South African Coal Report

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Business rescue practitioners reopen bids for Optimum Coal

By David McKay

The business rescue practitioner (BRP) for Optimum Coal Mines decided to re-open bidding for the assets after taking into account consultations with its legal counsel, creditors and organised labour.

In a response to South African Coal Report (SACR) questions, Kurt Knoop, a business rescue practitioner for Manci Knoop Financial Services, said the business rescue plan published in December had proposed Project Halo as the preferred bidder to purchase the mining assets. "That process has run its course," he said.

"That being said, the BRPs have received bids after the publication of the business rescue plan and are evaluating whether these bids should be considered as viable alternatives in consultation with (among others) its legal team, the mines' major creditors and organised labour."

SACR reported previously that creditors – whom the BRPs are mandated to prioritise with the company shareholders – were critical of Project Halo's offer and credentials. They worried, for instance, that Project Halo might be a front company for George van der Merwe, the former COO Tegeta Exploration & Mining which previously owned Optimum Coal Mines. This contention was firmly denied by Project Halo's Paul Buckley, as reported in SACR's January 22 edition.

Despite protestations the Project Halo offer for Optimum Coal Mines was sound, the BRPs asked Phakamani Consortium to re-submit its bid. At the same time, a third offer for the assets was lodged by the government-owned African Exploration & Mining Finance Company (AEMFC). There is precious little detail as to the nature of the AEMFC offer, however, other than a statement it would own the mines whilst mining would be contracted out to a mining company.

Bernard Swanepoel, a former gold mining executive who previously led Phakamani Consortium's bid for Optimum Coal Mines, said in a telephonic interview with the SACR that the BRP's request for a fresh submission may have been motivated by the inability of either Project Halo or the AEMFC to deliver a

Briefs

SA off-spec coal loses Indian share to Indonesia

Lower c.v. South African coal exports are lagging significantly behind year ago levels as a growing number of Indian power stations and cement makers opt for low rank Indonesian material.

Limited Chinese buying has driven down prices for Indonesian 4,200-5,000 kc GAR material with prices falling harder than higher c.v. Indonesian material such as the 5,700 kc NAR sub-bituminous material. This has provided potential arb opportunities for Indian buyers to replace more expensive South African 4,800 kc NAR material with the low-rank coal.

Indonesian 4,200 kc GAR material was priced at around \$32.64/t FOB, on 18 January, which translates to around \$41.20/t FOB on a 4,800 kc NAR basis. The equivalent Richards Bay 4,800 kc NAR price is 16% higher at \$47.93/t FOB.

With Panamax freight to West coast India at \$8 from Indonesia and \$11.50 from Richards Bay, 4,200 kc GAR material is \$10 more economical than the off-spec South African on a 4,800 kc NAR c.v. adjusted basis, while Indonesian sub-bituminous material is \$6.50 more expensive on the same prorated delivered basis than the 4,800 kc NAR South African.

According to traders, they will continue to purchase Indonesian as long as the discount on a delivered basis to the South African remains above 10%, traders said.

Traders expect this trend of purchasing Indonesian over South Africa to be maintained if Indonesian miners ramp up production as expected after the first quarter and South African domestic prices remain firm.

South African 4,800 kc NAR coal is typically sold to Eskom and other domestic buyers, with little sold on the export market until a few years ago. The beginning of last year saw a surge of this quality hit the international market due to a basket of factors, such as maximising take or pay rail arrangement, issues with Eskom and strong international

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viable offer.

Swanepoel is joined in the Phakamani Consortium by Mandla Gantsho, the chairman of Impala Platinum, petrochemicals giant Sasol, and African Rising Capital. Former CEO of Exxaro Resources, Sipho Nkosi, is also involved in the consortium.

"I was asked to resubmit a bid which I did on January 19. They [the BRPs] seem much more interested in talking to me now than before," he said.

Phakamani Consortium is thought to be the only company that met the BRPs bid deadline (even though the BRPs claim it was submitted after that of Project Halo). The Phakamani bid also seems to have the necessary funding for the recapitalisation of the Optimum Coal Mines – a function of the proposed equity participation of commodity trader, Trafigura.

"The AEMFC hasn't even done a due diligence as far as I can see," said Swanepoel. "What we're saying – and which probably made the BRPs dislike our bid from the beginning – is that ZAR1.2bn (US$88m) of the purchase price should be spent directly on the mine first," he said. Optimum Coal Mines' creditors would only be paid out of proceeds from the mines' activities, he said. This would make its offer less popular that Project Halo's offer which largely consists of the purchase offer. Phakamani has bid ZAR2bn (US$150m) for Optimum Coal Mines.

