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Conference call transcript

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INTERIM RESULTS ANALYST CALL

Hugo Nunes

Good day, everyone, and welcome to Thungela's 2024 interim results presentation for the six months ended 30 June 2024. I'm Hugo Nunes, Head of Investor Relations for Thungela, and I would like to take a couple of minutes to introduce today's agenda and to explain how this event will run. Our CEO, July Ndlovu, will share the highlights for the first half of 2024. Our CFO, Deon Smith, will then talk through the financial and operational results for the period under review, as well as provide an update on guidance. This will be followed by July concluding the presentation.

We will then open up the Q&A session, providing those on the call and webinar the opportunity to ask questions directly, we ask that you please join the session using the facility conference call provided, as we can only take direct questions through this facility. In order to ask a question during the Q&A session, please dial * 1 on your keyboard, and this will register your intention to ask a question. Once the Q&A session starts, the operator will then open your line and ask you to go ahead with your question. For those joining by the webinar, you will have the opportunity to submit questions via text, which will then be read out during the Q&A session. Now, please allow me to hand over to our CEO, July Ndlovu.

July Ndlovu

Thanks, Hugo, and thank you to everyone on the call. I'm pleased to share with you Thungela's 2024 interim results that demonstrate our track record of executing on our strategic priorities as we build a long-life competitive business. We remain steadfast in our focus on controlling the controllables. On safety, we are 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. In South Africa, we also achieved our lowest total recordable case frequency rate of 0.99, down from 1.4 in 2023.

Operational performance for the first six months of the year is in line with 2024 guidance in South Africa and is ahead of full year guidance in Australia. And as a result, we are upgrading the production guidance at Ensham. Group export saleable production is at 7.8 million tonnes, up from 6.1 million tonnes last year. We are particularly pleased with the strong operational performance at Ensham, producing 1.6 million tonnes of export-saleable production on an 85% basis or 1.9 million tonnes on a 100% basis.

Group capital expenditure ramped up to R1.5 billion, reflecting the disciplined execution of our two life extension projects in South Africa, being Elders and Zibulo North Shaft. These projects remain on track and on budget. These projects are key to improving our long-term competitiveness, as some of our older mines come to the end of their lives over the next couple of years.

The operating environment in the first half was challenging. External factors such as the softer coal prices that have steadily declined from the record high seen in 2022, compounded by the underperformance of Transnet Freight Rail, negatively impacted our financial results in comparison to the same period last year. We are reporting a profit of R1.2 billion for the period. One of our highlights as you will see is our Australian operation, Ensham, which has delivered solid performance, contributing nearly one third to our profit, exceeding our expectations and justifying the group's geographic diversification strategy.

We generated R936 million in adjusted operating free cash flow, which resulted in a net cash position of R6.7 billion at 30 June 2024. These results have allowed us to declare an interim ordinary cash dividend of R281 million or R2 per share. In addition, the board has approved a share buyback of up to R160 million. This amounts to shareholder returns of R441 million, representing 47% of adjusted operating free cash flow. The Sisonke Employee Scheme and the Nkulo Community Partnership Trust will also receive together a collective R31 million. Deon will walk you through the financial details in a moment.

Our increased focus on accountability, safety culture and third-party reviews to improve critical control effectiveness is delivering meaningful safety improvements. In Australia, the total recordable case frequency rate significantly improved to 11.64 from 22.63 ended December 2023, reflecting proactive efforts to align Ensham safety systems with Thungela's work practices where it is appropriate.

Coming to our life extension projects. Our two life extension projects at Elders and the Zibulo North Shaft remain on track and on budget. At Elders we've spent R1.4 billion to date. In addition, we expect to spend approximately R350 million in the second half of this year and a further R100 million in 2025. As a result, anticipated total cost has been revised down to R1.9 billion from R2 billion. At Zibulo North Shaft we have spent R1.1 billion to date with approximately R740 million to be spent in the second half of this year, and R510 million to be spent in 2025 and 2026. The Elders and Zibulo North Shaft extension projects will extend our life of mine for the South African operations from the initial eight years, at least in 2021, to approximately 15 years. Just to be clear, 2024 was going to be our peak funding in terms of our projects.

