Conference call transcript

26 June 2025

FD PRE-CLOSE STATEMENT

Operator

Good day and welcome to Thungela's CFO pre-close statement June 2025. All attendees will be in listen-only mode. There will be an opportunity to ask questions when prompted. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please note that this event is being recorded. I will now hand you over to Hugo Nunes, Head of Investor Relations. Please go ahead, sir.

Hugo Nunes

Thank you very much, Judith. Good afternoon to all and welcome to this afternoon's investor call following the release of the CFO pre-close earlier today. I'm Hugo Nunes, Head of Investor Relations, and I'm joined on the call by our Chief Financial Officer, Deon Smith. Today's call will be done through both an audio webinar as well as a conference call facility. Deon will present an overview of the key elements in his release and thereafter there will be a Q&A session until we close the call shortly before 13:00 South African time.

Turning to Q&A. To those wishing to ask questions, we ask that you join the session using the conference call facility provided as we will only be taking questions through this facility. In order to ask a question during the Q&A session, please dial * 1 on your keypad, and this will register your intention to ask a question. Once the Q&A session starts, the operator will then open your lines and ask you to go ahead with your question. To reiterate, we won't be taking some questions submitted to the webinar platform today.

It is possible to dial into the conference call facility only shortly before the Q&A session and directly from your computer. If you are planning to do this, I encourage you to register for the conference call in advance of the Q&A session, as you will need the link sent to you upon registration. Finally, a reminder that today's announcement is now available on Thungela's website and today's session will be recorded and the recording will be made available on the Thungela website from later this afternoon. With the logistics out the way, please allow me to hand over to Deon Smith. Thanks, Deon.

Deon Smith

Yeah, good morning to all of you. Thank you, Hugo, for the introduction. So, today we have published a pre-close statement and we expect to announce our half year results on the 18th of August 2025. And clearly when you look at what we've sent up today, a couple of key features that we want to just highlight in this call to you. In terms of safety, it remains one of our key strategic pillars for our business alongside driving our ESG aspirations, maximising the potential from our asset base, diversifying in the appropriate manner, and obviously our capital allocation strategy.

We're very pleased that we've now had 27 months, consecutive months without loss of life and that remains a key enabler to our performance as a business, and clearly proud of that track record. Our business requires more than just that to operate successfully. We also require a good production outcome. When you look at our statement, there's a number of very solid production performances across the business, but also with a couple of headwinds and challenges, and we'll get on to that a bit later on.

We've experienced softer coal prices year on year. In South Africa, we've seen prices reduce by around 12% period on period, through the 90s. And in Australia, this was clearly more pronounced where the Newcastle is about 24% down from last year. In terms of real-life prices, however, down 15% in South Africa and around 11% year-on-year in Australia. So, the Australian reduction in price was masked and shielded a bit by the premium that we earned in Australia, and I'll get back to that in a second.

So, in South Africa, when you look at the detailed numbers, you'll see there are discounts in the mid-teens, and this was mainly driven by supply-demand dynamics, high stockpiles in the east, and also the prospect of slightly lower burn rates, good domestic production in some of the Far East countries have really driven the discounts a bit wider than what we anticipated, but still within the numbers that we previously said we might see.

In Australia, we've achieved a slight premium, and that was driven by the fixed price contracts that we set in place late last year, and those cover around 7% of our sales in the first half of the year. In terms of the forward curve, if I look a bit into the future, not necessarily our view, but clearly the market's perspective on the forward prices, we see South Africa recovering into 2026 to low hundreds, and that forward curve marks up Australia to about $120 until the next year with a slight contango in both of those curves into 2026. Clearly that's encouraging given that those type of recoveries in prices should see our margins repair and recover to the levels we've seen previously.

In terms of currency, clearly we also face a fairly weak US Dollar or strong Rand if you sit in our shoes. And that has been a bit of a threat to our business given our revenue line is determined by a US Dollar price line. You would recall at the end of last year we set out in the notes to our financial statements that we have sold currency forward. We've continued to do so. And when we report at the end of June we'll see that we've maintained that around $700 million forward sold at early 19s, so R19 to a Dollar or just over R19 to a Dollar, with around $500 million of that maturing in the second half of 2025 and $200 million in 2026.

So, that is clearly a positive, both in terms of earnings and cash that we're expecting to come through and clearly with the combination of coal prices that should protect our revenue line into the second half of 2026. Clearly, we are also still fairly dependent on a good performance from infrastructure, and we are pleased with Transnet's performance in the first half of the year.

