

Exxaro 2023 statement outlines more pain for coal market, selling ferroalloys unit

By  Lindsey Schutters

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Exxaro reported a decline in its safety performance and a mixed outlook for its key commodities in the first 10 months of 2023. The company also announced a higher capital expenditure for its coal business and a strong net cash balance, as well as plans to sell its ferroalloys unit to a Black-owned business by the end of June 2024.



Dr Nontbaso Tsengwa, Exxaro CEO delivering the interim results in August 2023. Source: x.com

According to a [pre-close statement released by Exxaro](#) on Tuesday, the company recorded eight lost time injuries resulting in a lost time injury frequency rate (LTIFR) of 0.06, which is above the set target of 0.05 and a 50% regression from the same period last year.

The company also reported three high potential incidents across the group, compared to five for the full year ended 31 December 2022. To prevent potential incidents, various safety initiatives have been deployed across all its business units.



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Finance director Riaan Koppeschaar said that the global economic performance exceeded expectations in early 2023, led by the post-pandemic recovery. However, as the year progressed, global sentiment changed and weighed negatively on global economic activity and commodity markets.

“ Exxaro aims to enhance the economic participation of Black-owned companies in the South African economy. In line with this intent, Exxaro has earmarked the ferroalloys disposal process to target Black ownership. The sales process is anticipated to be concluded in 2Q24 ”

Coal prices still low

The company expects the average price of coal exported from South Africa's Richards Bay terminal to be \$122 per tonne, which is less than half of the price in the previous financial year (FY22), which was \$271 per tonne. The price is free on board (FOB), which means that the seller is responsible for the product only until it is loaded on board a shipping vessel, at which point the buyer is responsible.

The company also expects the average price of iron ore fines, which are small particles of iron ore, to be \$119 per dry metric tonne, which is almost the same as the price in FY22, which was \$120 per dry metric tonne. The price is cost and freight (CFR), which means that the seller is responsible for arranging and paying for the transportation of the product to the destination port, which is China in this case.

The API4 coal export price index is the benchmark price for coal exported from South Africa's Richards Bay terminal. It is calculated as an average of the Argus fob Richards Bay assessment and McCloskey's fob Richards Bay marker.

“ The coal price decrease was exacerbated by warmer than usual winter temperatures, robust performance in renewables and nuclear, and significantly lower gas prices” ”

Production remains flat

The company's total coal production (excluding buy-ins) is expected to remain flat, and sales volumes are expected to decrease by 2%. The company also expects the capital expenditure for its coal business to be about 57% higher when compared to FY22, mainly driven by higher spend at Grootegeluk and Belfast.

A slight resurgence in Indian demand on the back of the lower coal prices helped minimise losses slightly.

As at 31 October 2023, the company had a net cash balance of R13.5bn (excluding Cennergi's net debt of R4.1bn). The company said that it will retain cash of between R12bn and R15bn to fund its growth strategy.

Exxaro will provide a detailed account of FYE23 business performance and an outlook on the subsequent six months (1H24) when it announces its annual financial results on or about 14 March 2024.

ABOUT LINDSEY SCHUTTERS

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