Citing a term-sheet it had seen, Bloomberg News said in December that Project Halo had submitted a bid for Optimum Coal Mines in which ZAR2.8bn (US$200m) was offered for Optimum Coal Mine whilst sums of ZAR200m (US$14.5m) and ZAR50m (US$3.6m) were offered for Koornfontein Mines and Optimum Coal Terminal (RBCT entitlement) respectively. The company promised to provide a further ZAR600m (US$43m) in financing over the next six months "... to ensure continued business at the mines".

Despite the fact BRPs serve creditors and shareholders, Swanepoel also said that Eskom, the government-owned electricity utility, would have a major influence on deciding the outcome of bids. "Eskom plays a critical role," he said. "They have registered huge claims against Optimum Coal Mines and it has the decision-making power."

Asked whether shareholders in Richards Bay Coal Terminal might object to the involvement of Trafigura in the Phakamani Consortium's bid, Swanepoel replied: "As long as Trafigura's involvement is consistent with RBCT's rules; as long as they operate in the shareholders' agreement, I don't think there will be a problem".

RBCT needs to up efficiency to offset downtime

By David McKay

Richards Bay Coal Terminal (RBCT) will have to increase efficiencies in operations in future to compensate for

Briefs (continued)

prices for the lower c.v. products.

It seems the Eskom issues are being ironed out and prices on the domestic market are currently stronger than the returns on the international market.

MC Mining's move to Uitkomst operatorship lags

The transition to owner-operator mining at Uitkomst is proving harder to master than first anticipated by MC Mining, the Sydney- and Johannesburg-listed coal producer and development firm.

Commenting in its December quarter numbers - in which production from Uitkomst fell about a fifth quarter-on-quarter to 112,562 t - MC Mining acknowledged that the task of integrating 340 staff and ensuring equipment availability had taken its toll. "A number of shifts were lost due to these issues," it said.

MC Mining CEO, David Brown, said there would be an improvement in the current quarter, the third of the firm's 2018/19 financial year. "We also commenced with the construction of the coarse discard plant modifications during the quarter and this expansion is expected to yield an additional 40,000 tonnes of saleable product per year," he said.

The poorer performance of Uitkomst was also be offset by an improvement in thermal coal pricing. The average revenue per saleable tonne increased to US$91.25/t from US$61.09/t in the second quarter. "The colliery benefitted from favourable coal prices and generated similar earnings before interest, tax, depreciation and amortisation (Ebitda) for the first half of 2019 compared to the first half of 2018," the company said.

RBCT open to trading house taking terminal stake

Richards Bay Coal Terminal (RBCT) said it was not concerned that one of a number of internationally head-quartered commodity trading firms assisting in the bidding for Optimum Coal Mines might become a shareholder.

Optimum Coal Mines consists of the Optimum and Koornfontein coal mines as well as allocation worth currently 8 mt/y of export entitlement through RBCT. The company is subject to a business rescue process in terms of which bids have been received for its purchase, including bids from entities which have the likes of Trafigura, Vitol and Macquarie Australia as partners.

However, RBCT chairperson, Nosipho Siwisa-Damasane, said the terminal's shareholders were unconcerned regarding the role of international trading firms because a shareholders' agreement laid down very clear conditions. Currently, the shareholders of RBCT are from a tight-knit group of mine operators such as Glencore, South32 and Exxaro Resources.

downtime as it, like other coal export terminals around the world, is starting to experience more frequent weather-related disruptions, chairperson Nosipho Siwisa-Damasane said.

In the year to December, the terminal experienced 36 days of partial or full closure of the port owing to adverse weather conditions, down from 38 days last year.

Owing to market conditions, and some disruptions including a derailment in December, Transnet Freight Rail (TFR) transported only 72.9 mt to the port, down from 75.6 mt in 2017.

The terminal received an average of 26 trains a day compared with 27 in 2017. It has capacity to handle 32 a day. TFR's executive manager for export operations, Tiyani Hlabongwane, said the utility had improved turnaround times and the electrification of two lines at Ermelo had helped to improve cycle times.

As a result, the terminal shipped 4.1% less coal, at 73.47 mt, in the 12 months to 31 December, than it did in 2017. At the end of December, the stockpile was just under 3 mt. Last year's export target was 77 mt, which will remain the target for 2019.

