Conference call transcript

18 March 2024

ANNUAL RESULTS PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Thungela annual results presentation. All participants will be in listen-only mode. There will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please note that this call is being recorded. I would now like to turn the conference over to Ryan Africa, Head of Investor Relations. Please go ahead, sir.

Ryan Africa

Thank you very much. Good day, everyone, and welcome to Thungela's 2023 annual results presentation. I'm Ryan Africa, Head of Investor Relations for Thungela, and I'd like to take a couple of minutes to introduce today's agenda and to explain how the day will end. But first, allow me to draw your attention to a couple of disclaimers ahead of today's presentation. While you take a moment to read through the messages from our lawyers, let me take this opportunity to share that today's call is the last one that I will host as Head of Investor Relations for Thungela.

Since our listing on the JSE and LSE, I've had the privilege of leading the Investor Relations function. It's been incredibly rewarding to work with a world-class team of sell-side analysts and highly sophisticated and knowledgeable mining investors on the buy side. I want to express my sincere gratitude for your insightful questions, constructive feedback, and continued trust throughout this journey. I'll be moving into a new role within Thungela, but I want to assure you that my commitment to our investors remains as strong as ever. You're all set excellent hands moving forward. Hugo Nunes, our new Head of Investor Relations, and Shreshini Singh, IR Manager, will be taking the reins.

Now, let's open to today's agenda. Our CEO, Julian Ndlovu, will share Thungela's 2023 highlights and we'll also provide an update on the execution of our strategic priorities. Our CFO, Deon Smith, will then talk through the operational financial performance for 2023, as well as provide an update on guidance. And after this, July will conclude the presentation. This will be followed by a Q&A session of approximately one hour to give those on the call and webinar the opportunity to ask questions. We'll then close the call at approximately 13:45.

Turning to Q&A. For those wishing to ask questions directly, we ask that you please join the session using the conference call facility 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 keypad, 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 via the webinar, you'll have the opportunity to submit questions via text, which will then be read out during the Q&A session.

Before I hand over to July, I must draw your attention to two important features of this presentation. Firstly, all ESG information in today's presentation, including information on safety, relates only to the South African operations. We're in the process of aligning Ensham to our ESG reporting system and standards, and ESG information relating to Ensham will be included in the next annual reporting cycle.

Secondly, unless otherwise indicated in the presentation, operational financial figures related to Ensham are based on Thungela's interest in Ensham for the four month period between the acquisition date of 31 August 2023 and the end of the year. For more detail on the treatment of Ensham in our reporting suite, I encourage you to refer to page 68 of the annual financial statements released this morning. Now, please allow me to hand over to our CEO, July Ndlovu, to take us through Thungela's annual results for 2023.

July Ndlovu
Thank you very much, Ryan, and good day to everyone on the call. I'm pleased to share Thungela's 2023 annual financial results with the market today. We've delivered a solid set of results against backdrop of a challenging operating environment, notably weaker coal prices and continued poor rail performance on the part of TFR. Safety is our first value. As previously reported, our colleague, Mr Breeze Mahlangu, tragically passed away in February 2023. Our thoughts are with his family and colleagues. While our total recordable case frequency rate is consistent with last year, the loss of a colleague is a stark reminder that we cannot waver in our commitment to operating a business free from fatalities and injuries.

Operationally, we demonstrated exceptional agility in responding to the constrained rail environment and recorded 13.1 million tonnes of export sellable production and 12.8 million tonnes of export equity sales. Thungela successfully navigated the dual challenges of rail constraints in South Africa and weaker coal prices globally. And today we report solid results with the profit for the period of R5 billion including a contribution of R148 million from the Ensham business. We generated R6.8 billion in adjusted operating free cash flow which resulted in a net cash possession of R10.2 billion at year end.

These results and a solid liquidity position allow us to declare a final ordinary cash dividend of R1.4 billion or R10 per share. This takes the total dividend declared for 2023 to R20 per share or R2.8 billion in aggregate. In addition, the board has approved a share buyback of up to R500 million. Taking this into account, Thungela is returning up to 49% of adjusted operating free cash flow for the full year to shareholders.

Previously, we shared with you our four strategic pillars. We've now created safety as a stand-alone pillar, as we remain unconditional and single-minded about being a fatality-free business. In terms of driving our ESG aspirations, we continue to spike on social through contributions of R312 million to the Sisonke Employee Trust and Nkulo Community Trust. We've also committed R160 million over the next five years to an education initiative in the province of Mpumalanga, which will improve the quality of education for learners in 45 non-fee schools in our host communities. It is also pleasing to report that the remediation of the impacts of the 2022 Kromdraai environmental incident have progressed very well.

In terms of maximising value, we continue to make good progress on our Elders and Zibulo North Shelf projects in South Africa, both on track and on budget, with Elders having delivered first coal a couple of weeks ago, and this is ahead of schedule. The successful execution of these projects build a momentum for a more competitive, longer life portfolio. We've also been disciplined in our focus to improve productivity and cost performance across all our operations. We implemented productivity initiatives in several operations as well as work to take costs out of the business. The fact that our unit costs in 2023 came in at the lower end of guidance, notwithstanding the lower production denominator, is testament to the good work we are doing in managing the cost profile of the business.

Moving to the next pillar, the acquisition of Ensham last year is an important milestone on our pathway to diversification. Since assuming operational control, we've already been able to step up productivity quite significantly, and work is underway to define how we can maximise the full potential of the Ensham resource. Recently, we also announced the establishment of Thungela Marketing International in Dubai, which brings us closer to our markets, and is an important step to derive full margin from our coal.

