Conference call transcript

10 December 2024

CFO PRE-CLOSE STATEMENT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2024

Operator

Good day, ladies and gentlemen, and welcome to the Thungela CFO pre-close statement for December 2024. 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 Hugo Nunes, Head of Investor Relations. Please go ahead.

Hugo Nunes

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

Turning to Q&A, for those wishing to ask questions today, we ask that you join the session using the conference call facility provided as we'll only be taking questions through this facility. In order to ask a question during the Q&A sessions, 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.

Just to reiterate, we won't be taking typed questions submitted to the webinar platform today. It is possible to dial into the conference call facility only shortly before the Q&A session and directly from your computer. If you are planning to do this, I encourage you to register for the conference call in advance of the Q&A session, as you will need the link sent to you upon registration. Finally, a reminder that today's announcement is now available on Thungela's website, and today's session will be recorded, and the recording will be made available on the Thungela website from later this afternoon. With the logistics out the way, please let me now hand over to Thungela's Chief Financial Officer, Deon Smith.

Deon Smith

Thank you, Hugo. Good afternoon and thank you to everyone for making the time to join us in this pre-close call for the year ending 31 December 2024. So, as you might have picked up in what we've announced in our previous results, safety is certainly our first priority. It is a strategic pillar of our business. We are accordingly very proud to report that we have seen a continued improvement in our safety performance and that we have indeed been operating a fatality-free business for 21 consecutive months.

Our operational financial performance is also expected to be strong into the full year. In particular, based on our performance up to 30 November 2024, we are pleased to report that we expect to exceed the full year export saleable production guidance in South Africa as well as in Australia. So, export saleable production in SA is expected to be approximately 13.4 million tonnes, and that's higher than the guidance range of 11.5 million to 12.5 million, and approximately 9% higher compared to last year. That's in line with the improved mine productivity we've seen across our portfolio, but very importantly also rail performance in the second half of the year. And I'll get back to this a bit later on.

We expect export saleable production in Australia to be approximately 4 million tonnes, and that's to remind you on a 100% basis. And this is higher than our revised guidance of 3.5 to 3.8 million tonnes that we spoke about in August. It's mainly also due to productivity efficiencies and better than what we anticipated to make progress through a couple of geological faults at Ensham. So, export equity sales for SA is expected to be approximately 12.5 million tonnes for the full year, and that compared to the 11.9 million that we reported in the full year 2023. The year-on-year increase is mainly due to improvement in rail performance in the second half of the year. And obviously there's also an element of free-on-truck sales on top of that 12.5 million tonnes to get us through to our export saleable production in South Africa.

Export equity sales for Ensham is expected to be around 4 million tonnes for the full year, and that's also on a 100% basis. So, we're very pleased with that performance, but also with our cost performance. So, FOB cost per ton, or free on board cost per ton, is expected to be below the guidance range in South Africa and also in Australia. And that's clearly reflective of a higher production denominator, but also our continued focus on the number of cost initiatives. These achievements reinforce that we are successfully executing against all of our operational targets, but also demonstrates our continued focus on controlling what we can truly control in our business.

So, turning to Transnet, we're equally pleased with the second-half performance of Transnet, and we continue to be encouraged by the progress that Michelle Phillips and her team is making in that business. The various Transnet Freight Rail initiatives, which obviously the coal industry has supported, have all enabled a step up in the annualised run rate. So, up to the 30th of November, we saw improved rates of approximately almost 52 million tonnes. And this improved even further to 56 million tonnes if you look at the measurement period post the July 2024 annualised or annual maintenance shut. So as a brief reminder, this performance is in stark contrast to the first half of 2024 when the reported annualised run rate was around 47 million tonnes. So, that's a

19% improvement in the run rate, albeit in the first half, as you might recall, there were two fairly significant derailments.

So, this improved performance in our view can be attributed to a number of factors, including obviously the fitment of all of the critical locomotive space that we spoke about before. Also, Transnet has introduced additional local capacity on the North Corridor line. And then obviously the ongoing line maintenance and the enhancements that Transnet has spoken about in terms of signalling network and a couple of pinch points on that network.