After an upgrade a few years ago, the terminal has capacity to ship 91 mt. However, based on current trends in the South African coal industry, it is doubtful whether that capacity will be needed.

Although South Africa still has massive undeveloped coal resources, its coal heartland around Witbank is over 100 years old and grades are declining. There has been little investment in exploration or development of new coal mines over the past decade, largely because of mining policy uncertainty.

RBCT CEO, Alan Waller, said other industry-wide factors that had affected the terminal's efficiencies last year were a 5% drop in parcel size, and 1.3% fall in cargo size, accompanied by a 3.3% increase in parcel size per vessel. Fewer vessels were loaded, at 883, than the 907 loaded in 2017. This reflected the fact that more Cape and Panamax vessels were visiting the terminal, as India has been deepening some of its ports to take larger vessels.

RBCT shipped 81.6% of its coal to Asia. This included 35.29 mt to India, 9.37 mt to Pakistan and 6.73 mt to South Korea. Europe was the next largest market, at 10.1%, with 3.14 mt sent to the Netherlands and 1.38 mt to Spain.

Last year, RBCT completed a machinery upgrade, including replacement of older stackers and ship loaders with newer, faster equipment. The final project cost was ZAR1.25bn (US$92m), which was below the budget of ZAR1.34bn (US$98m) as the contingency was not needed.

Waller said the new equipment was now at 98% availability. The next step was to improve efficiencies in utilisation and make intermediate equipment more effective through de-bottlenecking projects.

Siwisa-Damasane said one of the terminal's other challenges in the past year was Transnet National Port Authority's (TNPA) marine services. TNPA had now made a third tug available, providing more capacity to move vessels around, and a new helicopter would be delivered in April/May.

Briefs (continued)

Anglo's South African thermal exports drop 1%

South African thermal coal exports by Anglo American in its 2018 financial year dropped marginally by 1% to 18.36 mt from 18.59 mt in the previous financial year following fourth quarter exports of 4.54 mt (2017: 4.65 mt), the group said in a production update.

It also guided to total export thermal coal of between 26 mt and 28 mt in the current financial year whilst metallurgical coal exports would be between 22 mt and 24 mt.

It added that the weighted average realised price for export thermal coal from South Africa and Colombia was US$86/t, some 8% lower than the weighted average quoted FOB price for South Africa and Colombia, a difference that was put down to "coal quality".

South African domestic thermal coal production decreased by 54% to 3.3 mt owing to the completion of the sale of its Eskom-linked operations – New Vaal, New Denmark and Kriel – to Seriti Resources in March.

Universal Coal guides 8.5 mt/y output by end June

Universal Coal, the Australian-listed coal producer that operates in South Africa's Mpumalanga province, forecast annualised coal production of 8.5 mt/y by the time it closed off its year-end on June 30.

The company, which is a takeover target of private equity firm, Ata Resources, said the improvement in production was attributable to the first major contribution of North Block Complex, an asset it bought from Exxaro Resources.

Initial production was also due before the year-end from developmental asset, Ubuntu (formerly known as its Brakfontein project). The medium-term goal was to reach annual production of 10 mt/y whilst continuing to pay dividends.

"Universal will continue to concentrate its efforts on increasing shareholder value through production growth from the inclusion of the Eloff Project to the Kangala life of mine, delivering the Brakfontein (Ubuntu) project, to achieve our 10 mt/y targeted production, whilst continuing to distribute dividends," said Tony Weber, CEO of Universal Coal.

NUM seeks arbitration on Somkhele

South Africa's National Union of Mineworkers (NUM) said it would take the owners of the Somkhele anthracite coal mine to the Commission for Conciliation, Mediation and Arbitration after it failed to alert employees of planned retrenchments or consult with unions.

Somkhele, situated in South Africa's KwaZulu-Natal province, is run by Tendele Mining, a subsidiary of Petmin, a company formerly listed on the Johannesburg Stock

The terminal, which employs about 472 people directly and a similar number of contractors, is owned by 14 private shareholders, all of whom have a stake in coal mines.

An export allocation of about 8 mt is associated with the Optimum and Koornfontein coal mines, formerly owned by Glencore, which are currently in business rescue. A number of bidders have shown an interest, including two consortia that include global coal traders Vitol and Trafigura respectively. However, under the shareholders' agreement, the RBCT export allocation must be linked to ownership of a South African coal mine, Siwisa-Damasane said.