Disciplined capital allocation remains key to our equity story, and the return of R3.3 billion represents 49% of adjusted operating free cash flow, well in excess of the minimum of 30% per the dividend policy. This demonstrates our commitment to returning surplus cash to shareholders. The successful execution of our strategic priorities is testament to Thungela’s ambition to build a sustainable, long life business across multiple geographies, paving the way for the group to capitalise on the robust long-term fundamentals supporting coal globally.

As we reported at the release of our results in March last year, we said we lost Mr Breeze Mahlangu in February 2023, following complications due to an injury he sustained in December 2022. We continue to strengthen our safety controls and our culture and have instituted measures from the executive level through to the frontline to live up to the promise that everyone goes home safely every day. Among these is continued focus on our three safety pillars, integration of safety metrics and behaviours into employee performance contracts, and an enhanced focus on critical controls. The total recordable case frequency rate remained flat compared to last year. And we continue our intense focus on learning from incidents to avoid repeats.

As I explained earlier, maximising value from existing assets is crucial to the future competitiveness of our business. The board approved the Elders project last year, production of which will replace volumes from Goedehoop as that mine nears the end of its life. Elders is the first major project approved and executed by Thungela. When we demerged, we said that we want to look at capital projects through a Thungela lens. And elders will be delivered at a relatively lower capital intensity. The project is on budget and on time and is lost time injury free. Today to spend R1.2 billion on the project, predominantly on surface infrastructure and the development of the portal into the coal reserve. Approximately R800 million of capex will be spent in 2024. The mine is expected to produce approximately 4 million tonnes of run-of-mine core per annum when it reaches steady state at the end of 2025.

The Zibulo North Shaft Extension Project was approved by the board in June 2023, extending the life of our flagship Zibulo operation through to 2038. Construction has commenced and the project is progressing well. We anticipate completion of the project in 2026. The mine is expected to produce 8 million tonnes of run-of-mine coal per annum at steady state. As of 31 December 2023, we'd spent R590 million on the project. We are expecting to spend R950 million in 2024 and a further R870 million in 2025.

The acquisition of a controlling interest in the Ensham mine in Australia marked a significant milestone on our journey to geographic diversification as it expands to Thungela's presence beyond South Africa. This mitigates our reliance on a single operating geography and opens up new and diversified markets, notably Japan and Malaysia, and has the added benefit of exposure to the Newcastle coal price. Ensham is benefiting from our operational expertise as it extracts coal using mechanised underground bord and pillar mining methods. And these are similar to those used in our South African coal operations.

Since assuming operational control on 1 September 2023, our focus has been on improving productivity. And I'm pleased to report that performance is improved in annualised run rate of 3.2 million, up from 2.7 million tonnes at the acquisition date. And this is where we were at the end of the year. We believe this opportunity to further improve to approximately 3.6 million tonnes through the introduction of an additional production section in 2024. And that improvement from what we brought with the 3 million tonnes to the 3.6 million tonnes, as you can guess, represents 20% productivity improvement for minimal capex.

The acquisition resulted in a material increase in our core resource base, with the addition of approximately 1 billion tonnes in resources. And as I flagged earlier, we've already started looking at opportunities for productivity improvements, cost reduction, and potential brownfield opportunities to unlock the full value of the resource. The integration of Ensham into the group continues to progress very well.

In anticipation of the expiration of the marketing agreement with Anglo American Marketing, we've set up our own marketing capabilities in Thungela Marketing International, which has already commenced with some of the marketing functions. Our export marketing team based in Dubai will be responsible for overseeing marketing functions for the South African and Australian assets and have been providing marketing services to Ensham since the completion of the acquisition. The establishment of our own marketing entity reinforces our commitment to capturing the full margin of our products and positioning Thungela as an international business.

So, let me turn to the typical one, which is Transnet. And rail performance continues to be a focus for management time and effort. Last year, TFR railed a total of 47.9 million tonnes for the industry, a 5% decline from 2022. Since the start of the deterioration in rail performance in 2021, the coal industry through RBCT has sought to assist Transnet in resolving the issues plaguing rail in South Africa. 2023 has seen a reset in industry's relationship with Transnet and the new Transnet leadership has demonstrated a renewed commitment to collaboration.

Industry has assisted with the deployment of additional security on the coal line and is currently assisting TFR in the procurement of critical spares from alternative suppliers while the impasse between Transnet and CRRC continues. The cost of these spares and security deployment is recovered by the core exporting parties through the mutual cooperation agreement signed between TFR and RBCT. For the collaborative efforts, we'll address critical systems such as signalling, again further improving overall performance.

Although recent TFR performance has stabilised, it remains susceptible to significant security and breakdown disruptions. As a result, we've agreed to extend the existing long-term rail agreement by one year to 31 March 2025 to allow TFR to demonstrate sufficient stability before the contract is renegotiated. A positive signal, though, is that we have seen an improvement in the rail performance in the first quarter of this year, notwithstanding a significant derailment in January. The demonstrated performance for the most recent six weeks is up to 50.3 million tonnes per annum run rate. And that is an improvement to levels last seen in 2022. We are confident that the steps that industry and CFR are taking should see rail performance continue to stabilize and improve. With that, let me now hand over to our CFO, Deon Smith, to take us through the detailed operational and financial performance. Deon.

