Conference call transcript

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ANNUAL RESULTS ANALYST PRESENTATION

Hugo Nunes

Good day, everyone, and welcome to Thungela's 2024 annual results presentation. I'm Hugo Nunes, Head of Investor Relations, and I'd like to take a couple of minutes to introduce today's agenda and explain how the day will run. 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, we will start with our CEO, July Ndlovu, who will share Thungela's 2024 highlights and update on the execution of our strategic priorities and the market. Our CFO, Deon Smith, will then talk through the financial and operational performance for 2024. And after this, July will provide the 2025 guidance and conclude the presentation. This will be followed by a Q&A session, and we will then close the call at approximately 13:30.

Turning to Q&A, for those wishing to ask questions directly, we ask if you please join the session using the conference call facility provided, as we can only take direct questions to 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 will have the opportunity to submit questions via text, which will then be read out to you in the Q&A session.

Before I hand over to July, I want to draw your attention to that unless otherwise indicated in the presentation. Operational and financial figures related to the Antrim business in Australia in 2023 are based on Thungela's interest in Ensham for the four-month period between the acquisition date of 31 August 2023 to 31 December 2023. Now please allow me to hand over to our CEO, July Ndlovu.

July Ndlovu

Thank you, Hugo, and good day to everyone on the call. Today, I'm pleased to share the 2024 annual results with you. These results demonstrate our continued operational excellence and disciplined execution of our strategy. Safety is and remains our first value. We are unconditional about protecting the lives of our people. We are proud to report that we have been operating a fatality-free business for more than two years. We've also improved our total recordable case frequency rate to 1.93 for the group.

Operationally, we demonstrated exceptional agility in responding to the improved rail performance in South Africa in the second half of the year. For the year, the group recorded 17.7 million tonnes of export saleable production, which exceeded our market guidance in South Africa and at Ensham. While the impact of softer price environment across the Richards Bay and Newcastle benchmark coal prices continues to impact our financial results, the group recorded a net profit of R3.5 billion with Ensham contributing R676 million or 19%.

Turning to capital expenditure, in 2024, we spent a total of R3.4 billion with R1.7 billion spent on sustaining capital and another R1.7 billion spent on our two key life extension projects, Elders and Zibulo North Shaft. Both of these projects remain on schedule and within budget. We continue to reserve the cash required to complete these projects.

The board considers it appropriate to maintain a cash buffer of R5.4 billion. We are retaining all excess cash above the buffer to shareholders and have declared a final ordinary cash dividend of R11 per share or R1.5 billion in total, as well as a share buyback of up to R300 million.

Let me spend a moment on an update on the execution of our strategy. We're making good progress across these five pillars. We'll discuss safety on the next slide but suffice to say that operating a fatality-free business is not just about the statistics. It is about truly caring about our people and their families and making sure that our people go home to their loved ones safely every day.

In 2018, Thungela and our black economic empowerment partner established the Rietvlei coal mine with a view to supplying coal into the South African domestic market while ensuring the direct benefit for the local communities. With the mine now fully operational and a domestic contract in place, Thungela is sold its 34% interest in the Rietvlei coal mine to our partner. The transaction demonstrates economic inclusion. Our partners together with the local communities participate in the full economic benefits of the operation.

Productivity improvements and cost efficiencies are key to ensuring that we remain competitive in the current price environment. This was demonstrated in the second half of the year when our South African operations were able to step up production in line with the improved rail performance. The increased productivity drove production growth for the first time in three years and enabled us to exceed our guidance for export saleable production.

At Ensham, we remain pleased with the significant production improvements since we took operational control of the mine in September 2023. You will recall that the annualised run rate at the time was around 2.7 million tonnes, while in 2024, the mine achieved 4.1 million tonnes of export saleable production.

Our two life extension projects, which improve the cost competitiveness of the business, remain on schedule and within budget. Construction is completed at Elders, which delivered its first call in March 2024, and we are now progressing with the ramp up activities. We have previously told you about our gas reserves in Limpopo.

Recently, we obtained the necessary licenses to develop a demonstration plant at the Lephalale Coal Bed Methane Project. The aim of this plant is to prove the feasibility of the gas project. We plan to spend R400 million on the demonstration plant and related infrastructure in 2025.

Moving on to the creation of future diversification options, we recently announced the acquisition of the remaining 15% in the Ensham mine from LXI for A$48 million. We also announced that we have entered into an agreement with Audley and Mayfair to acquire their 27.5% interest in Thungela Holdings for an upfront consideration of $1.7 million and deferred contingent consideration. Let me be clear. They put in their own money up front, and what they are getting is slightly less than half of what they put in up front. Upon completion of this transaction, the group will own 100% of the Ensham business.

