

# **African Rainbow Minerals Limited (AFBOF) Q4 2024 Earnings Call Transcript**

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African Rainbow Minerals Limited (AFBOF)

Q4 2024 Results Conference Call

September 06, 2024 05:00 AM ET

Company Participants

Tsundzukani Mhlanga - Finance Director

Patrice Motsepe - Executive Chairman

Phillip Tobias - Chief Executive Officer

Andre Joubert - Chief Executive, ARM Ferrous

Michael Schmidt - Board of Directors

Thando Mkatshana - Chief Executive, ARM Platinum

Conference Call Participants

Martin Creamer - Mining Weekly

Leroy Mnguni - HSBC

Tim Clark - SBG Securities

Lisa Steyn - News24

Shilan Modi - HSBC

Brian Morgan - RMB I Morgan Stanley

Presentation

Tsundzukani Mhlanga

Good morning, ladies and gentlemen, and thank you for joining us today for this presentation of the African Rainbow Minerals results for the financial year ended 30 June, 2024. Please note, this is a hybrid presentation. So, we have people joining us online via webcast, and we also have people joining us in person. Thank you very much. [Operator Instructions]. Without further ado, I would like to hand over to the ARM Executive Chairman, Dr. Patrice Motsepe, to take us through the results. Thank you.

Patrice Motsepe

Thank you so much. Let me start by thanking everybody who's here. It's a great honor and a privilege to have you and a very particular thanks to our partners. I'm told that the Finance Director from Tsundzukani, yes -- so wonderful to see you. The women are usually better, smarter, that's what my mother said, and she was 100% correct. We are honored to have you. Pass my regards to Des and to Patrick. And we've got a partnership that we are deeply committed to and privileged to have. Thank you so much. And all the other partners, Anglo Platinum, Impala and [indiscernible] as well.

So, you've got -- and of course, Bongani and Pitsi, our Board members, thank you so much. And the management team from ARM, I'm so proud of the excellent work and the excellent leadership that Phillip is providing. And it's during these times when the businesses that we're involved in are very cyclical and at times, volatile that you want to make sure that young men like Mike Schmidt, our former CEO, you keep on to them and every other one of the management team that we have that's world-class. Any company is only as good as the quality of the management and the people we have to -- we have honor to work with. Thank you so much, Mike, Andre thank you for [indiscernible] and the management team, everybody, Imrhan -- where is Jacques -- Imrhan, Jacques, Derrick, excellent there. And [indiscernible] as well and [indiscernible]. I can spend the next 30 minutes mentioning names, but thank you so much. You are the people who make this company a world-class company. Michelle, where's [indiscernible]?

Okay. So, this is going to be a quick presentation. You've got the booklets. I'm just going to highlight a few very important things. But the three points I want to start off with is to overemphasize, we've now been -- we took over F1 [ph], I think, more than 20 years ago. And before that, we started with ARM Gold and we merged ARM Gold with Harmony. I'm very proud of how Harmony has grown as the results. And we've had a -- we continue to have a commitment. And it makes me happy when many of the shareholders over the last 20, I don't know, 22, 23 years since the merger have emphasized that not just the ARM shareholding, but the historic merger. When we merged ARM Gold and Harmony, they wanted to call it Harmony ARM Gold, and I said, don't do that.

Just call it Harmony. And in the middle of Harmony put ARM to show the historic link. And some of our shareholders were saying, what are we doing with great share price and the copper in Harmony? I think in the future there will be a question mark whether in the context of the importance of copper long term. And you'll also see that we've been to Canada and are looking at opportunities there.

But the bottom line is tomorrow, the Springboks will be playing the All Blacks and all of us know who's -- all of us knows who's going to win. And at the end of the match, it is the results. I'm going to fetch a glass there. I'm worried that Tsu will say I'm expropriating a glass and she'll say compensation. We don't have time for. You're not going to expropriate it without compensation. So, the point I'm going to raise is that again, talking about the Springboks and the All Blacks, it's about results -- results, results, results. You have to win. You've got to win. You've got to win. Shareholders buy ARM shares, and we've got a clear understanding. We've got to win. We've got to win. We've got to win. We've got to deliver good results. We've got to deliver good results.

The critical thing is we're in a long-term business. And when the good times come -- Derrick, so good to see you. Thanks for the good work. When the -- and Tsu, thank you so much. Thank you so much for your leadership. When the good times are with us, you've got to invest in the future, save for the challenging times. The global market is going through a very challenging time right now. Africa is in China. They've been looking at China, discussions in China. China is going through a difficult period. It has an impact, not just on the commodities that we produce and sell, but also on the prices of the commodities.