Deon Smith

Thank you, July, and to those online for making the time to dial into our results presentation for the year ended 31 December 2023. We are pleased to present a solid set of results against the backdrop of weaker commodity prices, global cost inflation and continued rail underperformance. Our results underscore the group's resilience and financial discipline, but we recognise we have more work to do as we charter through volatility. As we look back at the 2023 numbers, please remember that Ensham has been included in our results for the four months since we took operational control. For a detailed explanation on the accounting treatment of Ensham, please refer to page 68, which is note 2a of our annual financial statements, which are available on our website as of this morning.

So, adjusted EBITDA for the period was R8.5 billion compared to R29.5 billion in 2022. The decrease is largely as a result of softer coal prices. Ensham contributed around R738 million to the group's adjusted EBITDA. The group generated adjusted operating free cash flow, which is cash flow from operations less sustaining capex of R6.8 billion and we had net cash at year end of R10.2 billion. The net cash slightly higher than our estimate in the 2023 pre-closed statement, mainly as a result of better cash conversion. And that obviously provided room for improved returns to our shareholders.

Our earnings per share for the reporting period was R37.66 compared to R127 in 2022. The 6.9% decrease in export saleable production at 12.2 million tonnes for South Africa versus the 13.1 million in 2022 was mainly due to the curtailment of three export production sections during quarter two of 2023. And as you recall, that was in response to the continued poor TFR performance at the time. Export saleable production from Ensham was 860,000 tonnes and that's on an 85% basis for the four months. Export equity sales from South Africa were 11.9 million tonnes and sales from Ensham was 884,000 tonnes on a 100% basis.

Our export sales and therefore specifically earnings for the December period was negatively impacted by the slippage of seven vessels or about 550,000 tonnes during the last week of December 2023. These vessel slippages represented approximately R350 million earnings which was therefore only realized in January 2024. The lower saleable production denominator coupled with the impact of inflation resulted in FOB costs per export tonne in South Africa of R1,084 excluding royalties. The reported FOB cost per tonne was in the low end of 2023 cost guidance. So, FOB cost per export ton at Ensham was R1,544 excluding royalties.

Shareholder returns remain a central focus of our capital allocation framework. We not only invest in initiatives which deliver attractive returns in the long term but also prioritise returning value to shareholders through dividends and share buybacks and the combination of which in our view provides flexibility for diverse preferences of our shareholders. Since listing we have consistently delivered on our commitment to contribute a minimum of 30% of adjusted operating fee cash flow to shareholders.

This year is no different and the board has in line with the Group's capital allocation framework to clear the final ordinary cash dividend of R10 per share. Combined with the interim dividend of R10 per share, this amounts to a total dividend of R20 or R2.8 billion in aggregate. The board has also approved a share buyback of R500 million which allows us to return R3.3 billion or, as July mentioned, 49% of adjusted operating free cash flow for the full year to our shareholders.

Thermal coal prices declined faster than market observers expected at the start of 2023. This was driven by a mild winter in the northern hemisphere, coupled with high coal and gas stocks, a result of the energy security scramble we saw in 2022. While global efforts to reduce emissions from fossil fuels are well underway, the demand for energy, including thermal coal, remains strong. This is reflected in record levels of global electricity generation from coal, as well as thermal coal exports.

Demand remains strong and responsive, but supply is representing a growing challenge with limited access to funding and insurance, increasingly stringent regulatory requirements and widespread social and political opposition to the development of new coal mines. This provides companies like us with established high-quality coal operations and access to existing reserves with a significant structural advantage.

Reflecting on the benchmark coal price graph, we saw the record Richards Bay coal prices in 2022 come down to an average of $121 per ton in 2023. The average discount to Richards Bay coal prices narrowed to 10% in the second half of 2023 compared to 18% in the first half of 2023 and 15% in 2022. The full year discount was therefore 14%. The average Newcastle coal price for 2023 was $172.79. When looking at the four months in the 31 December 2023, the average realised Newcastle coal price for Ensham was $155.85 per ton, representing an 11% premium to the benchmark coal price, mainly due to fixed price agreements, most of which were linked to the 2023 Japanese reference price, early in 2023. Going forward, we expect the Ensham sales to clear a slight discount to benchmark.

Turning to operational performance, our South African export saleable production was 12.2 million tonnes, which is at the upper end of our guidance range. The reduction as compared with 2022 is mainly as a result of the curtailment of those three underground production sections in Q2 of last year. The engine mine produced 860,000 tonnes of export saleable production on an 85% basis. As July mentioned earlier, we have seen a strong performance improvement, which saw the annualised run rate hit 3.2 million tonnes by the end of 2023, compared with the 2.7 million ton annualised run rate when we assumed operational control.

In South Africa, export sales of 11.9 million tonnes declined by 2% from 12.2 million tonnes in the prior year. The export sales profile in South Africa is consistent with 2022, barring the vessel slippage as I referred to earlier, which resulted in approximately 300,000 tonnes being recognised in sales in January 2024. At Ensham, we recorded export sales of 884,000 tonnes on a 100% basis. These sales were also impacted by the late arrival of vessels planned for December as a result of inclement weather conditions at the port of Gladstone. The export sales slippage in Australia was approximately 255,000 tonnes into Jan 2024.

The FOB cost per export tonne for South Africa, whilst at the lower end of our guidance, increased to R1,084 excluding royalties from R929 in 2022. This increase was mainly due to the impact of inflation on our operating costs of 9.6%, combined with the lower production volumes as well as the impact of lower domestic sales revenue offsets. We also recorded above inflation cost increases on our per unit selling expenses across both rail and port. Given the weaker price environment and poor rail performance, the group embarked on a cost optimisation programme which yielded approximately R500 million in cost savings. These savings were either partially offset by additional stockpile management and maintenance cost as the year progressed. Costs were also positively impacted by a much lower non-cash charge related to the annual assessment of the environmental provisions.