Let's just reflect on the one key constraint to our South African business. There's been little improvement in TFR performance at 47.3 million tonnes on an annualised basis for the industry, in comparison to 47.9 million tonnes railed in 2023. The single biggest impact was the two derailments which accounted for approximately 600,000 tons of lost export equity sales for Thungela. The South African coal industry, including Thungela, continues to

support TFR initiatives to improve performance, such as the deployment of security on the rail line, the acquisition of critical space for the locomotives, and the provision of assistance when derailments occur on the line.

These costs continue to be recovered through the mutual cooperation agreement between Transnet and the industry. While we believe that the correct building blocks are being implemented by TFR. We only expect to see improved rail performance from 2025. I must however acknowledge the new Transnet leadership's effort and commitment to improving performance.

I'd like to pause a little bit on the market. A number of factors continue to impact short-term demand and pricing. A key factor which followed the surge in coal prices at the onset of the Russia-Ukraine conflict remains the energy security for countries. Geopolitics will continue to impact the energy complex and result in volatility in supply and pricing of these commodities as well as country and company ESG commitments. As we enter the winter season in the northern hemisphere, we expect gas and coal restocking to commence, even though a number of countries had fairly high coal and gas stocks coming the end of the current summer.

It is widely expected that the southern hemisphere will experience La Nina conditions during the summer months in late 2024 and early 2025. The higher rainfall will potentially impact coal supply regions, such as South Africa, Australia, and Colombia, which is expected to support short-term pricing. The economic impact, such as the weakening or strengthening of currencies, also influences coal pricing and demand. However, we believe that the long-term fundamentals of core remain robust, supporting our strategic framework.

So, with that, let's turn to the long-term fundamentals. First, our marketing business, Thungela Marketing International, is fully operational in Dubai, and is responsible for the marketing of our South African and Australian coal. The establishment of our own marketing function and business positions us closer to the key demand markets while capturing the full margin on our products. Global demand for coal reached a record high of 8.7 billion tonnes in 2023. Despite the decline in coal use in the United States and Europe, coal remained a crucial energy source for electricity, steel, and cement production worldwide.

The increasing demand from emerging markets therefore continues to outweigh the efforts to phase out coal globally. In addition, we continue to see the energy transition further delayed as energy security considerations become a priority amid geopolitical tensions and potential supply disruptions. Supply will be impacted by restrictive ESG policies and limited access to capital and insurance, which will discourage new production coming online. These factors provide an opportunity for Thungela is we have access to existing high-quality coal reserves and resources. With that, let me hand over to Deon Smith to take us through the detail of financial operational performance. Deon.

Deon Smith

Thank you, July, and to those online for making the time to dial into our interim results presentation. So, we are pleased to present a set of financial results that demonstrates Thungela's ability to navigate challenging marketing conditions resulting from softer coal prices and continued underperformance by TFR in South Africa. As a reminder, the 2023 first half results do not include Australia, as the effective date of the acquisition was 31 August 2023.

Adjusted EBITDA for the period was R2.1 billion compared to R4.4 billion in the first half of 2023, with Ensham contributing approximately R1 billion for the first six months of this year. Net profit is reported at R1.2 billion compared to R3 billion in the comparative period. Year-on-year decrease was mainly due to lower coal prices, but we'll unpack this a little later today. The group generated cash flows from operating activities of R1.7 billion in the first half of 2024 and after investment in sustaining capital of just over R700 million, this resulted in adjusted operating free cash flow of just under R1 billion for the reporting period.

I'll unpack net cash in more detail later in the presentation. Our net cash at the end of the period was reported at R6.7 billion. During the reporting period we distributed R1.8 billion to shareholders through cash dividends and the share buyback. Our share buyback resulted in around 2.35% of our issued share capital being acquired in the market and being held as treasury shares. Given the timing of the share buyback, the impact on earnings per share will be more pronounced in the second half of 2024 and obviously from 2025 onwards. Our earnings per share for the period was around R9.52. So that is at the upper end of the range we provided in the pre-close in June, mainly due to the favourable mark-to-market movements on forward exchange contracts at the end of June.