If we look at our market conditions that we operate in, clearly the energy markets remain impacted by the geopolitical tensions, this now in Russia, Ukraine, as well as the Middle East. And those conflicts clearly continue to lead to increased concerns around gas supply. And that in turn continues to provide a measure of support to coal prices. And in coal price support, we view despite challenging global economic growth environment and evidenced by sluggish global steel sector and depressed oil prices, and what we've also seen is that premium Asian buyers continue to diversify their sourcing and reducing the demand for higher energy coals out of Australia. So, we've seen a couple of shifts in the market, but we also see the markets being broadly supportive into the medium term.

And in the short term, we suspect that a level of volatility will persist. If we look at our current period, the benchmark coal prices have softened in 2024, with the Richards Bay benchmark coal price averaging around $105 per ton for the year to date. That was compared to approximately $121 per ton in 2023. The discount to the Richards Bay benchmark coal price of around 13% for the year to date, you'll notice lower than 15% in the first half of 2024. And the main driver of that has been the end of that Anglo American marketing arrangement, which also saw a 1% commission leakage to Anglo coming to an end around mid-year 2024. So, the average realised export price for the product sold through Richards Bay was around $91 a ton in this period, compared to $104 a ton in 2023.

If you look at Australia, the Newcastle benchmark coal price averaged around $136 per ton for the year to date, and that is compared to last year's $173 a ton. The discount achieved against Newcastle benchmark coal price has resulted in realisation of about 92% of that benchmark. So, that's a discount of approximately 8% year to date. And the average realised export price for product from our Ensham mine is around $124 a ton currently, compared to what we reported last year, albeit for a short period of time, at about $156 a ton.

So, capital expenditure for South African operations for the full year is expected to be around R2.7 billion and that consists of R1 billion in stay in business capital, and that's in line with guidance, and then expansion capital is around R1.7 billion. And that mainly relates to Elders and Zibulo North Shaft projects, which both had a peak year in spending. But this is again in line with the guidance that we gave for South African operations. We don't currently have any expansion capex at Ensham, but our sustaining capital expenditure for the full year is expected to be around R550 million. And remember that's at an 85% consolidation level. And that's below the lowering of the guidance range. And the reason for that is that we re-phased some of the capital expenditure into 2025, in particular in land purchases around Ensham.

In terms of capital allocation, always an important topic as we head to the end of the year. And to remind you, capital allocation also is one of our key strategic cornerstones. We will continue to prioritise shareholder returns through a combination of dividends and share buybacks where those make sense. The impact of our maiden share buyback, which we completed in June 2024, is expected to enhance our EPS in the second half of this year. And clearly, the most recent buyback which we completed recently is expected to impact EPS from 2025, as our weighted average numbers of shares continue to decline.

The Elders and Zibulo North Shaft life extension project, which was approved by the board for an aggregate of around R4.2 billion, both remain on track and on budget. In August, we reported that cash of about R1.7 billion was reserved for the completion of these two projects. By the end of the year, we expect total aggregate expansionary capital to have accumulated to around R3.4 billion on these two projects. That is since commencement, leaving a good R800 million still to be spent when we get to the end of the year.

We are pleased with the ramp-up at Elders, which is progressing well. There has been the deployment of two production sections. The mine is anticipated to eventually, once in a steady state, produce around 4 million tonnes of mine per annum. And that will be from about 2026 onwards.

So, turning to our net cash at the end of December 2024, we expect to report a net cash balance, which as you know we've defined as gross cash less what we hold from Nkuhlu, Sisonke Trust, etc. of about R8 billion up to R8.5 billion, which is a very healthy cash balance at the end of this year driven by very strong operating fee cash flows in the second half. We remain committed to our dividend policy, which is to distribute a minimum of 30% of our adjusted operating free cash flow to shareholders. We would like to maintain a level of balance sheet flexibility.

What we would do in the run-up to our year-end results is to do what we typically do this time of year, which is to continue to review the appropriateness of our environmental provisions in cash collaterals through our green funds, as well as the cash required, as I mentioned earlier, to complete Elders and Zibulo North Shaft, and then review particularly our cash buffer. We will update the market on that when we get to our results announcement in March 2025. So, I said quite a bit. Clearly, in the pre-closed statement that we have issued a lot of the information is available in print. Let us pause and hand back to Hugo to facilitate some Q&A before we start wrapping up. Thank you, Hugo.