During 2024, we established the Thungela Marketing International Business in Dubai. The team started marketing our Australian core from late 2023 and core from South Africa from July 2024. This was an important step as we seek to derive maximum value for our coal.

Our capital allocation framework remains the cornerstone of our strategy. When it comes to returns to shareholders, our approach acknowledges the diverse preferences of our shareholder base. This is why we commit to provide returns to our shareholders through a combination of dividends and share buybacks. Since listing will return R21 billion to shareholders. Just as a reminder, our day one market cap was R3 billion. The successful execution of our strategic priorities is testament to Thungela's ambition to build a sustainable long life, competitive business across multiple geographies, paving the way for the group to capitalise on the robust long-term fundamentals supporting coal globally.

Let's turn to safety. Our total recordable case frequency rate has improved to 1.93 compared to 2.8 in 2023. In South Africa, we recorded a historic low rate of 1.07, while in Australia, we've made significant improvement with Ensham recording a rate of 13.21, down from 22.63 in 2023. This improvement reflects our strong focus on improving workplace conditions, leadership visibility, and critical controls. We are on a safety journey and we continue to share best practice across the regions to ensure that our people are safe at the workplace.

Considering rail performance, which normally is quite topical, it is encouraging to note the improvement in the performance of Transnet post the July 2024 annual maintenance shutdown. TFR railed 51.9 million tonnes for the industry in 2024, an increase of 8.4% from 2023. What was particularly pleasing was the improved run rate of 56.2 million tonnes in the second half of the year, up from 47.3 million tonnes in the first half of the year, easily the best semester since 2021.

This improved rail performance reflects the collaborative efforts between TFR, the coal industry, and the National Logistics Committee. We remain dedicated to supporting Transnet in addressing the critical challenges in order for the coal line to return to historical performance levels. We are also pleased to report that we have signed an extension to the long-term rail agreement between Thungela and Transnet until March 2028. This provides Transnet with the opportunity to implement the initiatives to improve the performance of the rail line until the contract is up for renewal.

2024 saw both the API4 and Newcastle benchmark prices drop from 2023 on the back of high gas and coal inventories as countries built up stocks ahead of the winter season. In addition, the Northern Hemisphere winter was milder than expected and coupled with the impact of low economic activity in the regions in which we sell our coal, this put pressure on prices. The energy markets also remain impacted by the geopolitical tensions between Russia and Ukraine, as well as in the Middle East. The conflicts in these regions have led to increased concerns around gas supply, which in turn provided support for coal prices in the second half of the year.

The discount to API4 is improved to 13.1% compared to 14.3% in 2023. The discount in the second half of the year narrowed to 11.1%, mainly as a result of the 1% savings in commissions, as well as improved realized prices achieved through blend uplift and brand premiums realised by the newly established Thungela Marketing International team. In Australia, the discount of 88% to the benchmark price is a result of lower demand in the Asian markets due to low economic activity and buyers looking at other supply regions to purchase coal. We are therefore seeing an increase in buying on the spot as buyers look for the best price.

As a reminder, the premium achieved in 2023 was attributed to a higher proportion of fixed price contracts at the time of the acquisition of Ensham. Prices have continued to weaken since the start of the year. China's high inventories is a result of aggressive buying to avoid a repeat of the energy shortages that plagued the economy in 2021 and 2022, with coal stocks up 21% year on year. The milder winter season and low economic activity in Asia has impacted the drawdown of the stocks. And as a result, there's been limited buying in the first quarter. We expect to see price support in the coming months as these stocks are inevitably run down and buying starts up again.

Having said all that, we remain confident in the long-term fundamentals of the role of coal in the energy mix in support of the global energy demand. The International Energy Agency confirmed in its World Energy Outlook 2024 report, published in October 2024, that the outlook for coal demand remains firm. The strong energy demand from emerging markets with countries such as China and India continuing to invest in coal-fired power stations to meet their energy requirements. In addition, a number of Southeast Asian countries with expansive growth ambitions would require reliable and affordable energy sources to support their development.