So, we remain committed to our state dividend policy, which is, as July just mentioned, to distribute a minimum of 30% of adjusted operating fee cash flow to shareholders. The board has declared an ordinary cash dividend of R2 per share, and also approved a share buyback of up to R160 million, and that's obviously subject to favourable market conditions. In aggregate, this amounts to a total return of R441 million to shareholders, and that represents just shy of 50% of our adjusted operating free cash flow for the first half of 2024. The share buyback is expected to be completed in the second half, and that's pursuant to the authority that we obtained at the group's most recent AGM in early June 2024.

The financial outcomes are based on the following operational results. As July said earlier, we continue to control the controllables best we can, and our operational performance is not only in line with guidance, but in some instances, likely to exceed guidance. Export saleable production was recorded at 7.8 million tonnes for the group. We achieved 6.2 million tonnes in South Africa, which is marginally higher than the 6.1 million tonnes in June 2023. The increase was mainly due to improvements in production and outperform operations that you might recall previously were constrained due to stockpile challenges.

Ensham had particularly strong performance and recorded production on an 85% basis of 1.6 million tonnes. On 100% basis, that's 1.9 million tonnes for the first half of the year. Export equity sales from South Africa was 6 million tonnes and export sales from Ensham 2.1 million. That's obviously on a 100% basis. South Africa recorded a FOB cost per export tonne excluding royalties of R1189. And Ensham recorded an FOB cost per export tonne of R1360 excluding royalties. Sustaining capital expenditure was just over R700 million, of which two thirds were spent in South Africa and one third in Australia. Expansionary capex ramped up to approximately R800 million as we make progress on our two ongoing life extension projects that July mentioned earlier.

Production in South Africa is at the upper end of a guidance range of between 11.5 and 12.5 for the full year, and unit cost is the low end of the guidance, and that's mainly due to this higher production run rate, but also continued cost control across operations. Ensham production is above the upper end of the guidance range of between 3.2 million tonnes and 3.5 million tonnes for the full year, and the unit cost is also below guidance, also due to higher production and number of cash cost improvements.

So, if we now reflect on the markets that we operate in, energy prices continued to soften over the first half of 2024, driven by a milder winter in the northern hemisphere, and also coupled with high coal and gas stocks. Support in the Asian region was driven by restocking activity ahead of the summer season. Reflecting on our coal price graph, the Richards Bay benchmark coal prices averaged $101 per ton in the first half of 2024 compared to $129 per ton in last year's first half. We achieved an average discount on the Richards Bay coal price of 15% in the first half of 2024. This compares to 14% for the full year 2023, notwithstanding the sale of lower quality coal in our export sales mix in the current period.

Our export sales mix is likely to have a higher quality coal in the second half of the year as we have now sold most of the historically lower quality stocks that we accumulated in periods where we were unable to rail all of our production. The average Newcastle coal price for the first half of 2024 was $131 per ton compared to the $204 per ton in the first half of 2023. The average achieved coal price for Ensham was approximately $119 a ton, representing a discount of 9% to the benchmark. This discount is wider than previously observed and expected, given buyers and customers' views that there's a disconnect between new benchmark and the actual demand and supply of coal during the period. And I'll unpack that a bit later on again. We expect discounts to narrow slightly in the second half of the year. Approximately 20% of the sales from Ensham in the period are price-based to Japanese reference price, which has yet to be settled in the market for 2024.

Our South African stock levels decreased by approximately 200,000 tonnes, mainly due to free-on-truck sales as rail performance continued to constrain our export sales. These free-on-truck sales were concluded at prices well below export prices at RBCT and therefore represent a margin enhancement opportunity for the South African business in the future. That's clearly once TFR constraints are resolved. The derailments coupled with strong

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June sales months resulted in fairly low port stocks at the end of June 2024. The Ensham mine produced 1.6 million tons of export saleable production on an 85% basis following the introduction of a fifth mining unit on approval of licenses, which allowed us to expand the operational footprint of that mine. We also purchased approximately 300,000 tonnes of equity coal from our JV participants, representing 15% of Ensham's production.

The annualised production run rate for the first half of the year at around 3.8 million tonnes on a 100% basis demonstrates an annualised run rate improvement of 40% compared to the run rate of 2.7 million tonnes when we took operational control of Ensham in September 2023. As a result of the strong production momentum and our continued focus on productivity improvement, this has resulted in an upward revision of our full year production guidance.