Hugo Nunes

Thank you, Deon. We will now turn to Q&A. A reminder for those wishing to ask questions, we ask that you please join the conference call facility as we'll only take questions to this facility today. 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. Operator, please open the lines for the first question.

Operator

Thank you. The first question we have is from Brian Morgan of RMB Morgan Stanley. Please go ahead.

Brian Morgan

Hi guys. Thanks for the update. Deon, maybe looking at this improvement of Transnet, it's great, but maybe just help us to understand what's next. Is there anything that you guys are looking at in the initiatives that Transnet's doing that can take volumes up further?

Deon Smith

Hi, Brian. Good to hear from you and thanks for your question. So, clearly what we highlighted earlier is actually nothing new other than perhaps an improved focus on some of the signalling, the bottlenecks that Transnet has experienced. But all of the initiatives that Transnet has been focusing on initiatives that have been in focus by the industry and Transnet and obviously key over the past year or two, if not more in some instances. This is a case of doing the basics right and doing more of it right.

We have all heard that the installed capacity on the line is still very robust, but clearly it requires continued effort, focus and capital to achieve the full run rate that Transnet has still envisaged, which is in short order about 60 million tonnes. We have seen those run rates being achieved in recent periods, which means that doing more of the same things. And the basics right around loco capacity and the right maintenance and ensuring that the parts are fitted and the work done that has been missing over some period of time will continue to drive that turnaround.

And I think as July mentioned when we reported results a couple of months ago, we really expect the full extent of those incremental improvements to take effect from 2025. So, we are slightly surprised that we have seen an early uptick and a slightly stronger uptick from these initiatives. So, Brian, to summarise, it is more of the same rather than two or three incremental silver bullets. It is doing those basics right, which should enable Transnet to get to a 60 million ton per annum run rate that they're targeting as the next level of performance.

Brian Morgan

Okay, thanks Deon. And then, let's assume they get to 60 million tonnes. Are you guys able to fulfil your allocation at that level? Will you have to restart some sections or sell down inventories?

Deon Smith

So, Brian, if you look at our numbers, we do 23.5 of that, so assuming that they hit the run rate, that's just north of 14 million tonnes. If you look at our production that we've reported at about 13.4 million, it's not far off that type of number. A very limited stock drawdown would get us to that 14 million. But there are clearly a number of things that we could potentially do, levers we could pull to get closer to that type of number without material capital. That would be restarting and reintroducing sections and areas in our mines that we previously constrained in order to save costs and avoid massive stockpile. So, yes, we would be able to get to that. But we also require the ramp-ups to be executed as planned around Elders and the handover at Zibulo North Shaft and the like.

Brian Morgan

Okay, cool. Thank you, Deon.

Operator

The next question we have is from Tim Clarke of SBG Securities. Please go ahead.

Tim Clarke

Thanks. Good afternoon, everybody. I've got a couple of questions. Just the first one. Can you remind us of what the cash flow effect, not just the cost effect, but the cash flow effect was from settlement of the Newcastle contract amount in the second half? Just so that maybe a realised cash price makes sense, if that makes sense, as opposed to sales price, just to start off?

Deon Smith

Tim, the total volumes that we sold into those fixed-price arrangements is up to about 800,000 tonnes in this full calendar year. There is an option for the buyers to call up to 1 million tonnes. And obviously, there I a couple of tonnages still to go this year. The realised or achieved price on those tonnage was around $136 per ton. As a result of previously in the first half of the year, billing at a higher rate, which is last year's Japanese reference price, about $199, in the first half of the year, and I'm just double-checking the number, we received essentially what was a prepayment of a couple of million Dollars. Let me quickly just double-check the number. So, around $63 million from memory. And that is largely extinguished already with a small bit to go before the end of the year. But all of that would be extinguished by the end of the year, and therefore the net cash that we are flagging to you is after having refunded all of that.

Tim Clarke

Okay, super. That really helps a lot. Thank you. My second one is just on Ensham. If I remember correctly, at the half year results you spoke about costs being a little elevated in the second half because of an environmental or an environmental provision which is non-cash. Can you give us an idea of how much that was now that it's passed?