The energy required to power the growing industry is a topic of increasing focus due to the rapid expansion of AI technologies and their computational demands. Supply on the other hand, as you see on the graph, is expected to continue to remain under reduce over time as investment in new coal mines continues to dry up. As a consequence, we've recently seen an increase in the consolidation of existing mines rather than investment in new mines. Stringent regulatory requirements and widespread social and political opposition to the development of new coal mines provides companies like Thungela with well-established high-quality coal operations and access to existing reserves with a significant structural advantage. Let me now hand over to Deon for the financial results.

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 2024. Let me start by saying that we are indeed pleased to report strong full year performance. As we set out at the interims in August last year, the first half of 2024 presented various challenges across rail, operational productivity and softer prices. Fortunately, the recovery in rail, operational productivity and prices in the second half of 2024 enabled the much improved financial performance we are reporting on today.

As July said earlier, the group generated R6.3 billion in adjusted EBITDA for the full year and a net profit of R3.5 billion. Approximately R1.2 billion was generated in the first half and a balance of R2.3 billion in the second half, demonstrating the tale of two halves, which characterized our performance in 2024. Breaking down the net profit of R3.5 billion by geography, R676 million was generated in Australia and the balance of R2.9 billion from South Africa, which obviously includes the margin earned by our TMI, so the marketing business, as well as our treasury activities.

Our earnings per share of R26.76 benefited from the effects of lower weighted average number of shares in issue as compared to the prior year, showing early results of our share buybacks. We generated adjusted operating fee cash flow of R3.6 billion for the full year, which resulted in the net cash position of R8.7 billion at year end. I will talk through the detail of the dividend and share buyback a little later in the presentation.

But important to highlight that when we consider the total dividend of R13 per share for the full year, so that's R2 at interims and R11 announced today, together with the interim buyback of R160 million and the further buyback of up to R300 million, we are returning a total of R2.3 billion to shareholders for the full year. Put differently, we're returning 64% of adjusted operating free cash flow to shareholders.

We've had a very strong year operationally. Our South African operations delivered 13.6 million tonnes of export saleable production, an increase of almost 1.4 million tonnes compared to last year. This performance was driven mainly by productivity improvements at Zibulo and Khwezela. It's important to bear in mind that this was achieved without reintroducing sections previously removed in response to the poor rail performance in 2023.

In Australia, Ensham also exceeded expectations, producing 4.1 million tonnes on a 100% basis as the team was able to navigate fault zones more effectively than expected. The production performance across both geographies saw us beat the upper end of our production guidance. The strong production performance also drove a beat on unit cost performance again across both SA and Australia.

In terms of capital, we recorded a spend of R3.4 billion in 2024, with both sustaining and expansionary capex in line with guidance. Export saleable production in South Africa increased by 11% from 12.2 million tonnes in 2023 to 13.6 million tonnes in 2024. This was a tale of two halves, mainly driven by the marked improvement in rail performance from TFR, which enabled the realisation of the productivity improvements across the mines during the second half of 2024.

Export sales also improved in the second half of the year, but full stockpiles at certain operations required that we continue to sell lower quality coal into the domestic market, so-called free on truck sales on the slide. These sales, which do not fetch export parity prices, therefore hold further revenue enhancement opportunities should rail performance improve even further.

The Ensham mine recorded a marked improvement of 52% in the production run rate from acquisition to full year 2024, following on the introduction of focused projects at that mine. As Hugo mentioned earlier, for the slides which follow, the 2023 comparators include only four months of Ensham compared to 12 months in the 2024 figures. This structural difference makes year-on-year analysis for Ensham a bit challenging, and accordingly you'll see that we display Ensham separately and that the rest of the slide is focused on movements across the South African business.

Let's move into some of the financial results, starting with revenue, where you'll see it's up by around R5 billion year on year, the biggest impact being the structural inclusion of Ensham for the full 12 months. The strong export sales performance in South Africa as we shipped almost 700,000 tonnes more than in 2023 also had a positive impact on revenue. Of course, the most significant impact during the year was the lower price environment across both API4 and Newcastle. Realised prices were down 12% year on year in South Africa and 20% in Australia.

Looking at the other items on the waterfall, we had less domestic revenue in South Africa, largely due to the fact that Rietvlei volumes were significantly lower, given the mine was on care and maintenance until prior to or shortly before we sold it. We also recorded incremental revenue from the third party traded volumes.

Moving to cost, we can again see the impact of including Ensham cost for the full 12-month period. A reminder that the balance of the Basel's graph pertained to South Africa only. Inflation continues to be high. The increase in commodity prices or purchases you'll see relates to cost of third party volumes. The incremental volumes produced in 2024 also came with a proportional increase in variable costs compared to 2023. Inventory movement reflects the impact of the movement in stockpiles as well as a lower production cost per ton, resulting in the moderation of the inventory balance at year-end.

