

Kumba in rail talks amid cut in expenses

Kumba Iron Ore, which aims to be debt-free by year end, has started talks with Transnet about take-or-pay provisions in a rail contract for sending ore to Saldanha port as it nearly halves production from its flagship Sishen mine to slash costs.



©Peter Titmuss via [123RF](#) - Iron Ore on railway wagons Saldanha Bay Terminal South Africa

Kumba, once the biggest contributor to parent Anglo American's earnings, has undergone a difficult change in its mining plans at Sishen to mine far less waste rock and to extract iron ore at a far lower cost.

Kumba aimed to be debt-free by the end of this year, assuming that it could get its break-even cost down by \$10 to \$31/tonne and that the premium earned for its lumpy iron ore, which made up two-thirds of export sales in the past year, shipping rates and exchange rates remained relatively unchanged, said CEO Norman Mbazima.

<>Kumba facing headwinds

However, it faces headwinds including an unexpected demand from the South African Revenue Service for a payment of R1.8bn, excluding interest and penalties - a demand to which Kumba has objected formally.

Kumba is appealing against the conditions placed on it by the Department of Mineral Resources for including a 21.4% stake of Sishen in its mining right. The stake was once owned by ArcelorMittal SA.

The conditions include supplying domestic steel makers at favourable prices, procurement and research and development. Kumba argued these conditions were not part of the Mineral and Petroleum Resources Development Act's clauses when it came to granting mineral rights.

Another complication is the need to renegotiate the contract with Transnet as Sishen scales back output to 27-million tonnes a year, laying off 45% of its workforce. The mine produced 41million tonnes in 2010.

Mbazima said Kumba would investigate the options of tapping into enormous stockpiles of low-grade iron ore to feed its plants, which would run at well-below capacity at Sishen to bulk up the material it could put onto the railway to limit the penalties it might face.

Formidable changes for the industry

Kumba reported a R6bn impairment against Sishen in its financial year to December, offsetting gains made in record export sales for the period. During the year, the iron-ore price fell 42% to \$53/tonne and production dropped 7% to 44.9million tonnes because of changes at Sishen.

Exports were boosted by drawing down on stockpiles. "The period ahead is likely to result in formidable changes for the industry, with the market now pricing in a more muted trend for the iron ore price," Kumba said.

Headline earnings per share fell by two-thirds to R11.82, which basic earnings per share collapsed to R1.46 from R33.44 a year earlier. The impairment charge of R6bn on the Sishen mine was the key reason.

Source: Business Day

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