Deon Smith

Yes. So, Tim, we flagged a concern that we might need to increase the environmental liabilities at Ensham because this year is the first year that we are doing the work ourselves. We also then flag that that cost per tonne would be a non-cash item in the event that we had to take that provision. So, whilst we'll give you more detail when we report results in March, we have now completed that work mostly. We're busy with our final reviews on that, and we are pleased that there isn't a material increase required. And therefore, the cost per ton anxiety that we had when we shared results with you in August and we flagged this potential non-cash headwind has not materialised. And that's why we're confident now to flag to you that full year Ensham will also be below that guidance range and fairly well below the guidance range.

Tim Clarke

Thanks, that's very helpful and a great outcome. So, well done on Ensham's production. I think it's fantastic to see that 4 million ton number. So, well done. And then just my last point, just a reminder for us all on the call on the buffer. You've got R800 million of capex remaining on the growth project. Remind us how much you would want to ideally, or in principle – I know the board has to decide on any capital returns or dividends, but in principle, what kind of comfort level of additional buffer beyond the R800 million you would want to keep?

Deon Smith

Yes. So, Tim, obviously as you pointed out, those deliberations will still land during the next month or two before we come to the market and to shareholders with a view on it. But to remind you, just to take you back in history, we've historically said that if we come to all-round the cash buffer, five billion rand and then we would retain a level of cash to complete our lifex projects. A couple of months ago when we reported interim results we drew down on that buffer down to around four and a half from memory and that was in order to preserve our returns to shareholders at the time, seeing that we made a fairly elevated cash payment in the environmental collateral in Australia at the time. So, clearly that historic R5 billion number and preserving cash for lifex projects has been the previous guidance that we've given on this. And clearly that would be up for debate and discussion over the next month or two.

Tim Clarke

And then just, I suppose maybe just a second kind of consequence to that is, are there any big projects that are starting to materialize in the investment committee, which you're starting to prepare yourself for spend on? It feels to me like the Waterberg project is far away. You've done now Zibulo and you've done Elders. Is there anything else that you're preparing for or thinking about?

Deon Smith

So, Tim, if take the crystal ball out and rub it a bit, you'll see that you're right on the gas project. That is something that we continue to consider. We've opted for a very conservative approach by implementing a demonstration plant to start off with. That capital is likely to be in the region of R350 million. That will be included in the guidance that we give next year, but that is not a very material number. At Ensham, our work around potential resource development and options continues. We have not yet identified the appropriate pathway and what capital that could mean. And clearly that would have to pay for itself.

So, it's a bit easy to give you any view, but clearly there would be rather opportunity at Ensham than obligation, if that's the right terminology. But in terms of our South African portfolio, you're absolutely right. Those lifex projects that are now coming to an end should galvanise our future life of mine across our core operations for more than a decade. And therefore, once we've through this spend period, which next year will be our final lifex spend period in SA on our thermal coal mines, then clearly our free cash flow will not have to be deployed into any of the type of lifex projects that we've seen over the last three years.

Tim Clark

That's all from me, thanks and congratulations. A very positive set of news flow items today on production and costs and capex. So, well done.

Deon Smith

Thank you very much, Tim.

Operator

Ladies and gentlemen, just a reminder, if you would like to ask a question, you may press * and then 1 to queue for the question. The next question we have is from John Ogden of Eastern Value Limited. Please go ahead.

John Ogden

Thank you. Thanks, Deon and team, and great job there. I'll just give you my questions, the whole lot in one go, just to save time. So, you mentioned your crystal ball there Deon. So, how about we look at your outlook for coal prices in 2025. I mean, obviously you can throw a lot of things in there like China stimulus, Trump tariffs. But maybe the two items that might be interesting to think about is I think Russian supply is looking a bit constrained due to rail issues, which might sound familiar. So, that's one thing. And the other one is Indian demand, which is very key for your products. So, that's one question.

Second one, anything brewing at all, if you can tell us on M&A or is that very quiet? Third one is any news on the minority partners of Ensham if, because we're coming towards I think February next year is the resolution of that one way or the other if they're going to stick around. And then finally, what's the maintenance capex per year, if we are through the heavy items that you mentioned. Thanks very much indeed.