Richards Bay prices eye support from nascent Indian interest

Richards Bay spot prices could seek support from nascent Indian interest as Reliance, JSW and Essar are said to be in the spot market for high c.v. material for prompt loading.

However, average weekly Richards Bay prices for 6,000 kc NAR coal has once again slid after a one- week gap finishing the week ended 25 January at $89.31/t FOB, as against $90.86/t in the prior week. Average weekly prices have declined almost 8% over the last four weeks.

While Indian interest for South African off-spec material is said to be emerging, it's likely to be capped as comparable Indonesian material is placing competitively into the Indian market.

In the spot market, there were three deals concluded for the benchmark product last week, of which two were for March loading cargoes. March traded on 21 January at $93.00/t FOB and at $92.20/t FOB on 22 January while February changed hands at $83.50/t FOB on 25 January. All of the trades were for 50,000 t cargoes.

Bids for Richards Bay March contract opened the week lower at $88.50/t FOB against offers at $89.75/t FOB, all for 50,000 t cargoes. In the previous session, March was bid at $89.50/t FOB, with no offers against.

Meanwhile, stocks at RBCT continues to slowly ramp back up, after a major derailment temporarily shut rail links to South Africa's main export hub. RBCT stocks as of Monday stood at 4.03 mt, up from 3.64 mt last week.

At RBCT, there were 14 dry bulk carriers with a maximum capacity of 0.78 mt anchored offshore, steady from a week ago.

Briefs (continued)

Exchange. In February last year, Global Environment Trust requested a court interdict preventing Tendele from operating Somkhele because it didn't have valid environmental authorisations.

"The NUM is taking the company to CCMA for its failure to adhere to the Labour Relations Act on retrenchments," the union said in a statement, adding that it would also approach the Department of Minerals Resources on the matter.

ANC mulls partly privatising Eskom

South Africa's African National Congress (ANC) has added a strategy of selling shares in Eskom, the government-owned power company, to a number of options aimed at saving the organisation from its debt problems, said BusinessLive.

The newspaper said that after a recent ANC Lekgotla (meeting), the ruling party resolved to consider dividing Eskom into three sections: generation, distribution and transmission. One or two of these functions could be 'privatised' – a strategy that will be fiercely opposed by unions.

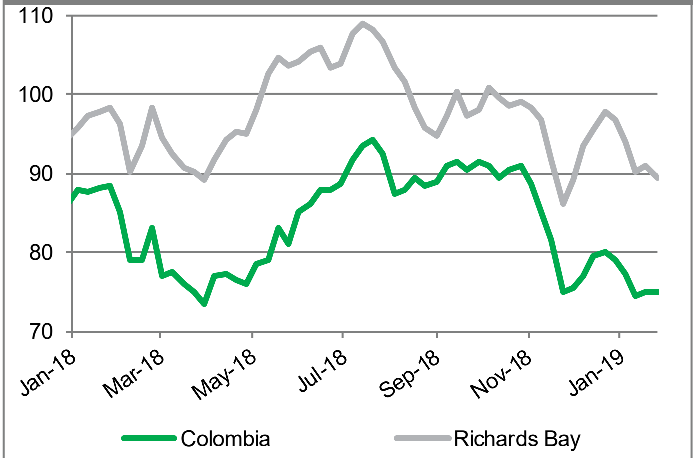
According to the ANC's economic resolutions agreed to at the lekgotla, the party went as far as to call for the assets of the former Gupta family-linked company, Tegeta Exploration & Resources, to be 'expropriated' to recoup money lost through alleged corrupt coal deals, said BusinessLive.

Tenders

- India's Tamil Nadu Generation and Distribution Corporation Ltd (Tangedco) has issued a tender 1 mt of 6,000 kc GAR material at either Ennore, Kamarajar or Karaikal ports for its 1.83 GW North Chennai plant and 1.44 GW Mettur plant. The tender was issued early in January with a 23 January deadline for offers, but this has been extended to 30 January. Tangedco is looking for supply between March and September through Tuticorin port. The supply period for either of three ports (Ennore, Kamarajar or Karaikal) is March to July.

- Moroccan power producer, Jorf Lasfar Electricity Company (JLEC), is understood to have awarded its recent thermal tender for 0.12 mt, according to trading sources. It paid about $85/t CIF Jorf Lasfar, basis 6,000 kc NAR, for delivery of two separate 60,000 t cargoes in March and April. It is understood Russian material was awarded for use at its 350 MW five and six units. Freight costs from the Baltic, the most likely load ports, are assessed in a wide range of $8-10/t, leaving an indicative net back price of $75-77/t FOB. JLEC typically requests a 5,800 kc NAR min material with 1.50% max sulphur.