The group generated adjusted EBITDA of R8.5 billion with an adjusted EBITDA margin of 28% compared to 58% we achieved in 2022. The decline in earnings was mainly driven by lower benchmark coal prices, which was partially offset by weaker exchange of Rand to US Dollar 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 consolidation of Ensham into our business resulted in a positive adjusted EBITDA of R738 million.

The group generated adjusted operating fee cash flow of R6.8 billion. We released approximately R2.7 billion from working capital, mainly due to a reduction in receivables of R1.6 billion and an increase in accounts payable, R944 million. The receivables unwind was primarily due to higher prices in December 2022, but also slightly lower sales in December 2023 as a result of those vessel slippages. Accounts payable was higher and is expected to stay elevated until the lifex capex projects are complete.

Income tax payments during a period of R2.1 billion are related to the South African income taxes. The sustaining capex of R1.7 billion, however, includes R299 million from Ensham. We have spent R860 million on rehabilitation. This relates primarily to work done at our Khwezela colliery and also includes about R121 million of rehabilitation spend at Ensham.

Thungela has a clear capital allocation framework which seeks to prioritise returns to shoulders while collateralising our environmental liabilities over time. Our dividend policy to maintain a dividend pay-out of at least 30% of our adjusted operating free cash flow as a base dividend is the core principle of our capital allocation framework. Our approach to capital allocation is also guided by the funding needs of our projects, and accordingly the board considers it appropriate to continue to reserve R2.6 billion for the ongoing execution of the Elders and the Zibulo North Shaft projects as 2024 is our peak life ex-cap-ex funding year.

If we then look at the allocation of net cash of R10.2 billion at the end of the year we deduct R2.6 billion for the projects, we then consider allocation of R1.4 billion declared as a final ordinary cash dividend and R156 million to be received by the employee and community trusts. The shared buyback will return another R500 million to shareholders. We have also allocated R500 million to the Ensham Green Fund, given ongoing work to refine most appropriate environmental guarantee structures for that business. These allocations take us from the net cash position of R10.2 billion down to the R5 billion cash buffer, which the board continues to consider appropriate in the current market circumstances.

Previously, surplus cash was returned to shoulders by way of an additional dividend. This time around we are returning it through both an additional dividend and the share buyback. Since demerger we have consistently said that we view share buybacks as an important capital allocation tool and we obtained authority to execute a buyback at the 2023 AGM in May last year. The board is of the opinion that conditions are now conducive to a buyback and have accordingly announced the share buyback of up to R500 million, subject of course to market conditions and applicable regulations. The buyback will be executed primarily on the JSE in the period between the 19th of March, which is tomorrow, and our next AGM on the 4th of June 2024. We also envisage to seek renewal of the general buyback authority at the 2024 AGM.

South African export saleable production guidance for 2024 is consistent with that of 2023 and is accordingly set between 11.5 million tonnes and 12.5 million tonnes. FOB cost per ton guidance is also broadly consistent with 2023 guidance and is accordingly expected to be between R1,170 per ton and R1,290 per ton excluding royalties. The increase as compared to the achieved cost performance in 2023 is due to expected mining inflation of approximately 8% and the impact of lower domestic revenues.

Sustaining capital expenditure is expected to be marginally lower at R900 million to R1.1 billion. Expansion capex is expected to be between R1.6 billion and R1.9 billion as peak spend on the Elders projects are reached in 2024 before starting to taper down. In regard to Ensham, we continue to assess the pathway to further improve production, throughput, operational costs and sustaining capital expenditure levels. Accordingly, we have only provided guidance for 2024 at this stage.

Export saleable production guidance for Ensham for 2024 is set between 3.2 million tonnes and 3.5 million tonnes, so that's on a 100% basis. FOB costs for export ton is expected to be between A$130 and A$140 excluding royalties. Sustaining capital expenditure is expected to be between A$40 million and A$70 million, and that's on an 85% basis which is based on historical sustaining cap expend levels at that business. So, with that let me hand back to July for concluding remarks.

July Ndlovu

Thanks, Deon. As I conclude, let me just leave you with a couple of important messages. At Thungela, our purpose is the lodestar for every decision and action we take. Our commitment to safety is absolute and unconditional, and eliminating fatalities and injuries from our business is front and centre of everything that we do. Looking beyond the mine gate, we are committed to responsible mining practices and to living a positive legacy for our host communities long after the last ton of coal has been mined. These objectives are not only ethically sound but also strategically essential.

The ability to leave a positive legacy is dependent on our ability to maximise the value from our existing assets and to invest in creating a competitive business in the future. For this reason, we maintain our laser-like focus on the successful ramp-up of the Elders and Zibulo North Shaft capital projects and in ensuring the successful integration of Ensham as well as creating opportunities to maximise the value of that resource.

Ultimately, our vision is to create sustainable value for all our stakeholders. And for this reason, we are building an international long life business that is poised to take advantage of the attractive core fundamentals. We're confident that this approach will deliver consistent returns in the long run. Lastly, I'd like to thank our employees for their dedication and commitment. And you, our investors, for your continued support of Thungela as we chart this path.