Turning our focus to costs, operating costs for the first half of 2024 increased by R5.2 billion compared to the first half of 2023, with the inclusion of Ensham's operating cost of R4.2 billion for the period. Operating costs in South Africa increased by R917 million, or 9%, driven by inflation of approximately 6.4% and higher inventory drawdown compared to the first half of 2023, around R600 million. Production costs reduced due to the curtailment of production in 2023 and the transitioning of the Rietvlei mine to care and maintenance during the early parts of 2024.

The purchase of third-party coal to fulfil contractual sales obligations was necessitated following the timing of two derailments by TFR. On a unit cost basis, the FOB cost per export time for South Africa was at the lower end of our guidance, increased to R1,189 excluding royalties. This increase was mainly due to inflation of approximately 6.5% compared with the impact of the lower domestic sales revenue offset. We also recorded above inflation cost increases on a per unit selling expense across both rail and port.

We earlier mentioned the R4.2 billion operating costs at Ensham for the first half of the year. The on mine cash costs were R2.1 billion, of which 29% is spent on employee related costs. Royalties on a per tonne basis, around A$22 per tonne were slightly higher than anticipated due to a portion of the coal sales invoiced at the 2023 Japanese reference price of $199 per ton. We accordingly expect a royalty credit in the second half of the year. Logistics costs are approximately A$28 per ton and we expect it to reduce in the second of the year following the successful price renegotiations with the rail operator. Looking at costs at Ensham we have made good progress in identifying a number of contracts where we have been able to negotiate better rates. These come through in the second half of the year.

The group generated adjusted EBITDA of R2.1 billion for the first half of 2024, with Ensham contributing approximately 48% in the period under review. The adjusted EBITDA margin for South Africa was approximately 10%, whilst the Ensham margin was 21% for the reporting period. The decline in earnings in South Africa was mainly driven by lower realised prices, which partially offset the weaker exchange rate and lower royalty

expenses. The earnings headwinds previously discussed include the impact of inflation as well as increases in selling expenses, notwithstanding lower sales volumes. The lower production costs offset some of the headwinds we experienced during this period.

So, let us now turn to working capital. So, the release of approximately R300 million during the first half of the year was mainly due to the inventory drawdown offset by higher receivables due to comparatively higher Ensham sales in June 2024. Payables are higher mainly due to a portion of the Ensham coal sales recorded at the 2023 Japanese reference price of $199 per ton, which is higher than expected prices in 2024. While we have invoiced these sales and received cash from our customers at the 2023 settled price of $199 per ton, revenue has been recognised at the spot price on 30 June 2024 of $133 per ton. So, once the 2024 prices have settled, revenue will be adjusted to reflect the settled price, while the cash received above will be settled and repaid.

The slide on the screen aims to unpack net cash and the movement since December 2023. You will recall that at 31 December 2023, the net cash balance was R10.2 billion. You also recall that when we announced our 2023 full year results, we declared a final dividend of about R1.4 billion, as well as a shared buyback of up to R500 million. So, we've therefore collectively distributed approximately R1.8 billion to shareholders in the first six months of the year. For the first six months of 2024, we then generated the R1.7 billion in net cash from operating activities. Of this, at the end of the period, we reserved R815 million to refund potentially Ensham customers who were charged at the higher Japanese reference price, pending conclusion of the 2024 prices.

We also continue to invest in the business. We've sustained approximately R700 million on sustaining capex and a further R800 million on the life extension projects in the reporting period. In addition, we made a significant contribution of R855 million as cash collateral into an escrow account to secure the environmental guarantees in Australia, which has enabled the transfer of the mining tenements to Thungela during the period. The amount of cash collateral is higher than we had anticipated and it's linked to the current licenses at Ensham. This cash collateral will however be revisited as soon as we secure the third and final mining license expected during 2025, which will extend the life of Ensham to approximately 2038, allowing for a longer period to build up the cash collateral.

