COAL

Growth Ambition

Coal junior aiming to up production to 10Mt, list on JSE

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Picture by Senior Chief Photographer Duane Daws

HENTIE HOFFMANN
Mbuyelo Coal is expanding the Manungu colliery's boxcut by 200 m to 950 m, which it plans to complete by the end of next month

Mbuyelo Group intends to increase coal production across all its mines to ten-million tons over the next three to five years, from the current production of about six-million tons a year in total.

The privately owned mining, logistics, contracting, property and farming enterprise group's coal mining subsidiary, Mbuyelo Coal, is also planning to list on the JSE in the "near future". The company's flagship project is the Manungu colliery, in Delmas, Mpumalanga.

During a visit to the mine last month, Mbuyelo Coal COO **Hentie Hoffmann** informed *Mining Weekly* that Manungu, which has 250-million tons of mineable coal reserves, produces about 1.6-million tons of coal a year which is sold to State-owned power utility Eskom, with which it has a 15-year supply contract. The mine is expected to produce three-million tons by 2018, which has already been contracted to be sold to Eskom.

Manungu is an opencast mine with a life span of at least 30 years that uses traditional truck-and-shovel mining methods from a single 750-m-long pit. Surface services provider Trollope Mining Services is the mine's contractor and mining services and construction company Fraser Alexander operates the crushing plant. The two companies employ most of the 458 employees at the mine, with 25 being directly employed by Mbuyelo Coal.

Although the Mbuyelo mining right covers 5 000 ha, the mine currently operates on only 600 ha, which provides it with "significant expansion opportunities" and mine life extension opportunities, "if market conditions are favourable enough".

The company is expanding the Manungu boxcut by 200 m to 950 m, which it plans to complete by the end of next month. "This will provide us with more flexibility and space to operate," said Hoffmann.

The company also owns the Vlakvarkfontein colliery, in Delmas. Hoffmann remarked that it was previously a joint venture (JV) operation between Mbuyelo and South Africa-focused coal miner Continental Coal; however, the company bought Continental's shares in the project in September 2015 to own the mine outright.

The mine produces 1.2-million tons of coal a year, which it sells to Eskom. Vlakvarkfontein is a 100 ha opencast mine that uses truck-and-shovel mining methods, with 3.5 years of mining life remaining. The mine has been in production since May 2010. Trollope also operates the mine, as well as its crushing and screening plant. The mine employs 136 people, of whom 17 are directly employed by Mbuyelo Coal.

Burgeoning Project Portfolio

The company's 50:50 JV with local coal miner Muhanga Mines – Welgemeend colliery – is located in the Chief Albert Luthuli local municipality, in Mpumalanga. Hoffmann commented that the 2 500 ha mine was producing 140 000 t/m of coal and was expected to produce 1.6-million tons a year. Welgemeend employs 600 people, of whom 60 are directly employed by Mbuyelo Coal.

It is currently an opencast mine using truck-and-shovel mining methods. However, the company intends to start construction of a shallow, 90 m underground section at the mine in the first quarter of 2017 and bring it into production by July next year.

Hoffmann explained the establishment of the underground section at the mine would not necessarily increase output, but would instead balance the operation to ensure that underground deposits were not left to be mined towards only the end of the life-of-mine (LoM). The opencast section of the mine will remain in operation and produce about 80% of the colliery's coal, while the underground section will produce the remaining 20%.

Muhanga is responsible for conducting mining operations at the colliery. Welgemeend came on stream in June 2015 and has an expected life span of 15 years. However, Hoffmann said the company was undertaking exploration work on land adjacent to the mine to establish if it would be suitable to potentially extend the project's life span.

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"Commodity markets range from neutral to significantly oversupplied. Significant overcapacity exists, depressing prices," he said.

Baxter added that commodity pricing outlook risks remained on the downside and that the global mining industry was under significant pressure.

He noted that, in 2015/16, the top 40 mining companies experienced commodity prices that continued to fall, as demand slowed and oversupply emerged in some commodities.

Revenues fell by 21% to $539-billion, operational costs fell to $419-billion and impairments doubled to $53-billion.

"Mining companies focused on cost cutting, productivity improvement, capital discipline and adjustment [in that period]," he said.

Baxter further highlighted that South African mining sector costs had risen at a fast pace, while global companies had generally reduced costs.

"South Africa faces the same challenges as global mining markets but, at a global level, companies have managed to cut their costs. The top 40 mining companies were able to cut costs by $80-billion. In South Africa, there is lots of pressure on domestic costs," Baxter said. He pointed out that global and local focus areas included consolidation, capital discipline, reducing cost pressures, improving productivity and innovation drives.

