Lonmin outlines its operational review

Despite positive third quarter results, Lonmin is still looking to implement measures that will generate sufficient cash to support a sustainable business...

Photo: Lonmin

The company is particularly concerned about the persistent adverse macroeconomic conditions and the inflationary cost pressures confronting the platinum mining industry in South Africa. In addition to continuing to remove high-cost productio Lonmin is continually reviewing its operations with the primary objective of preserving value for shareholders and safeguarding the long-term interests of employees and all key stakeholders.

The review is focused on optimising the cash produced by the business, both from its operations and through releasing capital from those activities where the company is currently bearing the cost of excess capacity and unrealised developme potential. It's also designed to position the company to benefit from any future improvement in the PGM pricing environme

The immediate results of the operational review include initiatives to generate cash through the monetisation of select Lonr assets and to preserve cash by reducing fixed costs. Subject to receiving the necessary consents and approvals, Lonmin plans to implement the following:

- Pursue all options to maximise cash from Lonmin's high quality downstream processing operations. It is currently intended to implement this through the sale of excess processing capacity of up to 500,000 platinum ounces per annum. This would have the benefit not only of releasing capital for Lonmin, but would also allow other South African PGM producers who currently operate on a sale of concentrate basis to access the profit margin benefits of an integrated beneficiation model.
- A review of the company's major development capital requirements over the next few years. In this regard, Lonmin w consider selling for cash or introducing joint venture partners into Limpopo and Akanani together with exploring optio to introduce funding partners into K4.
- Despite consistent strong performance from Rowland, Lonmin's current capital position makes it challenging to fund MK2 project which is necessary to extend Rowland's economic life. Lonmin believes that the MK2 project will be valu accretive and the company will explore options to introduce funding partners and preserve approximately 5,000 jobs.
- The reduction in annual overhead costs by a minimum of R500m by year ending 30 September 2018. The substantia majority of overhead reductions will come from non-production central functions as the company seeks to right-size overheads to its operations. In addition, Lonmin will continue to identify further overhead and cost savings.

It is too early to define the ultimate effect of the operational review on the company, but the overall aim remains for the business to be cash positive after capital investment. Further announcements will be made as and when appropriate and

Lonmin will engage with all appropriate stakeholders in relation to these initiatives.

The department of mineral resources has also approved Lonmin's S11 application to acquire the Pandora JV from Anglo Platinum, which will defer R2.6bn of capital expenditure and contribute to the sustainability of the business by potentially preserving jobs at E3 shaft. Lonmin has already received approval from the competition tribunal and is in the process of obtaining lender consent.