As a result of these cash movements, the net cash balance at 30 June was R6.7 billion. Thungela has a clear capital allocation framework which seeks to prioritise returns to shareholders while collateralising our environmental liabilities over time. Our dividend policy, which is to retain a dividend pay-out of at least 30% of adjusted operating free cash flows are base dividend is the core principle of this framework. As mentioned earlier, total shoulder returns are R441 million, so a combination of the interim dividend of R2 a share and the share buyback of up to R160 million represents close to 50% of our adjusted operating free cash flow.

Given the ongoing funding requirements for Elders and Zibulo North Shaft life extension projects, we continue to reserve R1.7 billion to complete these projects. This amount reflects the revised cost to complete Elders project, which July mentioned earlier. We will also reserve a further R120 million for environmental liability cash contributions in the second half. As a result of the dividend declaration, the cash buffer will reduce to approximately R4.4 billion, which is within the range we remain comfortable with to operate given the current point in the price cycle.

2024 guidance remains unchanged other than the production upgrade at Ensham following the strong production in the first half of the year where we are increasing the production between 3.5 million tonnes and 3.8 million tonnes on a 100% basis. Although we are expecting 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 grid to maintain the current production momentum. While we expect higher production at Ensham and a result in lower unit costs, we maintain a slightly conservative stance on the guidance as we anticipate non-cash costs relating to rehabilitation liabilities to potentially impact the cost per ton as we reported. These rehabilitation costs will be more clearly defined in the second half of 2024. We are therefore keeping the Ensham FOB cost per ton unchanged. So, with that, let me hand back to July to wrap up for us.

July Ndlovu

Thanks, Deon. And let me wrap up before handing over to Hugo for Q&A. Our promise that everyone returns home safely every day is unconditional and sacrosanct. It infuses all activities in our business. We are laser focused on controlling the controllables, as we position the business to take advantage of the strong long-term fundamentals supporting coal demand. We are pleased with the performance at Ensham, which has resulted in the production upgrade at the mine. We'll continue to drive productivity and improve the cost competitiveness across all our mines in order to maximise the full potential of these assets.

We are confident that our distributed capital allocation approach will ensure that Thungela delivers value for our people, communities, and shareholders over the long term. Our purpose to responsibly create value together for a shared future remains the north star that guides our ambition and every decision that we take in Thungela. And lastly, I'd like to thank our employees for their dedication and commitment, and you, our investors, for your support of Thungela as we continue to chart this pathway forward. Thank you very much, and back to you, Hugo, for Q&A.

Hugo Nunes

Thank you, July. We will now move to Q&A. A reminder that if you wish to ask a question directly, please join the conference call facility using the link you would have received upon registration. Dialling * 1 will indicate to the operator that you would like to ask a question. For those who have submitted questions via the webinar platform, I'll be reading those out. Operator, please could I ask you to open the line for our first question?

Operator

Thank you sir. First question comes from Brian Morgan of RMB Morgan Stanley. Please go ahead.

Brian Morgan

Hi. Thanks very much for the time, guys. Just two questions from us. Can you give us a little bit of colour on forex hedging, what your exposure is for the second half and what sort of price levels you're at there? And then the second question is on the R4.4 billion cash buffer. Maybe just a bit of just a bit of commentary around that perhaps. Why R4.4 billion? Why not R4 billion? Why not R3 billion? Why not R5 billion? Could you flesh that out for us a bit?

Deon Smith

Good morning Brian, thank you very much for your questions, your two questions. So, on the forex hedging, you'll pick up on a note in our interim financials that we put on our website today that we have north of $400 million that we have sold forward at between R19 and R20 per Dollar. And that's resulted in the fairly significant mark-to-market that you would have seen at the end of June. Now, clearly with further ZAR strength we've seen subsequently that conversion of Dollars is likely to remain a tailwind for us unless obviously the direction of currency changes.

In terms of the cash buffer, you will recall that quite some time ago, we've always said that we would be comfortable with a cash buffer, and initially we had a range of R3 billion to R6 billion, and then in executing Ensham, we reduced that to a R5 billion at the upper end. And we've said that we would like to continue to be able to meet our obligations but also continue to distribute cash to shareholders cycle. So therefore, the board remains fairly comfortable with that type of cash buffer and as you would have picked up clearly that excludes the R1.7 billion that we reserved to finish our key LIFEX projects. It excludes the environmental cash that we've had to set aside in Australia, and it excludes some of the cash we set aside to settle contracts under the Japan reference price. So, our balance sheet is still fairly robust, notwithstanding that it might have breached what you would have anticipated as a R5 billion number. It is still within that range that we are very comfortable with, the R3 billion to R5 billion cash buffer.

