

## **Thungela is building up a head of steam**

Though the company's shares have dropped 32% so far this year, its mines are making money, in contrast with the 30% or so of South African coal producers that are not.

by David McKay

Strictly speaking, Thungela Resources CEO July Ndlovu is retiring a year earlier than at the firm's mandatory age of 60. In a twist of fate his papers were destroyed during Zimbabwe's war of liberation. Because of an administrative error his date of birth was re-recorded as 1965. Though he actually turns 59 this year.

Thungela is building up a head of steam but he's heading off anyway. "I've played my part. It's time to let others play theirs," he tells the FM. Moses Madondo, the MD of De Beers's mines, will take over from August. Ndlovu has promised to remain at the coal producer until December as part of a handover process.

Given the animus that coal mining attracts, Thungela has been the success no-one envisaged. After "surviving" its demerger from Anglo American in 2021, it invested R5.5bn extending its South African mines and another R4bn in a bold offshore acquisition, the Ensham mine in Queensland, Australia. About R20bn has been returned to shareholders.

Thermal coal is generally unloved by investors, but at the time of the Thungela demerger the mineral was revealed. Major mining companies such as BHP and Rio Tinto were quickly selling their production of the fuel amid huge investor pressure. In 2019 asset managers with \$11- trillion under management refused to hold firms mining coal.

Then, in 2022, Russia invaded Ukraine. An 18-month energy security crisis ensued. At about the same time there was a growing apprehension that the critical minerals required for decarbonisation would be more expensive to mine and take longer to supply than foreseen. It gave Thungela an enormous early lift. And more recently,

The election of right-leaning politicians in several developed economies has given the public sector impetus for fossil fuels.

But these factors drove an uptick in supply, from which the coal market is now coming down. After scaling record highs of \$400/t, the export price of coal from South Africa is at \$90/t. About 30% of local production is loss-making, says Ndlovu. In contrast, Thungela's mines are making money. "They're more than washing their faces," he says.

Strong domestic production in China is partly behind coal's travails, as is disappointing growth internationally — the Organisation for Economic Co-operation & Development said last week the global economy is on course to slow from 3.3% last year to 2.9% in 2025 and 2026. US President Donald Trump's tariffs are contributing to the turmoil. Ndlovu sees an upturn, however. "The forward curve is in contango, so we expect the prices to improve 12 months out."

Shares in Thungela have shown strain, down 32% in the year to date. Though the stock is still 200% higher than at its listing price, Ndlovu is keen for the company to continue its share buyback programme. "Investors ask for it; they prefer it over dividends," he says. A \$5m programme was concluded last month.

Thungela shares are cheap at the moment, considering that the medium-term trajectory for coal is surprisingly sound. The International Energy Agency (IEA) recently pushed out its expectations for

peak coal consumption to 2028-2030. "In my view we may continue to see peak coal continue to move out," says Ndlovu.

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On the supply side, constraints on production continue. According to the IEA, coal investment growth is expected to be 4% in 2025, down on 6% average growth over the past five years. Nearly all the growth in coal investments in 2024 came from China and India, to meet domestic demand. Coal production is hard to finance and insure,

Thungela is building up a head of steam especially for environmental guarantees, says Ndlovu. This is despite the obvious ongoing demand.

Some coal companies have sought to tackle this uneasy dynamic by diversifying into other commodities. Ndlovu says that was never Thungela's plan. Part of the reason for this is that the firm had no choice when it started out but to invest in its short-life South African mines. Thereafter it was a question of "playing where we think we could win", he says.

Ndlovu says the company will continue to grow: Ensham could be "10 times larger". He also says that, depending on the specific asset, Thungela could add metallurgical coal to its portfolio.

High-quality metallurgical coal is still a mineral that holds cachet for mining companies as it can supply blast furnaces that hugely reduce carbon emissions for the steel industry, the end user. As such, this type of coal has strong green credentials and is a type of diversifier without being radically different for a company such as Thungela to mine.

"The logistics [for metallurgical coal] are exactly the same and therefore with this commodity we think we have a right to win in," says Ndlovu. "I think that would be a natural adjacency for us to grow our portfolio.

"Beyond that, I think the board will continue to apply its mind, and I'm sure my successor doesn't want me giving him advice on where to invest."