And so, you will see from the results, that headline earnings, dividends and various other indicators, in line with mining companies all over the world, have gone down. But for us, I said this 25 years ago, 20 years ago, 15 years ago, and I'll say it for as long as I'm Executive Chairman of African Rainbow Minerals, these are times that creates opportunities for those who have been there long enough. And we are confident, very confident that in the medium to long term, prices will stabilize.

Well, you will see from what Phillip is saying, there's a huge focus on costs, there's a huge focus on efficiencies. And there's also a huge focus because when prices are down, and you've got the capacity to increase volumes, it has an impact on your profitability. So Tsu started off by saying that she wants to highlight this headline earnings for the financial year 2024. Martin Creamer, good to see you. You are becoming younger and younger and younger.

It's very good, very proud South African. So, headline earnings decreased by 43% to R$5.1 billion. You see the gap between last year. If you look most roughly 5 years, 6 years, before that, you'll see that the R$5.1 billion is much higher than what it may have been 6 years, 7 years ago. We are very clear in terms of our global competitiveness, the commitment to continue paying a competitive dividend because shareholders buy ARM shares for -- of course, because we have to compete with all the others, but the bottom line is the sort of value that they receive from ARM. So, dividend is very important. Our financial position remained robust with R$7.4 billion in the bank. So that's very, very important, okay? Back. Next.

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Okay. Disclaimer. There's wonderful staff members. And just as a repetition of what I said, ARM Ferrous, 9% down to 5.1%. ARM Platinum -- this is the whole issue of – what is the future of platinum look like. And as I said, we have to take a 3- year, 5- year, 7- year, 10-year perspective. And we remain confident. We -- I -- a week ago, I was at the Hamptons in America with some of the top CEOs in the world and also some of the top politicians in the world and they talk about what's happening with China. But in the context of platinum, China in terms of its importance in global trade. But for us, in platinum, the whole emphasis on climate change and CO2 emissions and reduction of those CO2 emissions, the hydrogen economy, so we look carefully at what our partners are saying, Anglo Platinum and Impala in the context of our investments in platinum because we were in Lubambe in copper, about 10, 12 years ago.

And we had a partnership with Vale, world-class ore body. But for a period of 2 years to 3 years, the prices went down enormously. So, copper is a commodity for the future. We have confidence that our PGMs will be part of that suite because there isn't any single commodity that will be able to make a significant contribution. The hydrogen economy, green hydrogen, blue hydrogen.

There has never been a more realistic assessment of the transition to a global economy where all the cars are electric vehicles. There were some ambitious targets that were set about 2 years, 3 years, 4 years ago. And there is now a much more realistic assessment that the transition is going to take a little bit longer. The objective initially was by 2030. I know California passed the law and the thinking was there would only be electric vehicles in California. And Europe also took a very aggressive lineup. Now we are deeply committed to climate change, to initiatives that reduce climate change, deeply committed to making sure that we make a contribution to significantly reducing emissions.

Anybody who doesn't take cognizance of the challenges of climate change is not just unrealistic, lives in another world. But we also have a duty in terms of job creation, in terms of the livelihoods of our people, that the transition must be a responsible transition. And I think there's greater consensus now worldwide in terms of the tempo and the momentum. And from an ARM perspective, it creates exciting opportunities for us in PGMs and we got R$391 million from our investment in coal, and it's a great opportunity for us. Dividends per share, the slide is self-explanatory, R$9. You want to say $9, Tsu? R$9, okay. R$9 per share. Phillip wants to make it EUR9, but let's stay with R$9 per share.

And the dividends we received, R$5 billion from Yes Bank. And you see that the dividends in ARM Coal went down by 29% to b R$422 million and the dividends from Two Rivers in comparison with last year, it's 100% downwards. I mean, last year, we received R$486 million. And Harmony paid a dividend of R$166 million, which is good in comparison with the R$17 million. And of course, Harmony sitting on a lot of cash. But it also has huge growth projects. And if you look at the segmental EBITDA split by commodity, last year, the contribution of iron ore was significantly less than what it is this year. This is when your diversified portfolio comes into play and is hugely beneficial. But it also indicates that if you look at platinum's contribution in terms of the segmental EBITDA, in 2022, it was 42%.

