand for coal reached a record high of 8.7 billion tonnes in 2023(3) and is expected to remain stable in the coming years. Despite the decline in coal use in the United States and Europe, coal remains a crucial energy source for electricity, steel and cement production worldwide. The increasing demand from Asian economies outweighs the efforts to phase out coal globally, and energy transition is delayed as energy security becomes a priority amidst geopolitical tensions and potential supply disruptions. Following a period of supply growth at the onset of the Russia-Ukraine conflict, global supply is likely to tighten as both country and company ESG pledges are introduced. Supply will further be impacted by limited access to capital and insurance, which will discourage new production coming online. This provides an opportunity for Thungela, as we have access to existing high-quality coal resources and reserves.

The milder winter conditions in the northern hemisphere led to reduced demand and higher gas and coal stock levels, which contributed to softer benchmark coal prices experienced in the first half of the year. Thermal coal markets remain responsive to price movements in the energy markets, more specifically movements in the gas market. The impact of geopolitical tensions in the Middle East and the ongoing Russia-Ukraine conflict continue to heighten risks around gas supply, which has provided recent support for the Richards Bay Benchmark coal price, averaging USD101.05 per tonne for the period under review. The lack of availability of high-quality coal, and the expected restocking in Southeast Asia following the monsoon season, could support the Richards Bay Benchmark coal price, which remains range bound, while any further geopolitical escalation may result in the strengthening of coal prices.

In Australia, the Newcastle Benchmark coal price has softened to an average of USD130.66 per tonne for the period under review but improved in the second quarter of 2024 to approximately USD135.00 per tonne, supported by the onset of the Japanese Reference Price negotiations. These negotiations will lay the foundation for term contracts with Japanese and other Asian utilities. Seaborne demand in the main Asian coal markets, such as Japan, South Korea, China and India, for now remains sluggish, mainly due to increased in-country production in China and India.

The TFR rail performance in the first half of the year was disappointing at 47.3Mt on an annualised basis for the industry, in comparison to the 47.9Mt railed in 2023. The ongoing support from industry has enabled progress on some of the interventions already in place, such as the purchasing of critical locomotive spares and the provision of security on the rail line. The industry will recover these costs through the mutual co-operation agreement with TFR, which was put in place earlier in the year. While we believe that the correct building blocks are being implemented by TFR, we only expect to see improved rail performance from 2025.

Thungela's logistical infrastructure enables the movement of our coal to the Richards Bay Coal Terminal to be maximised, using existing contracted rail capacity, as well as the continued use of third-party sidings. This supports incremental coal movement as a result of the wider train allocation distribution. In addition, we monitor the domestic market for revenue generating opportunities, and have placed limited volumes in the first half of the year.

Capital allocation

In the first half of the year, we completed the repurchase of 3,307,667 ordinary shares (2.35% of issued share capital) for a consideration of R441 million. This demonstrates our commitment to shareholder returns and recognises the diverse preferences of our shareholder base.

The Group invested R742 million in sustaining capital*, which, when deducted from our cash flows generated from operating activities of R1.7 billion, resulted in an adjusted operating free cash flow* of R936 million for the reporting period. In addition, we continued to invest in securing the future of our business through our life extension projects and spent R799 million on expansionary capital.

In Australia, we contributed R855 million into an investment vehicle, similar to the green fund in South Africa, in order to secure the necessary financial surety for the Ensham rehabilitation liabilities. We have also made the required annual contribution of R188 million into the green fund in South Africa, thereby improving our environmental liability coverage*.

At 30 June 2024 the net cash* position of the Group was R6.7 billion, after accounting for cash reserved in Australia of R815 million pending the settlement of the Japanese Reference Price, as well as cash held on behalf of the trusts in South Africa.

The board remains committed to our dividend policy, which is to distribute a minimum of 30% of adjusted operating free cash flow*, and has declared an interim ordinary cash dividend of R2.00 per share. In addition, the board has approved a share buyback of up to R160 million, subject to favourable market conditions. In aggregate, this amounts to a total return of R441 million to shareholders, representing 47% of adjusted operating free cash flow* for the first half of 2024.

