

Kumba Iron Ore H1 operating profit margin decreased to 28% vs 47%

Kumba Iron Ore withheld its interim dividend, citing a volatile and depressed market for the steel-making ingredient that lowered headline earnings by 61% in the first six months of the year...



The dividend decision by the Anglo American-held subsidiary and SA's largest iron ore producer could be a clue about the parent company's own intentions about paying an interim dividend this year. A range of analysts expects Anglo not to pay dividend this year to preserve cash in a weak global commodity market.

"Taking cognisance of the pressure of lower cash generation, the initiatives required to preserve cash... and in order to maintain financial flexibility, the board has decided not to declare an interim 2015 dividend," Kumba said.

Index prices decline

The international average iron ore index price fell 46% in the six months to end-June to \$60/tonne. Normalised earnings fell 52% to R9.78 a share. Headline earnings fell 61% to R2.5bn compared with the year-earlier period as its realised export price dropped 41% to \$61/tonne.

"Index prices have steadily declined from the beginning of the year to historical lows as a result of increased supply availability with major projects reaching execution, and subdued seasonal demand recovery as mills deleveraged inventories," Kumba said.

"Iron ore prices are expected to remain under pressure as Australian and Brazilian producers increase supply and demand growth from China slows" it said, adding China accounted for 60% of its interim sales.

Kumba increased sales by 16% to a record 26-million tonnes in the period, despite production easing 1% to 22.6-million tons, indicating the company tapped into stockpiles. Kumba expects export sales this year to top 43-million tons.

Slashing costs and closing mines

The company has slashed costs and reviewed its two main mines in the Northern Cape. It told the market last week it was shutting the small and expensive Thabazimbi mine in Limpopo. These measures are designed to lower Kumba's breakeven price to \$45/ton from \$63/ton last year.

"These initiatives include reducing overhead costs, reinforcing capital discipline, reconfiguring the operations and maintaining the focus on product quality through the production of lump products" Kumba said.

Kumba produces a lumpy iron ore that fetches a premium over the index price for an ore with a 62% iron content.

At its flagship Sishen mine, the mine plan had been "materially revised", Kumba said, saying the pit had been redesigned to make money at lower iron ore prices. This meant a "downward revision of waste and production".

The Kolomela mine will increase production slightly.

Source: BDpro

For more, visit: <https://www.bizcommunity.com>