JUNIOR MINERS

Signs of Life

Market cap of Canada-listed juniors up 100% year-on-year – PwC

HENRY LAZENBY | CREAMER MEDIA DEPUTY EDITOR: NORTH AMERICA

Junior mining companies make up more than 50% of the total market capitalisation on the TSX Venture Exchange, up from 36% on June 30, 2015, a new report by professional services firm PwC has found. As evidenced in PwC Canada's 2016 Junior Mine report, titled 'Signs of Life', cash flows from financing activities increased significantly and cash flows from debt and equity financing increased to 45% and 48% respectively over the 12-month period between June 2015 and June 2016.

"While the outlook is positive, it's too early to call it a recovery. For the past few years, executives have had to look at different and creative ways to allocate resources and capital.

"As investors renewed their interest in junior assets, we're now seeing market valuations close to what they were in 2012, which is encouraging," PwC Canada national mining leader **Liam Fitzgerald** stated.

According to the report, top junior mining companies on the TSX-V have seen a rise in market capitalisation of more than 100%, compared with last year. There are about 1 000 mining issuers on the TSX-V, with the top 100 accounting for about two-thirds of the sector's market value.

The market capitalisation of these top 100 surged 138% to C$11.4-billion at the end of June, up from just C$4.8-billion a year earlier.

Meanwhile, political and economic uncertainty around the globe provided some relief to junior mining companies by inflating the price of gold by as much as 22% by midyear. Gold is a key asset for each of the top five juniors, with the exception of the top company, NexGen Energy, which focuses on uranium exploration.

Importantly, two members of the group progressed beyond the TSX-V in July this year, with NexGen graduating to the TSX and Kaminak Gold being acquired by Goldcorp for C$520-million, PwC stated.

According to PwC, the breakdown of where the top companies sit in the mining life cycle remained mostly unchanged from the prior year, with most companies at the exploration and evaluation stage, followed by development- and production-stage entities. But PwC pointed out that the different market valuation gains for each category were noteworthy.

According to the report, the 63 exploration companies led the way, rising by 154% as a group, suggesting that investors saw the biggest opportunity in greenfield projects. The 25 issuers focused on the development stage enjoyed a 124% gain and the 12 production companies rose 67%. PwC also warns mining companies that there is no room for complacency.

"The mining sector is moving in the right direction but executives must continue to remain cautious. By managing risk in this volatile market, they can focus on new project pipelines and investigate new opportunities for mining in locations like Nova Scotia," adds Fitzgerald.

The report highlights important areas to watch for, noting that it seems markets are rewarding companies run by experienced mining executives who have demonstrated creative leadership and an agile approach to capital allocation, putting these organisations in a strong position to ride any recovery.

While investors are clearly more enthusiastic about gold's future these days, a key question is capital allocation. Many made significant cuts to survive the downturn and the long-term effects of that belt tightening remain unclear, PwC warns. The market is now watching to see when and how these companies will begin to spend money again.

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The breakdown of the mine's coal supply arrangements are as follows: 17% is supplied to the local pea market and 3.6% is sold to the local small nuts market. Another 11% comprises washed duff, which is sold to the export market through the privately owned Richards Bay Coal Terminal, in KwaZulu-Natal, in terms of the Quattro programme. The programme facilitates the access of junior black economic-empowerment coal producers to the coal export market. The remaining 68% of the mine's coal is sold to Eskom.

"This project has significant potential, as it provides us with access to the export market, which will be fully realised when export prices improve," Hoffmann enthused.

Mbuyelo has acquired a mining right, a water-use licence (WUL) and environmental authorisation for the Welstand colliery, which is located in the town of Kriel, in Mpumalanga. However, Hoffmann said the company planned to amend the WUL, as the original licence did not provide for a wash plant and Mbuyelo had decided that it wanted to wash the coal at the mine.

The colliery has an estimated resource of 19.2-million run-of-mine tons of coal and Hoffmann expects the mine to be brought into production over the next two years. "Welstand will comprise underground (70% of output) and opencast (30% of output) operations," he said.

Mbuyelo Group also operates the Rirhandzu colliery, in the Victor Khanye local municipality, in Mpumalanga. This operation does not fall under the umbrella of Mbuyelo Coal and is managed by the group directly. The mine is an openpit operation with an estimated LoM of eight years and produces 1.2-million tons of coal a year, which it sells to Eskom.

To watch a video in which Mbuyelo Coal COO Hentie Hoffmann discusses the company's operations and future ambitions, scan the barcode with your phone's QR reader, or go to Video Reports on www.miningweekly.com.

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