Brian Morgan

Thanks, Deon. Can I follow up? I don't know if you've spelled this out in the release or not. What Japanese reference price have you assumed in the 815?

Deon Smith

So, Brian, in the first half of the year, we've issued certain invoices at $199 a ton, which was the 2023 prices. We've therefore received that cash. We, however, on 30 June 2024, recognised our revenue at the spot price on

that day, which is $133 a ton. So, we are expecting the settlement to land somewhere between the $133 and the previously flagged reference price, which hasn't fully settled yet, of $145 a ton. So, somewhere between those is where we're anticipating it to settle. So, what we've taken is therefore a fairly conservative view on our earnings and revenue by using the spot $133, and we're confident that we will step it above that. And that would therefore be a slight earnings tailwind. But as you can imagine, then the delta between the $199 and let's call it somewhere between the $133 and the $137 would have to be refunded. So, the 815 is a fairly conservative number also, but well provided for.

Brian Morgan

That's very good. Thank you, Deon.

Operator

The next question comes from Efrem Ravi of Citi. Please go ahead.

Efrem Ravi

Thank you. You had mentioned that the TFR was operating well in June and July at 15 million tonnes. Are you still seeing that in August? And also related to that, do you think when the agreement expires in March 2025, what is your order of priority in terms of ask of TFR? I mean, is it rates or is it penalty clauses or is it reliability? And secondly, can you give a bit more detail on the realisation premium discount you are expecting at Ensham in the second half and into 2025? Can you repeat also what the royalty credit that you are expecting from Ensham as I missed that point. Thank you.

Deon Smith

I'm happy to take the second half of that and then hand back to July on TFR. So, the second half of it, which is slightly more mathematical and therefore easier to answer than predictions on TFR. In terms of the discount, you would have seen that the first half discount was wider than what we anticipated. Whenever we quote a discount, you have to also reflect on the price that we are assuming or that we have made an assumption on for the following period. So, for example, the core reason why discounts at Ensham were wider in the first half is because when sales were concluded towards the tail end of 2023, the price on the board, NEWC, was much higher, and therefore the first discounts that were agreed in absolute Dollar terms were higher.

If you now look at that Dollar as a percentage of a lower Newcastle price in the current period. Yeah, so that is just putting that out to clarify why discounts were wider. Therefore, if you look forward to the next six months it depends on where Newcastle moves to. So typically, if Newcastle had to increase given that we now have these firm Dollars per ton, you would essentially see that that Dollar per ton we've agreed would become a smaller percentage relative to what it likely will result in. And vice versa. So, there's essentially a price that we've agreed

to sell at in the future, and if NEWC is higher than that, clearly we could face a very different percentage outcome.

In terms of royalties, we didn't quote the exact number that we're expecting in royalty credit, but it's the delta between A$22 a ton and A$15 a ton. So, that's the delta that we think we ought to have paid in royalties compared to what we paid. So, if you extrapolate that, you could get anywhere between R120 million and R180 million order of magnitude royalty credit in the second half of the year.

July Ndlovu

Then on your question on TFR performance with reference to June/July, when we saw performance beginning to be above 15 million tonnes per month, we see those as encouraging green shoots. And clearly the work that they were going to do in the shutdown sets us up for what is likely to happen in the remainder of the year. The biggest indicator of what will happen in the second half of the year for us was primarily how quickly these guys came up post the shutdown. And it's just two weeks after the shutdown. And what we can see at the moment is they are ahead of where they were last year and the year before that. And that's very encouraging.

So, we think that when we say the building blocks that they're putting in place should deliver improvements in 2025, we're seeing the early shoots associated with that. That's pleasing. We have opted to take a more pragmatic view, which says we are unlikely to see any improvements between now and year end. But clearly, if there were improvements, we will see us being able to rail more and sell more than we're currently forecasting.