As previously flagged, stock deterioration remains a risk where production is not solved for a prolonged period of time due to rail constraints. The other smaller movements include an increase in environmental provision, a small movement in FX revaluations, and a smaller year-on-year contribution to the trusts in 2024 compared to 2023, in line with a lower declared dividends as compared to the 2022 dividends that resulted in a high cost in 2023. Royalties are lower in line with lower revenue, driven again by the softer price environment.

As I mentioned earlier, the year-on-year operating cost increase at Ensham is mainly due to the number of operating months included in our accounts. Operating cost incurred by Ensham in the year amounted to R8.2 billion. The on mine cash costs were R4.8 billion, of which R2.7 billion is spent on employee related costs. Royalties for the year on a per ton basis amounted to approximately A$20 per ton. Total logistics costs reduced from approximately A$28 per ton in the first half of the year to the full year cost of around A$22 per ton following the successful price negotiations with the rail operator.

Looking at costs at Ensham, we are making good progress on identifying a number of contracts where we have been able to negotiate better rates. These benefits have started filtering through in the numbers and contributed to the beat relative to guidance. In South Africa, cost per ton excluding royalties increased by 4.2%. As mentioned on a previous slide, inflation in the SLA remained pronounced with a 6.5% increase on cash costs, but the impact of inflation and other smaller increases was offset to a significant degree by the higher production volumes. This resulted in a total FOB cost per ton, excluding royalties of R1,130 per ton.

Adjusted EBITDA is a function of revenue and operating cost movements, excluding impacts of depreciation tax, obviously, we covered on the previous two slides. So, when we look at the EBITDA margin of 18% this this year compared to 28% in 2023, it is clear that weaker prices result in significant margin compression year on year. The slide on the screen seems to explain the movement in net cash since December 2023. You recall that on 31 December 2023, the net cash balance was about R10.2 billion. For clarity, this balance excludes cash held on behalf of employee and community trusts, as well as balance sheet investments such as the Green Fund and self-insurance structures on the balance sheet.

We've paid R1.6 million to investors in dividends, which comprises the final dividend of 2023 of R10 per share and the 2024 interim dividend of R2 per share. Furthermore, we spent R601 million on the share buybacks executed during the year. We generated R5.3 billion of net cash from operating activities. We continue to invest in the business and have spent approximately R1.7 billion on sustaining capex and a further R1.7 billion on the Elvis and Zibulo North Shaft life extension projects during the 2024 year.

In addition, we made a significant contribution of R970 million as cash collateral against the environmental guarantees in Australia, with a further R204 million contributed to the Green Fund in South Africa, as required by the providers of our environmental guarantees. Notwithstanding these cash movements, the net cash balance December 2024 was a healthy R8.7 billion.

Our capital allocation framework remains the cornerstone of our strategy and prioritises returns to our shareholders. Our approach is guided by the funding needs of our projects and accordingly, as July mentioned earlier, the board considers appropriate to continue to reserve R100 million for the completion of Elders, R800 million for the completion of the Zibulo North Shaft project, and then we also reserve R400 million for the gas project.

We've declared a final dividend of R1.5 billion and a share buyback of up to R300 million. The Trusts will also receive R172 million in relation to 2024. This results in a net cash buffer of R5.4 billion. In addition, we also have access to R3.2 billion in undrawn facilities. With that, let me now hand back to July to talk us through the 2025 guidance.

July Ndlovu
Thanks for that, Deon. So, let's pause and look ahead to 2025. In South Africa, we plan to produce between 12.8 and 13.6 million tonnes of export saleable production. This guidance is informed by continued productivity improvements and improved Transnet rail performance. The low end of the guidance of 12.8 million will require a rail rate of approximately 54 million tonnes, while the upper end of 13.6 million tonnes requires approximately 58 million tonnes. FOB cost per export saleable ton is expected to be between R1,220 per ton and R1,300 per tonne, including royalties.

Sustaining capital is expected to be between R1.4 billion and R1.7 billion, with expansionary capex expected to be between R1.1 billion and R1.2 billion as the remaining capital at Elders is spent and will progress with the Zibulo North Shaft project. Expansion capex also includes the R400 million for the gas project that I mentioned earlier. Ensham is guided at export saleable production of between 3.7 million tonnes and 4.1 million tonnes, while cost per export ton is expected between R1,650 per ton and R1,780 per ton, and this includes royalties. Sustaining capex at Ensham is expected to be between R700 million and R950 million and includes one of capital of approximately R250 million to secure outstanding licenses.