Deon Smith

John, thank you for your kind words at the front end and for your questions. Unfortunately, the crystal ball is certainly not very clear when it gets to predicting future prices, but I can give you our thoughts as a business. First, and most importantly for us, our business is about being competitive and doing whatever we must do to keep our costs per ton as competitive as possible for the energy that we produce. All mines globally become more difficult over time with geological challenges, declining in-situ coal qualities, CVs and the like, and our mines suffer from similar consequences.

And therefore, our continued drive at productivity improvements is all aimed at outpacing our competitors and keeping our portfolio as efficient and competitive as possible. So, what is that number that we typically internally aim for? Clearly, we want our costs to get to double digits and we want price at three digits, to put it simply. When we look at all of the factors that you point to, China stimulus and Russian supply on rail and Indian aspirations in terms of growth, and even if we look at that market commentators on those, everybody seems to agree that there is broadly a constructive medium-term story for thermal coal prices.

Clearly, we do not want to necessarily become too complacent with that supportive story on the medium term for a three-digit US Dollar number. We also get clearly very much impacted on an exchange rate, John. So, that is our ZAR and Australia or two producing currencies relative to the currency we sell in which is US Dollar. So, we really also look at a ZAR and an Australian Dollar achieved price. So, broadly speaking, in US Dollars, we still believe that a three-digit number is appropriate. It's some of these geopolitical shifts and country growth aspirations, for India, for example, that we think might provide positive support and shocks to the upside.

But clearly there's always downside risk also, and that's why we do think that there might be a level of volatility as some of these news flow items that you're talking about drive sentiment more than what it drives actual supply and demand. Earlier today you might have seen news flow that, notwithstanding many commentators calling an end to coal over the last decade and for every year, that we've yet again forecast, as we believe, 2024 will be another peak for coal, just like 2023 was and just like 2022 was. And that is notwithstanding a record build programme of renewable energy sources across every single continent, and more so in China than anywhere else.

So, we think that the market is broadly constructive. We're positive about the outlook, but at the same time we're cautious about our own position in the seaborne market. Apologies for not being able to give you to the nearest decimal, but broadly constructive. In terms of M&A, John, we continue to look and we kick a lot of tyres. But, as we have done and demonstrated historically, we absolutely prefer returning cash to shareholders, where we are able to prosecute an M&A transaction with fairly low risk and a high probability of upside. Therefore, we will continue to look at those types of opportunities.

Minorities in all our assets are clearly something that we continue to have on our radar, given that we know those assets well, they come with no diligence risk, and we have a clear pathway to understand the opportunities for those assets. So, that's something we will always look at and we have continued to look at. You might recall two years ago we extinguished minorities in the South African business that we have and took 100% of Zibulo, Elders and the like, so acquired 27% of that business. And so, we will continue to look at taking up more of the assets we already own, if the opportunity obviously presents itself to do so.

In terms of your last question of maintenance capital or SIB capex, we are busy doing a sure that we optimise that number. Whilst from a lifex perspective we've clearly last year and the year before spent quite a bit, we didn't spend as much on our sustaining capital over the last two or three years. So, we do think there's a 2025. We will clearly flag that to the market and the quantum of that when we come to results in March. I should not scare you. It is broadly in line with what we spent before, possibly 20% or 30% of maintenance capex higher in SA, similar in Australia.

The reason for it in Australia is a bit of a deferral of some of our SIB that we would have spent this year. And that is on land purchases and the like that we've moved into 2025, and a bit of spend that we need to catch up on a maintenance side in our South African portfolio. But as I said, not a big number in the greater scheme of things, but slightly higher than what we've seen in the last year.

John Ogden
Thanks, Deon. Actually, just one other quick question for you. Just now you've got your hands on the marketing, so do you have more of an idea of your split geographically and how important India is? And then within India, how important is thermal power versus things like pig iron, which I think your product will go into as well. So, I don't know if you've got more of a split you can give us on usage of your products from South Africa.