The share buyback is expected to be completed during the second half of 2024 and is pursuant to the authority obtained at the Group's most recent annual general meeting in June 2024. The Sisonke Employee Empowerment Scheme and the Nkulo Community Partnership Trust will also receive a further R31 million collectively.

Recognising the importance of our life extension projects in South Africa, we continue to reserve R1.7 billion to fund the completion of these projects. As a result of the dividend declaration and share buyback, the cash buffer will reduce to approximately R4.4 billion, which is within the range of R3 billion to R5 billion. The Group holds undrawn credit facilities of R3.2 billion, enabling us to maintain sufficient liquidity and balance sheet flexibility, given current market conditions.

Looking ahead

Controlling the controllables while operating in a challenging environment remains our focus, as we position the business to take advantage of the long-term fundamentals supporting coal demand globally.

Following the strong performance at Ensham in the first half of the year, we are upgrading the production guidance for the full year 2024. We continue to drive productivity improvements and improve the cost competitiveness of the mine. We remain optimistic in discovering value accretive opportunities at Ensham once the resource development plan has been completed.

We remain committed to deliver on our purpose - to responsibly create value together for a shared future - and we are confident that our disciplined capital allocation approach will ensure that Thungela delivers value for our people, communities and shareholders over the long term.

Operational guidance
Ensham - Ensham -
South Africa previous revised
Export saleable production (Mt) (Ensham on a 100% basis) 11.5 – 12.5 3.2 – 3.5 3.5 – 3.8
FOB cost per export tonne* (Rand/tonne) 1,180 – 1,300 1,830 – 1,950 1,830 – 1,950
FOB cost per export tonne excluding royalties*
(Rand/tonne) 1,170 – 1,290 1,590 – 1,710 1,590 – 1,710
Capital – sustaining* (Rand million) 900 – 1,100 600 – 900 600 - 900
Capital – expansionary (Rand million) 1,600 – 1,900 nil nil

Figures in the table above are based on an exchange rate of R12.20:AUD1. Royalties are calculated using an assumed Richards Bay Benchmark
coal price of USD100.00 per tonne and an assumed Newcastle Benchmark coal price of USD120.00 per tonne.

South Africa

Following the strong production momentum in South Africa, we expect full year export saleable production to be at the upper end of the guidance range. We are optimistic that the TFR reform initiatives, strengthened by industry support, will result in improved rail performance from 2025.

With strong production performance, we expect FOB cost per export tonne* to be closer to the lower end of the guidance range, notwithstanding the timing of cost increases in the second half of the year.

Our spend on sustaining capital* remains on track and is expected to remain within the guidance range. On expansionary capital, the planned spend for the second half of the year will result in total spend reaching the upper end of the guidance range for the full year.

Ensham

Production in the first half of the year of 1.9Mt (on a 100% basis) represents a full year outlook above the guidance range previously provided. While the mine experienced good mining conditions in the first half of the year, we expect to traverse two geological faults in the second half of the year. We are currently planning the optimal deployment of production sections with the inclusion of a fault crew to maintain the current production momentum. With that mitigation to traversing challenging geology in the second half of the year, we have upgraded the production guidance for 2024 to between 3.5Mt and 3.8Mt (on a 100% basis).

While we have guided higher production at Ensham for the year, we anticipate non-cash costs relating to the environmental provisions, which will be more clearly defined in the second half of the year, to potentially offset the benefits to be realised from the increased production. We have thus kept our FOB cost per export tonne* guidance consistent with what we have previously communicated.

Sustaining capital* spend at Ensham is more heavily weighted toward the second half of the year, with key purchases planned in the last quarter. Guidance is therefore maintained at between R600 million and R900 million.

DIVIDEND DECLARATION

The board has declared an interim ordinary cash dividend of R2.00 per share, payable to shareholders on the Johannesburg Stock Exchange and London Stock Exchange in September 2024 and October 2024, respectively. Further detail regarding the dividend payable to shareholders of Thungela as well as the share repurchase can be found in a separate announcement dated 19 August 2024 on the Johannesburg Stock Exchange News Services (SENS) and London Regulatory News Services.