As I conclude, our purpose remains our lodestar for every decision and every action we take. Our commitment to safety is unconditional and eliminating fatalities and injuries from our business is front and centre of everything we do. We remain focused on controlling the controllables, navigating through the current market environment, ensuring that we remain productive and cost-efficient as we build a sustainable long-life business which delivers value for all our stakeholders.

Lastly, I would like to send a word of appreciation and thank you to the thousands of our employees for their passion and dedication and commitment to delivering the kind of results I'm reporting today. And more importantly to you, our investors, for trusting us to be stewards of your capital as we continue to chart the path forward. Thank you very much, and let me hand back to Hugo for Q&A.

Hugo Nunes

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 would have received upon registration. Dialling * 1 will indicate to the operator that you would like to ask a question. For those who have submitted questions via the webinar platform, I'll be reading those out. Operator, please could I ask you to open the line for our first question

Operator

The first question we have comes from Efrem Ravi of Citigroup. Please go ahead.

Efrem Ravi

Thank you. Two questions from my side. Firstly, the guidance you said basically assumes the top end of about 54 million tonnes on TFR performance. Did I hear that number correct? And if I didn't, given that your second half rate has been higher than that on TFR, does this imply some degree of conservatism on coal mines kind of not being profitable at current low coal prices? That's the first question. And secondly, on the TFR performance itself, can you give us some colour on to any changes you made to the contract extension to 2028 in terms of increased performance metrics or incentives for on-time delivery, things like that? Thank you.

July Ndlovu

Thanks so much. Let me just make sure you heard the guidance correctly. The guidance that was given of 12.8 to 13.6 corresponds to the following numbers. On the lower end of the guidance, it equates to 54 million tonnes. That's more or less the number. If you take last year's performance of 51.9 million, 54 million is an improvement on that. I accept that that doesn't equate to what we saw in H2. However, the guidance for the upper end, the 13.6, equates to 58 million tonnes, which is higher than what they achieved in the second half of the year. So, what we're actually saying is we expect Transnet to continue to improve. So, there's no real conservatism in the guidance that we've given. We've tried to make that as realistic as possible.

Then on your second question on the long-term agreement, the long-term agreement has been extended on the same terms and conditions as the current agreement, save one number, which is, if you remember, the old agreement was on 71 million tonnes. That number as we reported in 2023 was reduced to 60 million tonnes, 63 million tonnes. So, that's the only change. So, the change is between 71 and 63 as the contracted number for the industry. But otherwise, the terms are the same as the current agreement.

Operator

Thank you, sir. The next question we have comes from Brian Morgan of RMB Morgan Stanley. Please go ahead.

Brian Morgan

Hi guys. Thanks very much for the Q&A time. A couple of questions from my side, but can we get started on Ensham? It looks like it will be losing quite a lot of money at the spot, but I think one of the mitigating factors might be the contract prices, at least in the short term. So, could you just give us a bit of a bit of a bit of colour on what percentage is contracted at what pricing?

Deon Smith

Hi Brian. So yes, spot has been fairly volatile. Safe to say that the forward curve is in contango, so we should see a slight improvement in uptick on Newcastle prices. At the moment the book is a combination of about 20% on fixed prices with the rest being floating with a combination of fixed Dollar discounts and percentage to Newcastle discounts. On balance, we're looking at a fairly similar discount to what we achieved last year, slightly wider in the short term, as you can imagine. Some of our prices that we set at a fixed Dollar discount to the benchmark would be a bit wider than a fixed percentage discount in the short term.

Brian Morgan

Okay, so if we're looking at 8% discount last year, then it would be similar at spot.

Deon Smith

At spot it might be a bit wider because some of the contracts that we have are fixed Dollar discounts that would have been struck in Q3, Q4. So, mathematically they would be wider at spot at the moment. And then obviously if the contango, the forward curve realises, they would then improve. But as I said some of the, let's say the 20 odd percent in the book, that's fixed prices drive then a more narrow. So, it depends on exactly where Newcastle runs to, what the discount would do. But around the levels that we had last year, slightly wider, is probably a realistic outcome for Q1 this year.

Brian Morgan

Okay, cool. Thanks Deon. And then can you just run us through the tolerance for cash burn at Ensham? At what point do you pull the plug?