It went down to 36%. And yes, in the future, we think the contribution of PGMs will be significant. And iron ore is going through challenges in the short term. We were told that even though the Chinese economy has got challenges in the short term, but in the medium term there will be strategies to try and resuscitate because there's hundreds of millions of people that have to be brought out of poverty. Our safety indicators are self-explanatory, 19% decrease in lost time injury frequency rate. We unfortunately had one fatality. That is one fatality too many. We want zero harm, zero fatalities. And the commitment in that regard is as strong as it has always been. And 19% reduction in the total recordable injury frequency rate.

Black Rock Mine achieved 12 million fatality-free shifts over 15 years. Modikwa achieved 3 million fatality-free shifts over 2 years. Excellent. Our commitment, as I said, the carbon emissions, 5% decrease in carbon emissions and 4% reduction in the water -- the withdrawal of the extraction of water. And I think the key thing for us is that ARM Ferrous Northern Cape mining operations have different feasibility study for solar.

We look at how the impact of solar from a cost perspective, how that will impact have a hugely positive contribution to reducing our costs, but also in the process contribute to profitability and also diminish our dependence on what has happened in Eskom over the last few years. It's good that we haven't had load shedding. But it just indicates the world-class nature of the CEOs we have in this country. We've got a problem with Eskom. We've got a problem with electricity.

And this requires innovation and creativity to make sure that we continue with our operations. And a lot of good work has been done, diminished dependence on Eskom. Eskom will always have a role to play in. But in the medium to long term, we will be significantly have a significant portion of our electricity being from this partnership that we've established for renewables for solar, the solar partnership with both. And the strategy slide is self-explanatory.

At the heart of this is what distinguishes us, what makes us different from our competition. We operate. We have a management skill and the culture, and that's why we recruit the smartest and the best, both young and those who are not so young. We are entrepreneurial, which is very important. And we are privileged to have a world-class management team, but also world-class employee workforce. And part of our duty is to make sure that every single employee of the tens of thousands of employees that work at ARM believe that this is the best company in the country and in the world that they should work for. We've got a huge duty and a commitment to our -- to the communities that are neighboring our mines and we make significant contributions to their development and growth.

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And the whole role of technology is something that we're intensely involved in because there's some exciting innovation, really world-class innovation that is taking place within ARM, and we will make announcements in that regard in due course.

Phillip Tobias will now come in, our CEO. Can we clap hands for our CEO?

Phillip Tobias

Welcome to all attendees. Those attending in person and also online. And also, just to say thank you very much, Chair. And a special welcome to our Board members, our JV partners and also the executive leadership team and operational management. Good morning.

Just taking you through the production performance. Production volumes at Modikwa and our iron ore operations were largely flat. We can see just a 2% improvement year-on-year on the iron ore side. And then on the platinum side, very flat. Manganese ore production was down 15% due to some operational challenges at two new shaft. And I think during the previous results, we did comprehensively give the details of what challenges we are faced with. Pleased to mention that we have really had a turnaround intervention plan, and that plan is really on track. We are now on track getting back to the levels where we ought to be in terms of performance.

On the manganese alloy, production down 10% as a result of the soft market demand. Iron ore division, headline earning as a percentage in terms of the total headline earnings amounts to about 97%. The Executive Chair has already mentioned, I mean, we see the importance and the impact of a diversified portfolio. When some of the commodities are on the lower side, then you have something that can really come in and still have a positive contribution.

Cost reduction remains our key focus, and we're making progress in that. We remain focused in terms of enhancing quality, mining, in terms of making sure that we increase and improve our volumes, improve our mining rates and reduce our waste dilution, and we'll talk to that when we get to the detailed slides. ARM Ferrous headline earnings were 9% lower, driven by a 90% decrease in headline earnings in the manganese division. This was partially offset by 19% increase in headline earnings in the iron ore division.

Headline earnings in the iron ore division were largely driven by an increase in the average realized iron ore prices, slightly higher sales volumes and the weaker rand did also play a positive contribution to our bottom line. Lower headline earnings in manganese iron ore were mainly driven by decrease in the average realized U.S. dollar manganese ore prices and increased railage tariffs. Lower headline earnings in manganese alloys were driven by lower sales volumes due to lower demand.

And that is basically reflected in summary on this slide, as you look at our variance slide, you see the impact of the lower prices, on the PGMs and also on the coal side. We remain committed to improving grade so that we can have a positive impact on the ounce production and also on our volumes that we produce. The key focus areas for us is to improve the quality of mining, as I mentioned earlier, is to continue to optimize mining grades and volumes so that we can really improve our profitability, and hence -- and also our margins as well.

The summary of the EBITDA margin slide. You can really see the negative impact that the prices had, and also just to see the contribution that iron ore had. I mean, year-on-year, almost stable performance and contribution on the iron ore production. And you can see the regression that we had on the PGMs and coals as a result of the basket prices.

Just dialing dip into the ARM Ferrous. The top left variance analysis, you can see the decrease in USD prices, which were offset by a weaker rand and something that basically had was a challenge is the cost of sales. And as I mentioned, we have put plans in place, and we are addressing the issues of the cost so that we can really continue to optimize on our margins. Production volumes at Black Rock Mine, as I mentioned earlier, we had a 15% reduction due to those operational challenges at [indiscernible]. And also, we really had to make certain decisions, production decisions, stopped producing unprofitable ore. Unit cash cost increased by 20% on the manganese side. Can you just move to the next slide?

Our unit cost increased by 20%. I mean, over the past 2 years, 3 years, Black Rock have really been doing well in as far as the costs were concerned. But as I said, because of the operational challenges, that had the subsequent impact on the unit cost. Looking at our iron ore business. Khumani as our Tier 1 asset with 20 years remaining high life and high-quality grade ore body with a low stripping ratio has really continued to carry this business. I mean, total sales were up 4% when compared to 2023. Export iron ore volumes increased from just below 12 million tonnes to 12.2 million tonnes, an improvement of 2% when compared to the previous financial year.

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World-class safety stats that we achieved and especially at Khumani with 6 million fatality-free shifts over approximately period of 9 years. Various cost-saving initiatives are being considered. Strategic sourcing is one of the initiatives that we're pursuing and really looking at and also centralized procurement. The biggest risk that we have set to our operation -- iron ore operation is that the single customer risk at Beeshoek, we still experience from time to time, the water challenges. However, I need to mention that with measures and intentions that we've really put in place, we have not really had negative impact over the past 6 months.

So, we continue to work on that. And the logistics constraint, we're engaging with a new leadership at Transnet. We still have challenges, but we do believe that through collaboration, we can really improve the situation. And we have really had an intervention where the -- was going to really be -- take about 10 weeks to repair. And because of the operators came together in collaboration with Transnet, we were able to reduce that by 4 weeks. So that really communicate that message that we are strategic partners, we need to get involved and really influence also the performance of TRF.

On the manganese side, just on the positive side, Black Rock Mine achieved 12 million fatality-free shifts over approximately 16 years. And as I mentioned that we did have some operational challenges. This mine, we've really invested a good capital in it. It has an installed capacity of 4.5 million tonnes. We can be able to ramp it up at really aligning our resourcing and all that. So, we do have potential but we can really unlock on that. Export sales, volumes of 3.7 million tonnes, mainly driven by roll-overship from the previous financial year. Various cost saving initiatives are ongoing at this mine, as I mentioned that we had a 20% regression year-on-year.

But there are measures that we have put in place to make sure that we turn that situation around. Manganese alloys' challenging sector with long winters and short summers, but the forecast remains on improving efficiencies and reducing cost. High-carbon manganese alloy unit cost at Sakura decreased by 12%, mainly due to a 23% increase, and then also Sakura is positioned in the first quartile. I mean this is a Tier 1 asset. However, with that being the case, we still have some challenges because of where the market is in terms of demand and supply, but it's a Tier 1 asset, and it has a low cost -- it isn't a cost -- low-cost capacity.

Going into the PGM space. When we look at the variance analysis, you can see the impact of the price -- the PGM basket price. I mean, we had approximately 33% drop year-on-year on the PGM basket price. But we remain focused on great improvement and increased volume, which will have a positive impact on the unit cost and also focusing on factors within our control. You'll remember that over the past reporting period, we had some few challenges with -- great challenges at Modikwa. Strategic decisions were made. We converted basically from an on-reef development into off-reef offer development. And subsequent to that, we've seen an improvement on the grade. So, we continue to focus on the quality and making sure that we do minimize the negative impact of the price. An improvement in head grade, as I mentioned, attributed to the on-reef development at Modikwa.

The UG2 volumes were reduced due to negotiating of the dikes, restricting flexibility, and Merensky ore was used to fill up the UG2 plant Two Rivers Platinum Mine. I mean, we've intersected some geological features, the dikes and the faults, and then we basically had to negotiate that and, in the process, had a stockpile over 700 tonnes of Merensky ore, and we were able to use that to make sure that the plant was run full.

Bokoni's fast PGMs were produced in November '23. For this year, it actually contributed 28,199 6E PGM ounces. During financial year 2024, ARM and Norilsk concluded a sales agreement, which provide for the acquisition of ARM of 50% of participation of Norilsk. The transaction is subject to certain conditions precedent. The main outstanding condition at this point in time is Section 11. Pleasing to mention that over the past few weeks, we received an unconditional approval of the Competition Tribunal to go ahead with this transaction. ARM will take over Norilsk proportionate share of obligations and liabilities relating to Khumani Mine asset together with those other environmental liabilities.

We continue to explore the options and at the right time, we'll come in to really share what our intentions are, what our strategy is about Khumani. It's a critical mineral. It's something that we'd like to have in our table, we have it, and we make sure that we make it work into the future.

Going into the coal. We also can see on the variance analysis as well, as I mentioned, the impact of the lower or reduced basket prices.

However, looking at things that are within our control in that business, you can see the excellent work that has been done on the cost control side. I mean, below inflationary -- actually 1% improvement on the PCB side and also 4% improvement on that. So, we have also seen increased volumes sales at the back of trucking that was actually excited because we have seen the price really hovering above $110 a tonne. So, we took advantage of that, and we really commend management for that response and positive reaction. Domestic sales volumes improved by 31% due to increase in coal sales at Eskom.

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On-mine unit production cost per sale improved in F 2024, largely due to improved sales production volumes. And also, as I mentioned, the forecast on the cost controls and cost initiatives as well. Going into the project as a slide, Two Rivers Merensky project, just an update. I mean a decision was made to put it on care and maintenance from July. This was driven by the current downward cycle in the PGM market.

The Merensky concentrator was completed. It underwent the C3 commissioning, basically is trigger-ready. -- should the cycle already can as we expect into the future, we'll be able to restart that really ramp up to full production.

So, the future restart of the Two Rivers Merensky project will be evaluated when the PGM prices have recovered. With regard to our Bokoni Platinum Mine, the current priority is to conserve cash whilst ramping up production in a phased and measured manner, considering all the depressed community prices and taking all those capital allocation decision into account.

Additionally, we are exploring a very accretive opportunity such as a chrome recovery option plant. And subsequent to the year-end, the construction of the chrome recovery plant was approved. So, we're currently doing the detailed design. And at the beginning of next year, we'll really be starting with the construction of that. Taking advantage of where the chrome prices are, we do believe that will enhance our basket price by at least 10% into the future.

Investment in Surge Copper. We have communicated our desire to really have copper back in our table. The Executive Chairman has already mentioned the strategic investment in Harmony, especially with those strategic projects, the Eva and the Wafi-Golpu. And we did basically vocally say that we would like to really get back into copper. So, we've explored. We have really explored an opportunity at Copper Surge, which -- and where we basically invest that 15% in that company, which by 31 May 2024.

Surge is a Canadian company that owns a large contiguous mineral chain, packaged with resources, such copper, molybdenum, gold and silver. And the positive thing as well is that it is in a Tier 1 jurisdiction. So, it's a critical mineral. It's something that we had before. I mean the Chairman mentioned earlier, and we really like to follow the story all the way up to the end. We'll continue to follow it, make necessary review and in the long term, make the strategic investment decision in that.

With regard to Harmony, it is a strategic investment that aligns with ARM Copper objectives. I've spoken to the copper project Eva in Australia and also the Wafi-Golpu project in Papa New Guinea. So, Harmony is currently in a very favorable position to pursue their growth ambitions. They've really delivered excellent set of results yesterday. So, ARM's current -- ARM Board believes that it is in the best interest to retain the quality interest in -- to retain our equity in Harmony, and to really follow and see them really realize and unlock even further value with their projects.

In terms of our key focus areas, with all that we are faced with, even as we go through these challenging times, we're still very optimistic about the future. It's a mining industry. It's a long-term game, and we do go through seasons. We do go through cycles. And during the long, we also have to make those wise investment decisions that will really realize higher return on investment at the right place.

So, we need to continue to ensure that our operations are globally competitive and profitable, taking decisive actions for loss-making operations within our portfolio. An example of that was to basically put the Merensky Two Rivers project on care and maintenance subject to review at the right time. Value-accretive opportunities that are being explored. I've already mentioned to you the copper recovery plant go ahead that has been given for Bokoni Platinum Mine. Focus on revenue optimization and cost control through supply chain management. I mean we've really just installed a very useful tool in our businesses, the IT tool called COUPA, which basically helps our staff to look at opportunities when they do procurement. And today, we have really seen some good savings in that.