And Ryan brought to your attention that this is his last results. And it is appropriate for me to pause at this point to thank him for the dedication and the professional rigor that he brought into this function since we listed. And wish him much success in his new role. We believe that you add enormous value. But I also want to welcome my new two colleagues, Hugo Nunes and Shreshini Singh, into investor relations. And I believe you will give them as much support as you gave to Ryan. Thank you very much. Let me hand over to Ryan for Q&A.

Ryan Africa

Thank you very much, 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 have received upon registration. Dialling * 1 will indicate that you would like to ask a question. For those who have submitted questions via the webinar platform, and I can see that there are several, I will be reading those out. Operator, please could I ask you to open the line for our first question?

Operator

Of course. The first question we have comes from Brian Morgan of RMB Morgan Stanley. Please go ahead.

Brian Morgan

Good afternoon, guys, and thanks for the call. Can I just ask a couple of questions? I don't know if you want them one by one or all in one go. What did you prefer? All in one go. Okay fine. So, can I just ask on Ensham. Obviously the Queensland government put through this royalty regime when coal prices were a lot higher than they are today. It doesn't look sustainable. You’re talking $20 a ton royalty right now, and my number is if the price drops to $100, it's still $15 royalties. That will put Ensham at risk of closure if they continue to charge those sorts of royalties. Do you get any sense that the Queensland government would walk back on those royalty arrangements if prices were to fall further? That's the first question.

And then on Ensham again, on the operating cost side of things, you're obviously going to add the extra volumes. That's cool, that will help to dilute costs. Can you chat a bit about some other cost initiatives that you've got going on since you've been able to wrap your arms around the mine and what you think you might be able to do in the longer run on cost for Ensham?

And then, could you just chat to us a little bit about Zibulo and Elders? Between them, that's 12 million tonnes, which is pretty much what you're doing right now for the whole business. Can you just tell us a little bit about whether once these two operations are fully ramped up or the lifex projects are fully ramped up, should we see a cost tailwind on the group? Or is it just steady state costs right now which we should be modelling for the future?

July Ndlovu

Thanks Brian. I'll ask Deon to comment on… let's see if his crystal ball is any clearer on the Queensland government royalties and then he can talk to the operating cost. Then I'll give you a sense on Zibulo and Elders. But just to be clear, Brian, just before we answer that question, the 12 million tonnes is run of mine, not saleable production. So, that's quite important. So, typically you multiply it by 60% to get saleable production.

Deon Smith

Brian, on your very first question on the Queensland government, whenever we are in Australia, it is an extremely topical point in media coverage, given the natural tension that that government is facing between the very large population of people that are dependent on jobs in the coal industry and infrastructure build programme of the Queensland government that is so highly dependent on the royalty income. And that tension we see play out across mine sites. We see it play out in the media, as I said, and in various industry engagement forums.

As you probably also know, the Australian landscape is that of a very short-term political stability rather than necessarily a consistent political view. And it's difficult for us at this stage to comment whether all the pressure that the Government and the actual Treasury of Queensland has been under would come to bear fruit. One thing remains certain, that if the Queensland region starts losing jobs due to high royalties relative to a low coal price and lacks competitive positioning on the seaborne market, it will be very difficult for the Queensland government not to revisit it.

For the time being, our focus is at Ensham to control what we can control in cost. And your question I'll then start hovering into, which is to make Ensham as cost competitive as what we can, so that if mines no longer are competitive, that that applies to mines that have a higher total cost than what Ensham has or lower margin than what Ensham enjoys. So, as we flagged before, there are probably two or three catalysts to bring Ensham into the most competitive position that we want to bring it.

The first is a volume, and there as July said when we assumed operational control, the run rate was 2.7 million tonnes. And ultimately, at the end of the year it was 3.2 million, and now we're starting to guide a 3.2 million to a 3.5 million. So, approximately a 20% step up from the 3 million ton run rate. We clearly do not introduce that at midnight on the 1st of January 2024, but gradually during the year. And you necessarily face a bit of a cost headwind as you introduce capacity at that mine, which doesn't produce tonnes from the first hour of the new year.

And therefore, we believe that in time, those initiatives would improve Ensham's competitive positioning. Number two, we've said before that whilst we're guiding a like for like sustaining cost number, we need to understand more thoroughly the future plans for that mine and what the right level of SIB capex could be. And that adds to its cash margin position, maybe not its FOB margin position, if there are opportunities to optimise that further.

In the time that we've had our feet on the desk, we've also started reviewing a number of contracts. And it would not be responsible for me to point to particular contracts at this juncture, but there are a couple of contracts that we are in the process of renegotiating, which we believe would improve Ensham's cost positioning. So, a number of programs across the denominator, capital, and obviously cost of widgets we spend on that we believe collectively should help Ensham become more competitive than what it has been historically.

July Ndlovu

On your question on do we expect a cost headwind as a result of Elders and Zibulo, and we said this at the outset, these are newer mines with infrastructure much closer to the shaft. And therefore, you expect much better improvements from the productivity. I mean even if you just take a simple example of how long it takes people to get to the workplace, it's much quicker on a newer infrastructure than it is on an older infrastructure and clearly we expect better productivity numbers.

But also, just the feature of a new mine or new ground, you tend to mine in your best yielding ground and therefore we expect all these to actually position the portfolio again in a much better cost competitive position. Your follow up question would be, therefore give me a number. I'm not going to give you a number at this point in time. Just allow us to ramp up these, get them to steady state, and then we'll give you a guidance.

Brian Morgan

That's great. Thanks, guys.

Operator

Thank you. The next question we have comes from Ben Davis of Liberum Capital Limited. Please go ahead.