Deon Smith

Yes, so I don't think we're in that type of discussion at the minute around pulling plugs or anything of that nature, we've seen, as you can imagine, some supply discipline already creep in. Ensham's sitting in a Q3 type position in Australia, so there's a lot of pain on the cost curve above us. So, we'll see what the, if the forward curve looks in contango, whether that plays out or not, which should arrest any cash losses there in the short to medium term.

Brian Morgan

Okay, cool.

July Ndlovu

So, I mean, there's no tolerance for cash ban. Our absolute focus is to drive productivity, reduce our costs. And what you should expect to see is continued improvement in both of those levers on a go-forward basis to ensure that the asset continues to be cash-generative.

Brian Morgan

Okay, cool. Thanks, July. Can I move on to South Africa? Just in terms of the theme of the reporting season has been the upcoming RFI coming out of the DOT for rail concessions. Just trying to get your angle on that and whether you think this is a meaningful thing and whether you'll be participating.

July Ndlovu

Look, we continue to monitor the introduction of third parties on the rail infrastructure. Clearly, we would need to understand the cost structure associated with those third parties as to what I'd call our baseline volume with the current service provider. We already have, as you can imagine, you'll find a three-year contract which gives us some certainty. So, it would have to be one that we are clear-eyed about in terms of cost competitiveness and providing security of capacity. But at this stage, we haven't seen anything that has got us excited just yet.

Brian Morgan

Okay. Thanks, July. If I may just squeeze one last one in. Sasol said that they're no longer going to be exporting coal. Presume that allocation will be available for lease. Is that something you'll be looking at?

July Ndlovu

Look, I prefer not to comment on what other producers do or don't do. Safe to say that if there is capacity on the market that we can secure either for our own volume or for traded volumes, and we can do that at a margin-accretive rate, we'd seriously consider it.

Brian Morgan

That's all from my side. Thank you.

Operator

Thank you. The next question we have comes from Tim Clarke of SBG Securities. Please go ahead.

Tim Clarke

Thank you very much. My question just relates to your comment about expected faulted areas at Ensham for the year and then also the transition period at Zibulo and Elders. I suppose what I'm asking is, for 2026 then, would you expect a bit of an improvement for both of those as the projects ramp up and as you move through those fault areas, or is this just mining as it is in the ore bodies at this stage?

July Ndlovu

Tim, thanks for that question. It's a bit of both of what you've just said. Firstly, I mean, faults and fault development is a feature of mining as you know. At Ensham however, we, one of the changes we've made to that mine is to introduce what we call a fault development crew, which is fairly standard practice in underground mining, if you will. That should allow us to go through the faults whilst keeping the productive sections in good ground and therefore maintaining our productivity.

However, this year particularly we have more faults than we ordinarily would have wanted to plan. And that's really a consequence of how the mine was planned. You'd recall that after we took over, we got the approval for zone 2 and 3. Without those, we've actually got the mine constrained for pit room. So, we have to unconstrained the mine, particularly this year.

In South Africa, you raised the issue of the transition over the next two years, two and a half years. Elders is in ramp up, and therefore you expect that as we ramp down GH and we redeploy those sections to Elders, there is kind of hiatus before that mine gets to a steady state in 2026. So yes, there will be a slight hiatus, but my teams are doing exceptional work to minimise the impact of that hiatus.

Similarly, the Zibulo North shaft, as it ramps up, in fact, Zibulo North shaft is unlikely to have a similar hiatus because what we're doing, Tim, is we're sinking the new shaft, developing towards the old shaft, at the same time mining from the old shaft towards the new shaft. If we can get our plans correctly, we shouldn't see a production impact other than in the normal course of mining.

Tim Clarke

Thanks, July That's very helpful. Just my second question. You've obviously elevated the importance of the Lephalale gas project this morning, and I wonder if you could give us some feedback or sense of timeframes around this. How long will the pilot plant take for testing? The feasibility. What kind of time frame should we be thinking on this project?

July Ndlovu

I was hoping not to elevate it more than it needs to be elevated, Tim. But I think realistically, as you can imagine, you should expect us to run this for the next two to two and a half years, collect all the data, develop the business case, and at that point in time we will then decide what is the most optimal way to extract this valuable resource and at what economics. So, I would say, don't look for an answer. But it's easy for me to say what I'm just about to say, given that I'll be retired then. But don't look for an answer before two years are up.

Tim Clarke
Okay. Well thank you very much, July.