FOOTNOTES

(1) Group financial results for the six months ended 30 June 2023 do not include the financial results of the Ensham Business as the effective date of the Ensham acquisition was 31 August 2023.
(2) TRCFR was previously reported in the Interim Financial Statements for the six months ended 30 June 2023 as 1.33. This figure was updated in the 31 December 2023 annual results subsequent to the assurance process.
(3) Source: International Energy Agency July 2024 report.

FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements. All statements included in this document (other than statements of historical facts) are, or may be deemed to be, forward-looking statements, including, without limitation, those regarding Thungela's financial position, business, acquisition and divestment strategy, dividend policy, plans and objectives of management for future operations (including development plans and objectives relating to Thungela's products, production forecasts and resource and reserve positions). By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Thungela, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Thungela therefore cautions that forward-looking statements are not guarantees of future performance.

Any forward-looking statement made in this document or elsewhere is applicable only at the date on which such forward-looking statement is made. New factors that could cause Thungela's business not to develop as expected may emerge from time to time and it is not possible to predict all of them. Further, the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statement are not known. Thungela has no duty to, and does not intend to, update or revise the forward-looking statements contained in this document after the date of this document, except as may be required by law. Any forward-looking statements included in this document have not been reviewed or reported on by the Group's independent external auditor.

Investors are cautioned not to rely on these forward-looking statements and are encouraged to read the Interim Financial Statements for the six months ended 30 June 2024, which are available from the Thungela website via the following web link: https://www.thungela.com/investors/results.

ALTERNATIVE PERFORMANCE MEASURES

Throughout this results announcement a range of financial and non-financial measures are used to assess our performance, including a number of financial measures that are not defined or specified under International Financial Reporting Standards (IFRS Accounting Standards), which are termed 'alternative performance measures' (APMs). Management uses these measures, alongside IFRS Accounting Standards measures, to monitor the Group's financial performance and to improve the comparability of information between reporting periods. These APMs should be considered in addition to, and not as a substitute for, or as superior to, measures of financial performance, financial position or cash flows reported in accordance with IFRS Accounting Standards. APMs are not uniformly defined by all companies, including those in the Group's industry. Accordingly, these measures may not be comparable with similarly titled measures and disclosures by other companies. In this Results Announcement, APMs are denoted with an asterisk (*).

RESULTS ANNOUNCEMENT

This Results Announcement, including the forward-looking statements, is the responsibility of the directors of Thungela.

Shareholders are advised that this Results Announcement is only a select extract of the information contained in the Interim Financial Statements and does not contain full or complete details. Any investment decisions by investors and/or shareholders should be based on a consideration of the Interim Financial Statements as a whole and investors and/or shareholders are encouraged to review the Interim Financial Statements, which is available on the Thungela website via the following web link: https://www.thungela.com/investors/results, and has been published on SENS, at https://senspdf.jse.co.za/documents/2024/JSE/ISSE/TGAE/TGAInt2024.pdf

A conference call and audio webinar relating to the details of this announcement will be held at 12:00 SAST (10:00 GMT) on Monday, 19 August 2024. Details to register for the webcast and conference call are available below:

Webcast: https://78449.themediaframe.com/links/thungela240819_1200.html

Conference call:
https://services.choruscall.za.com/DiamondPassRegistration/register?confirmationNumber=3091494&linkSecurityString=c07d868fc

The condensed consolidated interim financial statements for the six months ended 30 June 2024 were reviewed by PricewaterhouseCoopers Inc. who have issued an unqualified review report. The full independent auditor's report and Interim Financial Statements are available for viewing on the Thungela website via the following web link: https://www.thungela.com/investors/results.

This Results Announcement has not been audited or reviewed by the Group's independent external auditor. Any reference to future financial performance included in this announcement has not been separately reported on by the Group's independent external auditor.

The Company's registered office is located at: 25 Bath Avenue, Rosebank, Johannesburg, 2196, South Africa.

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the market abuse regulation (EU) no. 596/2014 as amended by the market abuse (amendment) (UK mar) regulations 2019. Upon the publication of this announcement via the regulatory information service, this inside information is now considered to be in the public domain.

For and on behalf of the board of directors

Sango Ntsaluba, Chairperson
July Ndlovu, Chief executive officer

Johannesburg, South Africa
19 August 2024

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