Ben Davis

Thanks, guys. Thanks for the call. Just a couple of questions from me. Firstly, on the 2026 outlook that you provided in the report. One, you've got Ensham stepping up to 4 million tonnes. Does that require any significant capex at all, given that hasn't been set aside for a capital allocation buffer dividend pay-out policy? And then secondly, that 11 million tonnes of 2026, is that purely reflective of mine closures, etc.? Or is there a kind of an asterisk for that because you're being conservative of what you think the Transnet outlook is? And actually, if it was unrestricted, could you be producing more? Thanks.

July Ndlovu

Thanks, Ben. The answer to your second question is affirmative. It's a reflection of the fact that some of our mines, Goedehoop and Greenside, are coming to the end of their lives. And therefore, we would naturally have expected a step down in the makeup of our portfolio. And that's how we guide those 11 million tonnes. I mean, it could be slightly more. Whatever that number is close to that period, we'll be able to guide that. The 4 million tonnes that we guide is, as we have just said, is a consequence of all the near-term improvements that we can see for very minimal capex. So, I wouldn't add in any additional capex at this stage. That should be well within our sustaining capex. So, if you ask me, we think that Ensham is probably, all things being equal, a 4 million ton mine 18 to 24 months out.

Ben Davis

Great. That was very helpful. Thanks.

Operator

Thank you. The next question we have comes from Thobela Bixa of Nedbank. Please go ahead.

Thobela Bixa

Yes. Thank you, everyone, and thanks for the presentation. I've got two questions, I think, which have not been answered. So, one is related to Ensham. Could you just talk to us as to what you have done since taking over the assets that has resulted in improved volumes? That's the first question. And then the second one relates to Goedehoop and Elders. Could you just talk to us about the transitioning from Goedehoop to the Elders mine? What should we expect in terms of volumes ramping down and other volumes ramping up? And then also just, if you could talk to some of the costs which are relating to that. Thank you.

July Ndlovu

So, Deon and I are looking at ourselves. So, I normally don't ask my CFO to talk to volumes and how they ramp up because he's going to get them wrong, but I'll ask him to talk to that anyway. But let me tell you about what we've done at Ensham. It's not rocket science, if you come to think of it. Don't think of we've gone in there and we found something that was so terribly wrong that all of a sudden we asked guys to be much better. It's changing, tweaking basic practices, getting the teams to focus much more on what is important. And some of it is actually just a consequence of a mind that has been on sale. I mean, the guys are quite nervous. The guys are not focused. And we found teams which are not fully manned. And therefore, sometimes the section is just there because they don't have enough people.

So, our first priority was to say, one, we want every team to have enough people so that we just cut coal. That's what we're good at. And focus on the things that are most important, the basic mining practices. And I think the team has been very appreciative of the focus that we've brought in that context. Then the next step up is looking at the mine plan. It's clear to us that we can accommodate a fifth mining section. And Deon is right. So, once we have taken to deploy a fifth section, it does take time to deploy that fifth section because you've got to recruit the people, you've got to check that the ventilation is adequate, you've got to check water infrastructure, power infrastructure, the whole lot, and make sure that all those are in place to support a fifth section. So, that is all the work that currently we're doing at Ensham to improve productivity. But as you can see, these are basic mining practices.

Deon, do you want to talk about the transitions? So, rather than us talk about specific figures because these are month by month figures when It's safe to say that what we're doing is, as we ramp down Goedehoop, we are beginning to continue mine development Elders using contractor crews. As the Goedehoop crews finish the reserve at Goedehoop, we move them across to Elders. The exact timing of those requires some really careful planning by our COO and our Head of Technical to make sure that that is synchronised. Whatever date I give you is probably not accurate at this point in time. But that's how we're managing it. Deon, I don't know if there are any additional comments you want to make on that.

Deon Smith
Yeah, absolutely. It is a very big focus area for operational teams during 2024 and 2025. That operational handover integration is a complex piece of work, as you can imagine. We envisage moving some of our continuous miners out of Goedehoop into Elders in order to achieve the lower capital intensity for Elders that we flagged before. That clearly requires, in certain instances, an overhaul of the equipment as they get retired in Goedehoop and before they get deployed in Elders. And that necessarily comes with a production hiatus. However, we have mobilised contractors, as July mentioned, to push the development of that project forward, create the pit room in order for us to add sections as we ramp this mine up. Over the next three years – first coal was a couple of weeks ago – then clearly the ramp up of a project of that nature typically takes about three odd years to get to a steady state type run of mine number.

Thobela Bixa
Okay, that's good. Thank you guys.

Operator

Thank you. There are no further questions on the conference call.

Ryan Africa

While we wait to see if there are going to be any further questions on the call, let me move to the questions that have been submitted through the webinar. Some of them would have been answered during the course of the presentation but let me move to those that we haven't yet answered. The first question is from Shashi Shekhar at Citi. And the question is, the Richard's Bay prices have been trading at steep discount in Newcastle. Since you now have presence in the Pacific region, can we expect some of your South African coal to sell in the Pacific market?

July Ndlovu

Our Head of Marketing is better placed to answer that. In fact, let's get our Head of Marketing, Bernard Dalton, to answer that one for you.

Bernard Dalton

Good day to everybody on the call and thanks for that question. Yeah, what we are seeing at the present stage as we've taken over the marketing for Ensham is that there is interest from markets in the Pacific and customers in the Pacific that are interested in securing coal from South Africa as well. Please bear in mind that we have not yet, as yet, taken over the Anglo marketing. That'll only happen a bit later in this year. But we are confident that there should be interest and there will be contracts and sales into that specific area.

Ryan Africa

Thank you very much, Bernard. I'm going to move on to the next question. There are a couple here from Steven Beattie. Let me take two. Some of them have been answered. Deon, I think these will probably be for you. The first question is, what is your break-even coal price level? And then Steven's second question is, how are you handling currency risk with respect to the Australian Dollar?

Deon Smith

Thank you for that, Steven. So firstly, on the break-even, if you take our costs and you gross it up for 6000 NAR equivalent quality, and the reason one would do that is that you can eyeball therefore a margin relative to API4 Newcastle, that FOB level for South Africa is low $80 a ton and for Australia is around $100 a ton. So, that's excluding capital. When you put sustaining capital at the current levels that we've guided it in and recognise what I said about Ensham, that all-in sustaining cost for South Africa climbs from the FOB levels of sort of $80 to a low $90 all-in sustaining cost in US Dollars for SA. And at Ensham that goes to about $115 a ton all-in sustaining at current capex levels. So clearly, if you look at forward prices on API4, which is in a slight contango compared to spot, that's $105 a ton that you compare with that FOB of low $80s in order for you to get to your earnings margins. And in [unclear] that forward curve is also in slight contango up to $135, and therefore you compare that $135 with the $100 to get to that earnings margin.

In terms of Australian Dollars, clearly one of the important features of our business is that we have exposure to producing currencies, and that producing currency is the ZAR in South Africa and in many respects the Australian Dollar in Oz. If you look at historic trends, the US Dollar has been clearly very strong, and that has favoured companies like ourselves. We do not have an outright hedging policy whereby we shield and take upside away from that delta.

And clearly being able to earn our revenues in US Dollars puts us in a unique position to take the benefits from forward sales of those Dollars back into producing currencies. And you would accordingly see, if you look at our cash flow statement and our income statement, the benefit that we have been able to derive from that over and above an obvious achieved interest rate. If you look at the interest line, those forward positions have played out well for us in the last year, the last two years.

Ryan Africa

I'm going to move to a couple of questions from David Underwood from Henry Bath. The first question, are you happy with Transnet's new management and can you see things improving downstream, which in turn will increase volume of coal exported?

July Ndlovu

I'm very happy with the working relationship that we've got with Transnet management, and more particularly pleased that we concluded the mutual cooperation agreement, which hardwires how we're going to work together. And I think that is beginning to allow us to make progress. My confidence in terms of where the trajectory of improvement is comes from the fact that now we've got a defined framework of how we can help each other, and our ability to procure spares, not at our own cost but at the cost of Transnet, the fact that we help them and then we get the money back is enormously beneficial in this instance. So, I think we're going to see things improve going forward.

Ryan Africa

Thank you, July. Then the second question from David. Has Thungela identified any more overseas assets like Ensham for future acquisition? And if so, what is the timeframe for these purchases?

July Ndlovu

David, I mean, what we have stated very clearly is that we continue to look for diversification opportunities. And that we continue to do. When we find something that is value accretive and meets our investment criteria, we'll announce it to the market. So, at this stage, I can't give you any more information about what we're looking at or the timing thereof.

Ryan Africa

Thank you very much, July. The next question is from Adam Nkumbula at Allocated Capital. Eskom has indicated a significant shortfall in contract coal supply. Is Thungela looking to bid for the coal supply tenders currently out from Eskom?

July Ndlovu

Adam, strategic approach is maximising value from our assets. And therefore, we market our coal to a channel that gives us the highest margin. So, as my team looks at whether export or local, which one gives us the highest margin, we'll obviously continue to look at these local opportunities. But we're not doing these for any other reason other than what maximises the value for business.

Ryan Africa

Thank you, July. Then I want to go to a question from Marcus Meister. And I'll answer this one. He says, concerning the share buyback, is the company required to announce every purchase in a certain number of days, or only if they have a specific size, one at the beginning and the end of the purchase? So, the group will announce when share repurchases cumulatively reach 3% of the shares issued at the date of the authority, and then any further 3% increments thereafter, Marcus. Thank you very much for your question.

Then we've got a question from Sandile Magagula at Umthombo Wealth. It's quite a long one, but I'll try to do it justice here. Given the increased scrutiny on coal in Australia, what systems have you put in place for Ensham to mine responsibly? And then in the same vein, what's Thungela doing to minimise unnecessary bad publicity from ESG watchdogs on its new operations?

July Ndlovu

The scrutiny on coal in Australia is not different to the scrutiny on coal in any other jurisdiction on the globe, by the way. And therefore, our ESG approach, our management approach to environmental practices – and that's why we always talk about best practice, is to ensure that we are a responsible owner of these assets – you did notice that we said, at the moment what we're doing is reviewing those practices, reviewing their disclosure practices and standards and definitions, to ensure that they meet our commitments.

You recall that as Thungela, we committed to meet the TCFD disclosure standards. And we want to make sure that Ensham actually does disclose in terms of those standards. And I think if we do that, and we do it transparently and responsibly, we should mitigate the reputational risk that you're alluding to. Then the last part of your question was, are you aware of any legal risk? If we were aware of any, we would have disclosed that.

We're not aware of any risk beyond what you would ordinarily have in an operating business. So, we're not aware of anything that we needed to disclose.

Ryan Africa

Perfect. Thank you, July. There are a couple more questions, about four more on the webinar. The next one is from Will Forbes at KGHL. What risk is there that Thungela will be forced to sell more coal to Eskom?