FOB (US$/t) Colombia - South Africa



Source: IHS Markit © 2019 IHS Markit

Freight

The Capesize (180,000 dwt) 5 TC average fell by a further $3,083/day week on week to the lowest level since November 2018 at $12,523/day as earnings retreated in both basins. West Australian iron ore chartering slowed as operations at Port Hedland, Dampier and other terminals in the region were disrupted by the approach of Cyclone Riley. The Pacific round-voyage rate fell by $3,637/day to $9,938/day. Similarly, Capesize coal spot rates in the Pacific dropped to some of their lowest levels since the start of the year. The Newcastle-Krishnapatnam rate fell by $0.75/t to $9.70/t, while the equivalent rate to Zhoushan was down $0.75/t at $8.55/t.

There were also declines in Capesize earnings on both trans-Atlantic and fronthaul routes last week, and the outlook for Capesize demand in the Atlantic could be impacted by the tragic breach of a tailings dam at (and subsequent closure of) the 8-8.5 mtpa Córrego do Feijão iron ore mine in Brazil. Given the widespread use of tailings dams by mining companies in the country, there is the potential for further closures, but at time of writing no further action beyond rescue operations has been announced by the country's authorities.

Meanwhile, subdued Australian coal chartering contributed to a $2,525/day weekly drop in the Panamax Pacific round-voyage rate to $5,173/day, producing a discount of almost $2,000/day to the Atlantic equivalent, while the Indonesia-Qingdao coal spot rate dropped by $1.50/t to $5.00/t. Chinese coastal coal freight rates have suffered further declines, with some routes assessed by the Shanghai Shipping Exchange at their lowest since June 2016. With earnings in the Atlantic also falling, the Panamax 4 TC average dropped to the lowest level since September 2016 on 28 January at $5,525/day.

Source: Simpson Spence Young

Weekly shipping fixtures

Load port	Vessel	Capacity (dwt)	Discharge port	Load date	Load/discharge terms	Freight (US$/t)	Shipper
Newcastle	TBN	135,000	Kwangyang	3-7 Feb	45000c/50000c	$7.86	Posco
Newcastle	TBN	130,000	Liuheng	5-14 Feb	50000c/45000c	$8.55	CCS
Port Kembla	TBN	75,000	EC India	16-25 Feb	40000x/20000x	$13.85	SAIL
Norfolk	TBN	75,000	Ploce	1-10 Feb	30000c/13000c	$12.00	ArcelorMittal
Rotterdam	TBN	80,000	Rotterdam	1-5 Feb	60000c/25000c	$11.70	Uniper
DalBay	TBN	75,000	Vizag	15-24 Feb	35000x/20000x	$12.50	SAIL
Murmansk	TBN	75,000	Rotterdam	end Jan	18000c/25000c	$5.25	Jera
Beira	TBN	38,000	Vizag-Paradip	10-15 Feb	18000x/14000c	$19.35	SAIL
Bolivar	TBN	160,000	Rotterdam	1-10 Feb	50000c/25000c	$9.00	Oldendorff
Newport News	TBN	75,000	Vizag	1-10 Feb	40000x/20000x	$27.60	SAIL
Gladstone	TBN	75,000	Vizag	19-28 Feb	35000x/20000x	$12.85	SAIL
Beira	TBN	38,000	Vizag-Paradip	19-24 Feb	18000x/14000c	$19.85	SAIL
Beira	TBN	38,000	Vizag-Paradip	2-7 Feb	18000c/25000c	$16.50	RINL
Taboneo	TBN	75,000	EC india	1-7 Feb	18000x/20000x	$6.25	SAIL
Gladstone	TBN	75,000	Vizag	1-10 Mar	35000x/20000x	$13.20	SAIL
Newport News	TBN	75,000	Vizag	10-20 Mar	40000x/20000x	$27.50	SAIL
Hampton Roads	TBN	67,000	Brindisi	3-10 Feb	30000c/12000c	$12.60	Jera
Newport News	TBN	60,000	Jorf Lasfar	5-14 Feb	30000c/25000c	$8.75	Jera

Source: Simpson Spence Young (SSY)

Statistics

Richards Bay marker US$/FOB

INDICES	25-Jan-19	%change week	18-Jan-19	%change week	11-Jan-19
Richards Bay	89.31	0.70	90.86	0.70	90.23
INDEX	297.70		302.87		300.77