Deon Smith
Yes. So, John, we are gradually getting much better insights into the use of our products. But at the same time, Bernard and his team, so our Executive Head of Marketing is actively pursuing a broader use and distribution pattern of our coals into premium markets, so markets that value the particular attributes and qualities of our coal, as well as the sustainability of being supplied coal by a miner that has now access to a number of operations and regions to essentially reduce the risk on the buyer at the same time.

So, whilst India is important and it's a tug of war between energy and the blend uplift from our coals coupled with high moisture Indo coals, clearly the iron steel industries are capable and able historically to have paid a slight premium relative to the energy markets. But with the current pressures in that market, you would have observed clearly that those premiums disappeared in India, but our team has been able to secure commensurate and if not better premiums in other markets in the further east and southeast Asia. So, to us, this is very much about global balance and looking for those constant opportunities to optimise the value that we get for every time that we produce and to optimize that.

So, we encouraged by early signs. Bernard and team have been running that marketing office since mid 2024 and already we're starting to see very positive signals about our ability to optimise our realised prices. And it's about looking at each of those markets and how they develop and the value and use to the end user, which is not a constant answer, John, it's an evolving answer, but making sure we stay in the market and on top of getting the best value for our coal.

John Ogden

Excellent. Well, that's really good to hear. Thank you very much indeed, Deon. I'll pass it over to another caller.

Deon Smit

Thank you John. All the best.

Operator

Ladies and gentlemen, just a final reminder, if you would like to ask a question, you may press * and then 1. We will pause a moment to see if we have any other questions. We have a question from Thobela Bixa of Nedbank. Please go ahead.

Thobela Bixa

Yes. Thanks, operator, and good afternoon everyone and well done on a good set of results. I just have a couple of questions, two related to Transnet. So, the first one is, could you just remind us as to how much you believe TFR performance could improve by excluding the resolution of that CRR contract? And perhaps maybe if I ask this differently to say, do you believe that 60 million tonnes target that I think they have put out? And then related to that is, do you think TFR's performance, especially post that shutdown, is repeatable? If yes, what are you seeing that gives you confidence that we can repeat those sorts of run rates into next year? I'll pause there and then I'll ask my final one later.

Deon Smith

Thanks, Thobela. Good to hear from you. Hopefully your final one doesn't trump me in terms of how I answer these first two, but I'll be at your mercy. TFR has, over the last three or four years, been on a very challenging journey, as we all know, in South Africa, and having followed news flow. And there's a very clear lead time to all of the initiatives, other than arguably the safety and security initiatives. And what I mean by that is that when you take the security initiatives off the line, the impact is almost immediate. Whereas, if you introduce new initiatives around spare parts, it's a gradual improvement that we've seen rather than a sudden and immediate improvement. Most of the initiatives around spare parts, signalling, additional locos have taken time to take effect.

As I said earlier, July has always looked at his crystal ball and said that he felt that those improvements are most likely to be observed during 2025. We have now started to see some of them come to the fore. Some of these initiatives, you might recall, we spoke about spare parts two or three years ago and spoke about locos and needing to solve the China challenge a couple of years ago. So, some of these initiatives have only recently received sufficient traction, and therefore resulted in improved run rates.

But as I said earlier, it demonstrated that the capacity to run at those rates is there, and maybe not yet repetitive and sustainable – to use your terminology about repeatable – over a long run, because we have not yet observed it. However, for weeks on end, since the shut, we have seen Transnet run at 56 million tonnes, which is 20% or 19.8% higher than what they ran in the first half of this year. With a 20% step-up in that period of time, the question is whether another 10% odd step-up can get us to the 16 million tonnes be achieved and be sustainable?

So, let me start with the 10% before we go to repeatable and sustainable. We believe that the 10% is possible to 60 million even absent a China resolution. And the reason we say that is because the installed capacity today has run at 60 million, absent China. So therefore, the key question is the capacity and capability and capital required to galvanise the current infrastructure against any sudden loss of momentum, run rate and slots. Transnet certainly has demonstrated they are putting the right people and the right focus in place to achieve it.