July Ndlovu

You probably know something that I don't know, because I'm not aware of us being forced to sell coal to anybody at this point in time. So, that is probably in the realms of speculation at this stage.

Ryan Africa

Thank you, July. Then we've got a couple of questions from Siphelele Mhlongo at Sanlam Investments, as well as Andrew Snowdowne from Sanlam. I'm going to go through these one by one. Firstly, from Siphelele, congratulations on the resilient result. Considering where TFR is operating currently and the positive progress on the Elders and Zibulo projects, does Thungela see a potential risk opportunity to embark on higher cost mine closures going forward?

July Ndlovu

Siphelele, I think we should split those two, the TFR levels and a potential portfolio restructure reconfiguration. You do a portfolio restructure reconfiguration as an economic driver. At this stage, we don't think that Transnet on its own is the single biggest driver. We'll do that if we think there is one of our operations that is unlikely to be generating cash flows on an all-in sustaining basis at our long-term sustainable price that we have always communicated. But of course, we're not going to make these kinds of decisions if the price were to come down for a quarter, therefore we take those decisions. So, we have to take these decisions about where we think the prices are going to be in the medium term.

Ryan Africa

Thank you very much, July. Then from Andrew Snowden at Sanlam Investments as well. Deon, for this first bit for you I suspect. What are the current inventory levels at SA mines and at port, and where is this versus normal levels? Is any coal being exported from ports other than Richards Bay? If so, please speak to the cost of doing this.

Deon Smith

Good to hear from you, Andrew. So, our current stock levels are about 2 million tonnes at mine. And you asked SA, which is about 1.9 million tonnes at our mines in South Africa. At port it's around 800,000 tonnes at the end of December. And the reason why that 800,000, Andrew, relative to last year's 400,000 tonnes at port is because of those vessel slippages that I mentioned earlier. So, it was slightly elevated at port.

But what you'll note from how I've answered it is that actually our stocks are down year on year. And that's also as a result of free on truck sales that we've embarked on. We don't necessarily have visibility where those free-on-truck sales are sold because they sold essentially as a domestic sale. Our chief prices for those were just under R600, and they make their way to ports beyond obviously Richard's Bay. But we sell at the mine gate, so to speak. And just to complete the answer, if you're interested obviously in Ensham, that port stock was also slightly elevated compared to historic at close to 300,000 tonnes at the end of December.

Ryan Africa
Thank you very much, Deon. I see one more question on the webinar and that's a second question from Siphelele Mhlongo at Sanlam Investments. In your coal outlook, Thungela highlights that demand remains robust. Does the coal market need more supply discipline in the current environment for the pricing environment to improve? Or does Thungela believe that the demand is sufficient to provide adequate pricing support for both Newcastle and RBCT prices?

July Ndlovu
Siphelele, thanks for that question. I see we have a lot more discussion around the supply demand issue but let me give you a few key highlights. The coal industry, and particularly the supply side, is in a very peculiar situation compared to any other commodity. Because our biggest challenge now is a supply constraint in the medium to long term as a consequence of the difficulty to replace mines that are coming to the end of their lives. You can't find capital. It's just impossible, almost impossible. It's extremely difficult to find insurance, let alone if you can get a new mine licensed. The social and environmental pressures not to license new coal mines is well documented, well understood. So, the supply discipline in in the medium to long term is already being imposed on that supply equation as a result of the drive to phase out fossil fuels from the energy equation.

Clearly in the short term we saw a spike in supply as a result of the very high prices. But I think where we are now is prices have softened and some of that high cost production naturally is going to come off. But I wouldn't say this is an industry that, particularly on the seaborne traded markets, requires supply curtailment at this stage. The biggest issue, obviously, is supply in countries. And we can discuss what is happening in China. You will see the behaviour that is actually happening in Indonesia as a result of again domestic supply and the need to supply the nickel industry. So, demand is actually growing in some respects faster than we are able to replace old mines. But there are short term quirks, which is I think what we what you're alluding to. But I wouldn't think that at this stage, there is an oversupply of coal necessarily.

Ryan Africa

Thank you very much, July. At the post, one last question has snuck in, Deon. I'll ask you to respond to this one. It's from Sylvia Pleskot. Can you comment how much rehabilitation and closure cost revisions would increase if calculated under the new but deferred environmental laws?

Deon Smith

Sylvia, good to hear from you. We've consistently said, and this is set out in note 27 to the financial statements, how we have gone about the provisions in our financials. And we have, as far as our interpretation of the NEMA financial provisioning regulations, provided for what we believe is fit and appropriate under those regulations. Clearly, they're not necessarily effective today. And where we might not have provided is possibly areas of continued engagement between industry and the regulators. So, in short, we believe that we are appropriately provide it at this point in time.

Ryan Africa

Thank you very much Deon. Thank you July. I'm going to wrap up the Q&A session there. Should you have any further questions, please do get in touch with Hugo or Shreshini by email. The email addresses are at the bottom of the SENS and RNS announcements released earlier today. With that, allow me to hand back to July to close out the day.

July Ndlovu

Thanks very much, Ryan, and thank you very much, everyone, for joining us. Just to remind you, our business is in good shape. Obviously, our first and most important focus is on making sure that we protect the lives of our people in terms of safety. We're taking advantage of robust market fundamentals, and we think these market fundamentals will hold into the long term. Our job is to control the controllables, and generate attractive returns, and return those returns to our shareholders. And I hope that is what we demonstrated today. Thank you very much.

END OF TRANSCRIPT