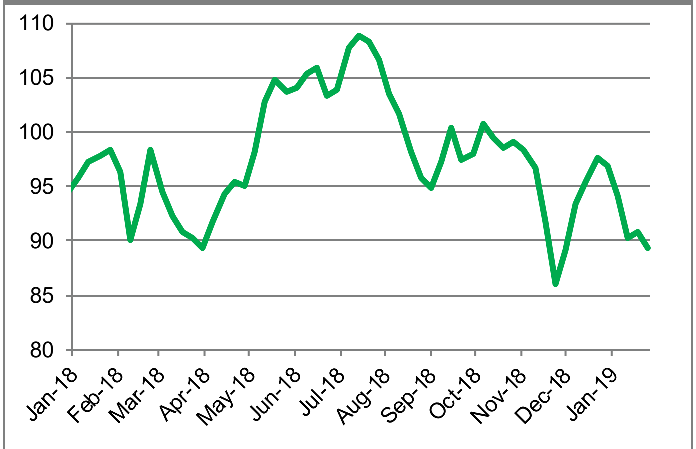
Source: IHS Markit © 2019 IHS Markit

Met anthracite index

Richards Bay Spot	US$/t	Index
04-Jan-19	94.09	116.36
11-Jan-19	90.23	111.19
Jan average	**91.12**	**112.38**
18-Jan-19	90.86	112.03
25-Jan-19	89.31	109.96

Source: IHS Markit © 2019 IHS Markit

Richards Bay Marker US$/FOB



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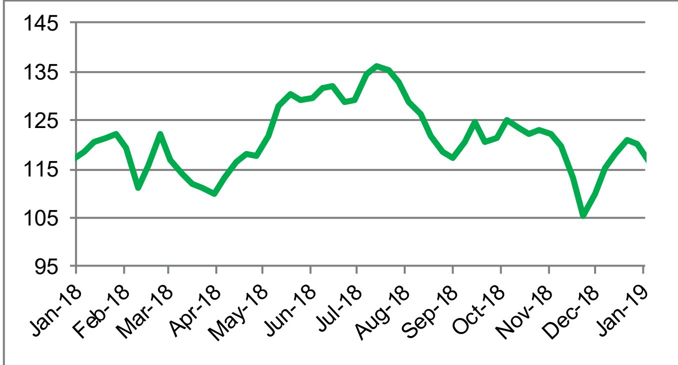
Met Anthracite Index



Source: IHS Markit © 2019 IHS Markit

Thermal coal: IHS Energy weekly prices (US$/t)

FOB markers	grade	Jan-18	Dec-18	18-Jan	25-Jan
Richards Bay	6,000kc NAR	97.30	93.32	90.86	89.31
South African 5,500	5,500kc NAR	80.92	66.83	66.5	64.68
South African 5,700 min	6,000kc NAR	94.58	88.70	81.38	82.72
Differential (RB vs 55)	6,000kc NAR	8.27	18.72	16.79	17.19
Spreads					
FOB Spread (NEX/RB)*	6,000kc NAR	7.34	7.01	8.95	8.74
FOB Spread (Newc/RB)**	5,500kc NAR	1.96	-6.91	-5.17	-1.77
Swingometer					
Swingometer	6,000kc NAR	-7.71	10.43	4.81	-1.58

FOB spread is differential of Newcastle minus Richards Bay, for both 6,000kc NAR and 5,500kc NAR

*NEX index has replaced McCloskey Newc number for RB comparison to better align min c.v. for both

** Newcastle price minus Richards Bay price

Swingometer is the measure of the relative profitability of selling Richards Bay (6,000kc NAR) into North West Europe (positive) or South China (negative)

Source: IHS Markit © 2019 IHS Markit

Freight rates

Week ending	18-Jan-19	25-Jan-19
Weekly freight (SSY) 130 000 tonne cape size		
RBCT/Rotterdam	7.90	7.45
Bolivar/Rotterdam	9.05	8.60
Queensland/Rotterdam	13.75	13.25

Source: Simpson Spence Young, IHS Markit © 2019 IHS Markit

SACR indices

Week ending	18-Jan-19	25-Jan-19
SACR FOB barge ARA		
FOB barge ARA 6 000 NAR	84.35	82.30
SACR indices		
SACR ARA CIF - South Africa	98.76	96.76
SACR ARA CIF - Colombia	84.05	83.60

Source: Simpson Spence Young, IHS Markit © 2019 IHS Markit

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