But as we know, every business has its complexities and has its headwinds and sometimes tailwinds. So, it's difficult for me to give you absolute certainty that they would be able to repeat and maintain a 60 million ton run rate beyond the couple of weeks they've demonstrated it of late. But one thing I do know is that all the ingredients are in place and have been put in place by Transnet and its leadership to get to that outcome. So, we remain cautiously optimistic. And that doesn't mean that we'll plan our business on a certainty of a 60 million ton run rate for next year, but we'll certainly preserve a level of flexibility in our business so that if that run rate improves or continues to improve, we're able to take advantage of it. And that was a bit of a verbose answer, but I just wanted to give you a full colour on that.

Thobela Bixa

Yeah, no. Thanks, Deon. And then just on the final one, we've seen you just exceed your guidance with regards to Ensham and just outperform on that asset, especially on the volume side. Are you being conservative here in terms of your guidance or, you know, you are surprising yourself as well on the upside?

Deon Smith

I think it's fair to say that when you get your feet under the desk on a new asset, you see the opportunities to run it harder. And at Ensham, we knew what the opportunities were. And there were a number of opportunities, and there still are certain opportunities. But at the same time, you don't always have true visibility of all of the headwinds. So, when we plan, we plan at a level of confidence that we have a degree of confidence that we will achieve it. And that clearly informs our guidance. That does not mean that we do not continue to work the opportunities hard. And if we are able to deliver on that ahead of our own time and schedule, that we are able to outperform what we plan to achieve with a level of confidence. Therefore, in Ensham's case I am pleased to say that the team at Ensham surprised all of us likely to the upside and may that continue into the future.

Thobela Bixa

Yeah, yeah. And maybe if I may put in just the last one related to Ensham, Deon. I think previously you have spoken about, I think, Ensham's capacity being at around about 4.2 million tonnes. Could you just confirm that and perhaps just elaborate whether you think you are closer to maximising the full capacity of that mine? Thank you.

Deon Smith

Thobela, just for clarity, I think the 4.2 million that we might have flagged before was a level of rail commitment that we have at that early to mid 4 million tonnes. So, we have no rail constraints up to that point. Beyond that, we clearly need to do a bit of homework and footwork if we find the right footprint expansion options at Ensham. Then, clearly, it is a difficult process of permits, licences, infrastructure, etc., to port and so forth, to ensure that we get all of that in place.

The resource at Ensham is very significant, as you know. It is close to 1 billion tonnes of resource. The limitation certainly isn't resource. It is whether the capital required and the returns that we can get on the capital of whatever further footprint enhancements we want to do, plus the achievability of permits and licenses to do it. So, there's a number of unknowns as to what the true capacity of Ensham might be medium to longer term. That remains a bit of work in progress. We're working through options, but clearly it's fairly complex to get to that perfect answer.

Thobela Bixa

Okay. Thank you so much.

Operator

Thank you. We have no further questions at this time and I would like to hand back to Hugo for any closing remarks.

Hugo Nunes

Thank you. If you do have any further questions, please feel free to get in touch with me or Shreshini Singh by emailing us at hugo.nunes@thungela.com and shreshini.singh@thungela.com and we'll get back to you. With that, please allow me to hand back to Deon to close out the call.

Deon Smit

Thank you very much, Hugo, and to the Thungela people, family and team that have worked really, really hard this year to achieve the results that we've started to highlight to you. And we look forward to giving you a bit more detail when we come to the market in March. As I said earlier, so we talked about our business. The World Energy Outlook 2024 report that was published by the International Energy Agency recently in October, again said global coal demand and 2024 is expected to be at an all-time high. And we are excited about the demand for our product globally.

Our operational performance momentum in South Africa, and also as we just spoke about in Australia, in our mind it's very encouraging. And we will do our best to maintain and build on this as we look to continue to control what we can control. And whilst the rail performance remains an overarching constraint for our country and our business, we're very encouraged by the recent improvements that the Transnet leadership team has been able to report. And we're cautiously optimistic about further improvements in 2025, building on the good work that we've seen from Transnet already.

And then, notwithstanding some of the continued volatility in the market and geopolitical news flows and wins, we're excited about being able to report improved cash generation in the second half of 2024. Longer term, we remain positive about our prospects as we endeavour to responsibly create value together for a shared future, which is really our purpose. With that, I wish all of you a peaceful, restful and, above all, a safe festive season. Thank you for dialling in.

Hugo Nunes

Thank you very much.

Operator

Thank you. That concludes today's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT