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HD **Consmin Q2 manganese ore output up, TMI exits offtake deal**

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Manganese ore production from Consolidated Minerals' Australian and Ghanaian operations rose 1% year on year to 870,800 mt in the April-June quarter, the Australian miner said August 29.

Consmin shipped a total of 868,000 mt of manganese ore in Q2, up 4% year on year, the company said. Q2 shipments from Australia increased 28% year on year to 421,000 mt, while shipments from Ghana fell 12% over the same period to 446,000 mt.

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Consmin said the Ghana decline was due to the impact of inclement weather on new transshipping operations, which started in open waters off Takoradi port in February.

Consmin said it continues to ship product to customers in China, Ukraine, India, South Korea, Norway and Vietnam. But the company also revealed that its key Chinese customer, Ningxia Tianyuan Manganese Industry, has withdrawn from a long-term manganese ore offtake deal.

Consmin said in its quarterly results statement it had recently received notification from TMI — China's largest electrolytic manganese metal producer — "that as a result of fundamental operational issues they will be unable to continue to perform on the long-term offtake agreement."

TMI informed Consmin that it would be unable to continue to perform on the long-term contract "due to operational difficulties it has experienced with its newly constructed EMM production lines," the company said, adding: "Initially the disruption was considered to be temporary but later it was found to be a longer-term issue."

TMI had constructed four additional EMM lines to substantially increase its production; the lines were fully completed by the end of November 2013, with production expected to begin the following month, Consmin said. But the additional lines were not made operational until June 2014, due to a six-month delay in connecting them to the national grid by the provincial government.

"Shortly after these lines began running, their transformers began failing and in early August only a small proportion of the new capacity was operational. As a result of the delays manganese ore consumption was far below planned levels and TMI's stockpiles grew and currently significantly exceed their updated expected future needs," it added.

TMI's creditors have forced the company to reduce its manganese ore stocks and get its new lines fully operational before financing the purchase of any more manganese ore — a process which may take up to two years, Consmin said.

TMI's withdrawal from the 10-year offtake deal has resulted in a termination event and a termination letter has been issued to TMI to protect Consmin's position, the company said, adding that it has also issued instruction to its bank to draw on the \$50 million standby letter of credit to offset the damages that it will suffer as a result of the early termination of the offtake agreement.

"Ongoing conciliatory discussions are being held between the parties in order to resolve this matter," Consmin CFO David Slater said in the company's quarterly results announcement.

The termination of the agreement is credit negative for Consmin "because TMI was its single-largest customer, and its loss will materially affect the **company**'s financial performance at least through the rest of this year," ratings agency Moody's said September 1.

The size of the loss of revenue and EBITDA from the termination "is difficult to quantify because it depends on factors such as how quickly the **company** can find alternative customers for such large volumes, and the actual terms of any new offtake agreements," Moody's said.

"We expect that it will take several months for Consmin to find suitable replacement customers, because other existing or new EMM customers outside of **China** generally have more modest needs than TMI, which was Consmin's exclusive customer in **China** for its Ghanaian manganese **ore**," the agency added.

Announcing the deal in July 2013, Consmin said the agreement covered around two-thirds of production from its Ghanaian mine and gave both companies "security to continue planned expansions while pursuing further production efficiency."

Consmin's search for a new EMM customer "will be challenging because **China**'s business environment for EMM producers has worsened in the past six months, as reflected by manganese **ore** stocks at main **Chinese** ports that totalled 3.34 **million** mt at the end of June, a 680,000 mt increase from the beginning of the year," Moody's suggested.

In the absence of new large EMM customers, "the **company** will likely need to reduce its production and sales target from its Ghanaian mine for the rest of the year, which would **lead** to an increase in its **mining** cash cost per tonne," the agency said.

Consmin produced manganese **ore** at a cost of \$2.46/dmtu in Q2, the same as Q2 2013.

The **company** received an average Q2 price for its manganese **ore** of \$4.80/dmtu for 46% Mn CIF **China**, down 15% from \$5.67/dmtu in Q1. That compares with a global average price for Q2 of \$4.43/dmtu for 44% Mn, CIF **China**, down 13% from \$5.08/dmtu in Q1, it said.

Consmin said demand and market sentiment for manganese **ore** from **China** continued to soften in Q2 due to tighter credit and environmental measures, including the forced idling of some steel mills, which dampened economic activity.

"Pricing weakness in the alloy market has led to many manganese **ore** producers scaling back **ore** purchases in favor of using up stocks and buying to cover only short-term requirements," it said. "However, despite increasing port stocks throughout the quarter manganese **ore** prices seem to have stabilized and have remained at this level into the third quarter."

Consmin said it expects to receive an average price of around \$4.60-4.65/dmtu for its manganese **ore** in Q3.

Consmin produces manganese **ore** from its Woodie Woodie mine in the Pilbara, Western Australia, and at the GMC mine in the western region of Ghana.

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