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

Thobela Bixa
Yeah, thank you so much and great results. Well done, guys. So, July, just on your last comment, actually I was hoping to elevate that coal methane project there. So, you've previously operated about five wells in that project. Could you just tell us as to what have been the learnings so far been? And I guess, you know, what are you over and above filling the plant? What are you hoping to achieve with the R400 million investment into the project? Thank you. That's the first set of questions.

July Ndlovu
So, without converting this into a detailed technical discussion, probably over a decade, if I'm right, we have been extracting from those five wells. You are right. So, we actually understand the permeability, we understand the geology. We also understand the geotechnical characteristics of hydraulic stimulation or fracking if you will. But it's one thing to do that on five wells, and it's quite another to do it on the kind of scale that we're trying to do.

So, we still want to gather that kind of technical detail, that technical data, at a slightly higher scale that you can scale it up to a significant production scale if you need to. That's the first thing. The second thing that, as we have said, was always, where is the market and how do we get to the market? What is that route to the market and in what form? So, one of the things that we want to do is to liquefy this gas.

Granted, we would have preferred to market this to the commercial markets, but the nature of our license is such that this is a bulk sample. So, for now, we're going to utilise that to generate our own power using a gas generator. We've done the numbers. It more than washes itself. That is really to prove the technical and cost feasibility of liquefying gas in Lephalale and bringing it into what is probably the key market, which is around Gauteng. And that will give us all the data we require to put together a bankable feasibility study for a full exploitation of that endowment.

Thobela Bixa

Thank you for that answer, July. And then Deon, could you just expand on the investments that you're currently making into the various funds, whether in South Africa or Australia? What are the targets for these funds and when do you expect to meet those targets, if any?

Deon Smith

Yeah. Good morning, Thobela. So, in the last year, you would have seen in South Africa, we made a contribution of about R204 million. That's roughly in the order of 5% of the environmental guarantees that we have in issue in South Africa. And the arrangement with those guarantee providers is that we'll continue topping up that green fund, or so-called green fund, by that 5% per year. Now, clearly as we spend actual cash flows on reducing that footprint in the environmental liability footprint In South Africa that number is likely to come down in time but for the foreseeable future that's roughly the order of contribution annually in SA.

In Australia we're in a slightly more unique position there we've had to put in place a number of guarantees and therefore we've increased that contribution to the R970 million odd you saw last year. This 2025 number we're expecting to be about half of that and our discussions with the treasury and the Queensland treasury team will continue this year because clearly one of our aims have always been to get or insure into that Queensland Financial Provisioning Scheme. And once we've done that, it arguably takes the need for a regulatory type cash collateral away. It just potentially therefore reduces the requirement for any further contributions in Australia. So, R970 million last year, probably half of that in 2025. And then in the pool that disappears or those contributions disappear.

Thobela Bixa

Thanks for that. And then my last question is just on the market. Looking at the spot prices or your assumed prices for Australia as well as South Africa, your assumed prices are sort of ahead of where spot is. Could you just give us some colour as to when do you expect the prices to recover? And what do you think is likely to drive the price recovery in 2025?

Deon Smith

Yes. Obviously, we don't have a perfect crystal ball to predict the short-term volatility that we've seen. Needless to say, Thobela, that there's been a lot of geopolitical news flow baked into the price. The US government's narrative that they will solve the conflict between Ukraine and Russia has clearly put some level of pressure, a downward pressure on the price. Yet if we look at our analysis, a lot of the Russian coal continues to be lost making at these prices.

So, there's probably a lot of noise in the price. I'm just using that as one example. There are a number of other examples around Japan's recent plans to increase nuclear over the next 20-30 years as a proportion, whatever, from 8% to 16% or even 20% of their energy mix. Those are all noisy factors rather than necessarily fundamental supply and demand. So, when we look at the forward curve that remains in contango, whereas last year and the year before when we spoke, the prices were always in backwardation, yes, and that backwardation seems to have played out. Currently it's in contango, so if we see a recovery in prices, it'll be gradually during this year if the forward curve is anything to go by.

Thobela Bixa

Yeah. Okay. Thank you so much, Deon, for that. And July, all the best with your future endeavours. Thank you. Thank you.

Operator

Thank you. At this stage, there are no further questions on the conference call.

Hugo Nunes

Thank you very much. I'll read some questions. July, these two are for you before we move over to Deon. So Nkateko from Investec. What is your experience with logistics and rail operators in Australia that will be strongly considered as you evaluate your options on private participation in South Africa?