In terms of the long term agreement, and what is important to us, I think is all of the above that you've described, but it's early days for us to really begin to agree the nuts and bolts of that agreement. But as you can imagine, I mean, we want to be sure that we can get the volume that we require at a competitive cost, that it's reliable, and that investments that are required to go into making sure that the rail infrastructure and the above rail infrastructure is reliable and cost effective are being done. But it's way too early for me to give you a sense of that.

Ephrem Ravi

Thank you. If I can just ask a very quick follow-up on the Australian volumes. How much of it is typically sold forward, just so that we can get a census to the volumes that have already been committed to with the price?

Deon Smith

The first of the Ensham sales book has been sold with approximately 20% to 25% against fixed price arrangements and the rest typically against a NEWC plus a discount. So, most of it has already been sold for the balance of the year. So therefore, clearly, with those fixed price contracts that I'm referring to, if Newcastle runs materially higher than those fixed price contracts, then clearly you'll see a widening of that discount. Or if

Newcastle dips below them, you could find yourself in a premium territory, which is what happened in the second half of last year.

Operator

The next question comes from Ben Davis of Panmure Liberum. Please go ahead.

Ben Davis

Morning, July, Deon. Just a couple of questions for me. I just wonder if we could get a bit more colour on these free-on-truck sales that you've had in the second half, the 400,000 tonnes, what we think that they're looking at going forward and kind of how much additional in terms of cost are they roughly in Rand per ton or Dollars per ton. And then also a few of the costs also, I don't know if it's related, but then the contractual sales obligations that you had to meet. Again, what sort of colour do we expect in the second half? Are those domestic or international? Thanks.

Deon Smith

Thank you, Ben. I might need to just test with you your second question, the contractual sales obligations, whether you're also referring to the free on-truck sales, but I'll do so.

July Ndlovu

He is referring to we talked to the sales that we had to make post the derailment.

Deon Smith

Understood. Thank you for clarifying, July. Ben, good to hear your voice. So, the FOT sales were concluded at approximately R500 a ton. They're by-product sales, so these are cells of middlings that gets generated as a result of a two-stage wash in our process. We focus on the primary product, which absolutely needs to earn a seat on the train. But then these coal tonnages build up across our mines over time, which is slightly lower quality coals. We did 400,000 give or take in the first half. To answer question more directly, we're likely to repeat that. So again, 400,000 roughly. It could be slightly more in the second half of the year. And that's essentially, therefore, if it's by-product, that adds to revenue and not necessarily other measures. But good to get the cash rather than see it on stockpiles.

In terms of the contractual sales, let's assume that Transnet shut, which all the information we've seen so far is that it has been successful and they've dealt with a number of issues that have previously caused those derailments that we reported. We shouldn't repeat those contractual sale buy-ins. We do not have any firm contracts on it. There is a bit of it in the early half of the second half, but not much. Thereafter, we should not repeat it as a result of derailments, unless we obviously have a derailment. It was just to cover contractual positions at port where we did not have the right qualities [?] immediately following the derailment.

Ben Davis

Perfect. Okay, great. So, the free-on-truck and the contractual sales, those are two separate entities where you weren't trucking to meet export market obligations?

Deon Smith

Correct.

Ben Davis

Great. That's perfect. Thank you.

Operator

At this stage we have no further questions from the conference lines.

Hugo Nunes

I'll read out some questions. July, if you don't mind taking the first question from Siphelele Mhlongo from Sanlam Investments. Well done on the Ensham improvements that are materialising in a short space of time. Question one. Can you provide more detail as to whether Ensham could run into rail capacity bottlenecks over the short to medium term, given your improved guidance? And two, does the rail capacity have any buffers available for any additional operational growth as a result of the resource evaluation plans?

July Ndlovu

I'll answer both questions together actually because they are related in some way. Ensham has got a contract for roughly 4.4 million tonnes of rail and port capacity. That is more than adequate for the current performance. You would remember I said when we reported in March that we could see that we could improve the performance of Ensham to roughly about 3.6 million to 3.8 million, but we have line of sight to 4 million tonnes. We are there, and for that we have both rail and port capacity.

