

HD Take-or-pay contracts hurting Yancoal as coal prices slump

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'Yancoal has substantial port and rail capacity.'

Another Australian coalminer has revealed it is suffering under its "take-or-pay" rail and port contracts, with Yancoal conceding it took on far more rail capacity in the boom times than it needs today. Yancoal's admission comes after revelations by Fairfax Media that numerous Australian coalmines are operating at a loss because fixed rail and port contracts would impose much greater losses on the owners if the mines were closed. The trend is exacerbating the malaise in the coal sector, which is struggling under high costs and depressed prices for thermal and coking coal.

According to Yancoal's annual report, the Chinese-controlled coalminer had a \$61.5million liability for its take-or-pay contracts at December 31. Yancoal, formed through the consolidation of Felix Resources, Gloucester Coal and Donaldson Coal, indicated it was tied to take- or-pay contracts at port and rail level in NSW and Queensland. "Yancoal and its predecessor businesses made significant contractual commitments to ensure long-term strategic access to the coal chain," the company said. "Yancoal has substantial port and rail capacity contracted from 2014 to 2018, well in excess of the planned production profile."

Anglo American has also bemoaned the impact of take-or-pay deals on the industry and warned it could be more than a year before some of those contracts expired. Most Australian coalminers are believed to have at least some take- or-pay commitments, and Yancoal hinted the problem was common. "There is both a short-term and a long-term focus in reducing Yancoal's port and rail excess, however, with most coal suppliers holding

contracts in excess to requirements, potential for avoidance of take-or-pay is very limited," it said. BHP Billiton coal president Dean Dalla Valle said recently his company was comfortable with its take- or-pay exposure. "We are managing all our contracts to our capacities quite well," he said. Yancoal spokesman Greg Foulis said the planned expansion of a thermal coalmine in NSW within the next one or two years would help offset the problem. "Part of our long-term strategy at Yancoal is to grow production at the Moolarben mine, which will in turn take up some of that unused take-or-pay capacity," he said. The Moolarben expansion could

be granted final approval as early as 2015 if all approvals are obtained. A sizeable proportion of Yancoal's take-or-pay liability stems from the 2012 acquisition of ASX- listed Gloucester Coal, which was completed when thermal coal prices were about 25 per cent higher than today and coking coal prices were close to double today's price. Yancoal made an \$832 million loss in the year to December 31, and Yancoal shares were steady at 40½ on Monday. Yancoal's major shareholder, Yanzhou Coal, of China, recently sought to take the company private in a bid to stem its losses, but was thwarted by fellow shareholder Noble Group.

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CO cenim : Gloucester Coal Ltd | mkthra : Felix Resources Ltd | yaptyl : Yancoal Australia Limited | yankua : Yankuang (Group) Corp | ynzmn : Yanzhou Coal Mining Co Ltd

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