July Ndlovu

Well, I don't really think that it's got any relevance other than to say our experience has been pretty good. And that's why you don't hear us comment on logistics. If you know anything, the contract that we've got is very good. We've been able to renegotiate the rates lower. It performs. So, we're quite pleased with that. Are those lessons necessarily translatable to South Africa? To a large extent, that is probably a question best addressed to the presidents through the NLCC and the Department of Transport.

Hugo Nunes

Thank you. The next question is, you achieved a 13.6 million ton export saleable production in South Africa in 2024 at a lower TFR run rate than what you are expecting in 2025. Please give us a bit more colour.

July Ndlovu

I think it's important to remind all of you, our investors, what we said all along. We said we'll drive our productivity improvements across our mines. And if we do end up producing significantly more than we're able to rail, we'll sell what we call free on truck sales. It's nothing other than we sell it at the mine gate. So, you'll see through our numbers that we sold 1.1 million tonnes at the mine gate. If the rail performance were to improve, that 1.1 million tonnes would be on rail at a better net back than we would get by selling at the mine gate. So, why do we sell at the mine gate? It's still a very good cash contribution margin. So, it makes sense to do it that way, but we would make more money if we put it on rail.

Hugo Nunes

Thanks. Deon, a couple of questions from Shashi at Citi. What are the levers you can pull to control costs, especially at the Australian operations, if thermal coal prices fall further? What is the break-even price for Ensham?

Deon Smith

Yes, if we take that one first, clearly we've seen the suffering of the prices over the last number of months. And the team in Australia has developed a cash cost optimisation plan that cuts across opex as well as capital. Capital is slightly elevated in 2025. As you might have seen, we came in significantly under guidance in 2024. And what we didn't spend in 2024, some of that is quite critical to spend in 2025. So, whilst we will look at some capital austerity, our usual cost optimisation programmes, which isn't one big lever, it's a number of levers across various contracts and areas of spend, will continue to be a focus area in Australia over the next number of months.

At current Australian Dollar, US Dollar spot, the all-in sustaining cost for Ensham is around about $103 per ton. With Australian currency reverting back to the last couple of years in exchange rate terms, that probably increases that $103 to about $108 a ton. So, that that type of range between $103 and $108, given the FX, is what their current Newcastle level break-even all in sustaining opex capex position is. Clearly, there are a couple of opportunities to reduce that slightly and we'll continue to work it throughout this year.

Hugo Nunes

Thanks, Deon. Another question from Shashi is, sustaining capex guidance for South Africa in 2025 is circa 50% higher versus 2024. I just wanted to understand the reasons behind this, and is this the level of sustaining the new normal going forward?

Deon Smith

Absolutely not the new normal, Shashi. What we've seen is that, again, like in Australia, we came in at the low end of our capital guidance last year. There are a couple of items that are quite critical and one-off that we need to get done. A piece of work around the MRD at Mafube, some mineral residue deposit facilities at Mafube, box cut C at Khwezela, etc. So, a couple of one-off projects that are critical and have moved into 2025. But we expect that SIB to moderate again after those projects have been executed in SIB territory.

Hugo Nunes

Thanks, Deon. July, a question for you, is just the purpose around the Dubai office.

July Ndlovu

We opened our Thungela Marketing International, which is, we needed to market our own coal post the agreement we had with our former parent. Then the only next question was, where do we locate that office? We chose to locate it in a region which is supportive of fossil fuels, as you can imagine. And that's the Middle East. Secondly, it's a region that is close to our markets, close to our customers. And that’s the only reason why we located it in Dubai.

Hugo Nunes

Thanks very much. Operator, any other questions online?

Operator

At this stage, there are no questions.

Hugo Nunes

I think we are ready to wrap up then. Thank you, everyone. Unfortunately, I’m going to have to wrap up the Q&A session here. If we were not able to get to your questions today, please do get in touch with myself or Shreshini via email. Our email addresses are at the bottom of the SENS and RNS announcements released earlier today. With that, please allow me to hand back to July to close out the day.

July Ndlovu

Thanks very much, Hugo. Let me thank all of you for attending our call. What we have shared with you is a very strong set of results. And I’m sure you now accept that this is probably our reputation. We deliver on our promises to you, our shareholders. We absolutely obsess on controlling the controllables. And even in this software environment, we will do this by making sure that we operate safely and we drive productivity and reduce our costs so that we can generate value for you, our shareholders. We’ll do that at the same time whilst building a resilient, long life business. Thank you so much.

END OF TRANSCRIPT