If the next part of your question implies not just the buffer, because the 4.4 million provides the buffer for the 4 million tonnes of production. But should we identify brownfields opportunities that are incremental beyond the 4 million tonnes, part of the reason why this piece of work is taking time is to make sure that we also answer the question, do we have the port and rail capacity? We can only do that once we know what this incremental quantum is. Therefore, we can actually begin to engage with the providers of rail capacity and port capacity. But in principle, in Queensland, particularly on the Gladstone line that we run, although the volume is contracted, the line is not running at capacity, nor is the port running at capacity. So, all things being equal, we should be able to acquire capacity for brownfields opportunities at Ensham if we identify them and they are value accretive.

Hugo Nunes

Thanks, July. Deon, if you could take the next one. The question is from Johannes van der Horst from Pondus. Net cash has declined significantly over the past six months. The key driving forces driving this decline, how are they behaving now?

Deon Smith

Good afternoon, Johannes. Yes, that's a very good question. If you look at where our business is, we flagged that our all-in sustaining cost is low $90 a ton. And clearly, when you therefore see the type of prices we've seen on the board of about $101 for the first half of the year, it gives you a sense of our cash margin, yeah? And that's why we've generated operating free cash flow. Now, since we printed these results you might have seen markets have improved slightly. And therefore, only a $7 or $8 a ton improvement in price doubles our cash margin. So, the price leverage, operational leverage of this business is absolutely enormous. We've seen that price tick up a bit, but clearly that is only one factor. It's too early to call.

The second factor other than price is Transnet. It's too early to call exactly where we would land for the full year, but so far – July mentioned this earlier – the ramp up this year post the shut has been 20% to 30% better for every day that we've seen compared to last year as of the year before. So therefore, we are cautiously optimistic that those factors that drive our cash generation should favour us in the second half, all else being equal.

Hugo Nunes

Thanks, Deon. The next question, July, if you can have a look at that. Peter Cromberge from Merger Market. Can you speak to Thungela's appetite for any M&A opportunities? Also, at what point is Thungela likely to draw down on its R3.2 billion debt funding facilities?

July Ndlovu

Our appetite for M&A is well chronicled. We've said that we'd like to diversify our business where we have a right to win. And we continue to look for opportunities to be able to do that. Clearly, what is important for us is to find case-generative assets that can enhance our returns. And when we've got something that we'll obviously share that with you as our shareholders. The second part of your question, which is at what point do we draw down on the R3.2 billion, if as a board and management we think that we have got use for that cash that is both efficient and value enhancement, we will draw that down. Those things have just not come up just yet, but it's something that we continuously review as management.

Hugo Nunes

Thank you. One more question. John Ogden from Eastern Value. What is your view on how many more years will there be significant imports at ARA in Europe given the continent is trying to wind down all coal power plants? How would the end of exports to Europe affect your business?

July Ndlovu

You have picked up ARA. How significant is imports into the ARA in an R8.7 billion demand market and R1 billion seaborne market? I wouldn't call that significant. I've said this before, that as we think about the long-term fundamentals of coal, Europe in our view doesn't feature as a driver for long-term fundamentals, other than in the short to medium term where the energy complex, particularly gas prices, has an interplay on coal prices. But it doesn't feature as a demand market for coal per se. What we have also said in our results, if you read the text, we talk about the R8.7 billion demand. But we also make the same observation, the IEA, in their coal report and electricity report that they issued end of June, that the demand growth in the emerging markets, particularly China and far outweighs the declines in terms of coal demand in the US and Europe. So, very simplistically, our assumption is that in the long term, there'll be very little coal going into Europe, and the demand is going to be in emerging markets.

Hugo Nunes

Thanks, July. At this point, we'd like to wrap up the Q&A session. If you were not able to get to your question today, please do get in touch with me or Shreshini by our email addresses that appears at the bottom of the SENS and RNS announcements released earlier today. With that, please allow me to hand back to July to close out the day.

July Ndlovu

Thanks, Hugo. I guess the key takeaway, if you look at the results we've issued today, is that we've got a robust and resilient business model that is able to continue to generate cash flows through the cycle. And our focus is to control the controllables, which is operate safely, manage our costs, drive productivity, so that if the price curve does an uptick, we can actually generate additional cash flows. Thank you very much.

END OF TRANSCRIPT