When you look at the numbers in our pre-close statement today, you'll see that many of the initiatives that we've spoken about over the last two or three years have come to fruition. And that has enabled us in many respects to ramp up some of our productivities, the underground operations, and that could have been the case also in some of the open cast, was it not for the fairly significant rain events that we experienced in the first half, which constrained our open cost performance. But you would see that our export saleable production is up by about 3% year on year, 6.2 to 6.4 million tonnes in South Africa.

In Australia, as we've previously flagged, that export saleable was constrained in the first half. It's down from 2.1 to about 1.6 million tonnes of export saleable production from Ensham. And the primary driver behind that was the geology or a couple of geological features that we knew that we had to get through. And we're looking to Australia to improve that run rate back to what we know it could be in the second half of 2025.

If we then reflect on our FOB costs per ton, in South Africa, it was really impacted by lower domestic revenue offset. As we said before, our methodology to calculate that free on board costs involves also reducing that cost with by-product and domestic revenue. In this instance, given the rain events, Sibonelo's production was materially below what we planned it to be. And therefore, we've had a bit of a cost headwind on a calculation basis, but we're expecting that to improve in the second half of the year.

In Australia, clearly that FOB was also impacted by the lower denominator. And in line with what we said in our pre-close statement, we're looking to improve that production. And that would also mean that our FOB plus returns should pull back into that guidance range for the full year. That's both SA and Australia.

So, we spent around R1.2 billion in capex in the first half, which is about a third of our spend for the full year. And that's consistent with past years where our capex spend is weighted to the second half of the year. Clearly given the price environment that we're facing currently and some of those headwinds, we are carefully reviewing that level of capex spend on SIB. But we're not at the point that we believe we should make decisions that would harm the momentum of our production footprint.

And so therefore, even on LIFEX capex, we continue to invest in Elders, which is now a lot complete, but also in the Zibulo North Shaft project, where between those type of projects, those two LIFEX projects and the gas, we expect to have around R800 million still to be spent on those projects when we get to the end of June 2025.

Our business continues to be subject to a number of enablers, as you picked up in the call. We have to produce well and use our equipment and our mines productively. We have to sell that and this will depend on infrastructure. Clearly, we need to earn a decent price for our coal. If you look at this last six months, some of those features have challenged us, but at an operating cash level we expect to be cash positive and clearly we've reserved historically the cash to complete those LIFEX projects. So, we believe our business was challenged, has performed well in the first half, notwithstanding some of those headwinds that I spoke about. Now I'll use the opportunity to pause and just check if there are any questions online before we start to wrap up the call. Hugo can ask you to just check for Q&A?

Hugo Nunes

Thanks, Deon. We will now turn to Q&A. Just a reminder for those wishing to ask questions, we ask that you please join the conference call facility as we will only take questions to this facility. In order to ask a question during the Q&A session, which is now, please dial * 1 on your keypad and this will register your intention to ask a question. Operator, please open the lines for the first question.

Operator

Thank you. Our first question comes from Brian Morgan of RMB Morgan Stanley. Please go ahead.

Brian Morgan

Thanks, Deon, for the time. A couple of questions from my side. So, Deon, does the R6 billion cash balance at the end of June include any give up that you might need to make on the Newcastle, on the contract bid?

Deon Smith

No. It excludes that restricted cash, Brian, but recognise it's not a big number this year. Of all of the sales in Australia, around 25% was against that Japan reference price contract that you're referring to, where we need to true up once those negotiations are complete. It's not a very big number, but the cash number of approximately R6 billion that we're expecting to see at the end of the first half excludes that cash which we've restricted or reserved out of that balance.

Brian Morgan

Can you just give us like a rough number or even a range?

Deon Smith

From memory, I think the number in range should be around R150 million to R200 million.

Brian Morgan

Okay, that's cool, thank you. Deon, how is the board thinking about dividends now for the first half?

Deon Smith

Yes, it's obviously an ongoing question and debate. We have a very firm dividend policy and strongly have had whereby we fund a minimum of 30% of our adjusted operating free cash flow. So, that's free cash flow or operating free cash flow less just our sustaining capex. Clearly we're expecting that to be positive and therefore 30% of that.

The second lens that we put over our cash balance, as you might recall from past periods, has always been to look at the total number that we have in our bank account reserve the unspent LIFEX cash at R800 million, as well as a quick look at some of our environmental liabilities and the like to see if there's anything we need to top up. And once we've done that, whatever's left over goes back to shareholders. So, our policy and our practice remain consistent. It's just applying it to the numbers when we get to the interim results. So, we continue to be motivated to reward shareholders through the cycle and that's why we've always said that we would also maintain a cash buffer to enable us to do that also.

Brian Morgan
Cool, thanks. And then a last one maybe. What tailwind would you have booked for the first half as a result of the currency hedges?

Deon Smith
The number, I will need to get back to you on the exact number. And the reason for it is because it very much hinges on where the FX lands at the end of June. The calculation really depends on that number. And, Brian, the reason for it is because with the positions you have in place, you expect to have around $700 million in place. We will need to value those positions, as you probably know. And the actual spot FX could have a very material impact on the earnings in both directions. But given that those positions are early 19s, clearly there is a tailwind. And when we speak to you later today, I'll give you the number. But as you probably know, that's purely an earnings number, not a cash number necessarily.

Brian Morgan
Yeah. Okay, very good. Thank you, Deon.

Operator
Our next question comes from Ntuthuko Sithole of SBG Securities. Please go ahead.

Ntuthuko Sithole
Thank you. Good afternoon. I've just got a quick question around Transnet. I was just hoping you could maybe elaborate on the improvement that you expect around the second half. These improvements are structural improvements, or do you feel that this recovery is still a bit fragile and vulnerable to setbacks?

Deon Smith

Yes, a very good question, and good afternoon to you. I'm hesitant to say that all of the improvements that you will typically see in an infrastructure world that Transnet operates are baked in and sustainable because the nature of the challenges that Transnet has faced in the past. You might recall security challenges, which post that also sometimes lead through to derailments or other events on the rail, are binary in nature, in that you have one unfortunate security incident that could lead to a derailment.

So, whilst we remain hopeful that all of the right ingredients have been put in place by the Transnet management team, we remain confident that the spend and prioritisation of spend is now much more robust than what we've seen it before. The discipline execution of all of the ingredients they require is certainly getting the right level of attention. It's difficult to tell you that there will not be any headwinds or derailments or otherwise. I think I heard this morning that there was an incident. We don't have any details yet, but that's a fairly regular feature, albeit quite often it doesn't have any impact. But there could be ones that have an impact.

So, to answer your question as to what we're expecting in the second half, we're expecting consistent performance to the first half with slight improvements post the shut, the annual maintenance shut, which you might recall is a 10-day-odd shut that typically concept undertakes special maintenance across the rail line as well as some of its rolling stock and locos. And that improvement back to what they have said to the market that they want to achieve, we believe will be steady. But the key next step change post some of the signalling work that they have started or starting soon will probably only be felt from 2026, somewhere in 2026 onwards.

Ntuthuko Sithole

Thank you. And just to follow up on that, once rail does improve, do you think there could be any other constraints like potentially port capacity if rail continues to ramp up?

Deon Smith

The nameplate capacity of a port is around 90-odd million tonnes, 91 million to be exact. That's very much a historic figure when it was designed and implemented to reach those type of levels. Compare that to the 55 to 60 million ton range in the short to medium term. I don't think that other rail constraints would be the next bottleneck. Clearly our business, what we're focusing on at the moment is developing Elders and Zibulo to replace production tonnages from mines that have come to the end of its life, or coming to the end of its life, like Goedehoop at the end of this year. And to me, if I look at our production profile, it's more our own total output that would become the next constraint, if I can put it that way, beyond a 16 million ton from Transnet.

Ntuthuko Sithole

All right, thank you.

Operator

We have no further questions in the question queue. I will now hand over to Deon Smith for closing remarks.

Deon Smith

Thank you very much for that. I mean, like in the past years, you would have observed that our business typically runs at a much higher and harder pace in the second half of the year compared to the first half of the year. We expect to see that same feature, and clearly that seasonality coupled with the right pricing environment could see our business perform really well in H2 2025.

If I reflect back on the first half, we've certainly had softer prices and a couple of challenging operating environment issues, and we're working through those to ensure that we stay on top of everything we should control, clearly, safety being one of those. We are very pleased in that performance, as well as executing on a number of our strategic priorities.

And one of those that I want to just highlight again is our LIFEX projects where we remain on track, both in terms of schedule and budget, to complete those projects and to ensure that our business into the longer term stays competitive. I thank you for your time and dialling into the call and look forward to engaging where there is merit on a one-on-one basis. Thank you to everybody on the call for dialling in. Good afternoon.

Operator

Thank you, sir. Ladies and gentlemen, that concludes today's event. Thank you for joining us and you may now disconnect your lines.

END OF TRANSCRIPT