So, we'll continue to look at those value-enhancing opportunities. Optimizing workforce productivity through training and performance incentives, making sure that we create enabling environment for our employees. Because one thing that we know is that when we enable them, they perform to exceptional levels. And it's our responsibility as executive leadership and management to create those operational conditions.

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Tailings and waste repurposing, we're looking at those options, making sure that we can really enhance potential revenue out of those that we already have. Investing in automation technologies, for example, narrow reef equipment. Pleasing to mention that our narrow reef equipment and Bokoni went underground last month, and they took the first blast last week. So, these are things that we are doing, looking into the future with new technology and making sure that we embrace it so that it can really improve our performance. Maintaining a robust balance sheet.

The current priority is to conserve cash, maintain and run our current portfolio of assets profitably, review the allocation of funds for capital expenditure, be the expansion or stay in business CapEx.

Aligning production capacity to logistics and infrastructure constraint, good communication and engagement with new leadership focusing on improvement in performance, especially at TRP because they're very key strategic partners to us. And as I said, there is that ongoing engagement with them. We are progressing on the independent technical assessment to determine the actions required to addressing the deteriorating performance. I mean, pleasing to mention that an independent assessor was appointed by TRF to do the analysis. And they came back with the findings, and those findings were basically communicated to the industry with -- especially with all user's forum, which is on the iron ore line.

So, the current plan is to put in action, measures, to really address those things. We must mention that there are challenges that are time dependent, but we do believe that the collaboration, we'll be able to address those issues. Structure and resource, our operations appropriately, make sure that it will fit for purpose. We know that we really have a good installed capacity, but we need to really link the rail allocation also to our operational structures as well so that we can optimize our cost.

Ensure that our operations are aligned to all these external constraints and that we are able to -- we are agile and we're able to adapt through that. Exploring value-enhancing growth opportunities, explore growth opportunities underpinned by metrics that measure the sustainability of value creation for stakeholders. And I've mentioned that one of the examples is the chrome recovery plant and also investment in Surge Copper. So, we'll continue to look at these opportunities and make decisions in line with our investment, metrics, explore them and make sure that the right decisions are made and the correct capital allocation decisions are made in future investment. Thank you very much.

I will ask -- I'll hand over to Tsu.

Tsundzukani Mhlanga

Thank you very much, Phillip. So, in terms of capital allocation. So, in these challenging times, I think sound capital allocation is more important than ever. When we look at capital allocation within ARM, what we do is we prioritize investing in our existing business. It's a business we know. It's a business we're familiar with. I would almost say it's a lower risk in terms of opportunities where you can deploy capital. And by investing in our existing business, that's what we refer to as our stay-in business capital. Some people refer to it as our sustaining CapEx. So, we look at investing in our existing business, but we also look at growing our business and pursuing opportunities that make commercial sense to ARM.

So those, we look at a number of different metrics, including return on capital employed, payback period, risk-adjusted hurdle rates, and those are used to assess those opportunities and a big one is also affordability, obviously, and then seeing whether it's something that we wish to pursue. And also, in light of looking at metals of the future. This graph illustrates how we generated cash and how that cash was allocated during the year ended 30th June 2024. So, you will see that first -- or the second, the second column, we generated R$1.8 billion from our operations. If you compare this to the prior period, this was a decrease of 78% compared to the prior corresponding period.

So last year, that same amount was R$8.1 billion. And that really speaks to the significant decline that we saw particularly in our PGM prices. That R$1.8 billion cash generated also takes into account R$130 million increase in net working capital. If you look at our dividends received, you see that R$5.6 billion there. It is made up of the R$5 billion dividend that we received from S Bank, our S Bank JV, which is equal to the dividend that we received in the prior corresponding period.

We also received dividends, as Chairman mentioned in the section, of R$440 million as well as R$166 million from our ARM Coal business and our investment in the Harmony, respectively. If we look at how the cash that was generated, so the sources of funds, how they were applied during the year. You'll see that we paid tax of R$600 million. We invested R$6.3 billion in capital expenditure, and that was our largest outflow during the year. This was an increase of about R$1.8 billion year-on-year.

The majority of that spend was expansionary capital in nature, totaling R$4.7 billion, being mostly capital spent at Two Rivers for the Merensky project. In terms of dividends paid, we paid dividends totaling R$3.5 billion to the ARM shareholders during the period, which is 47% lower than the R$6.7 billion that was paid in the corresponding period. If we look at our net cash and debt, so total borrowings increased by R$887 million during the period to a balance of R$1.1 billion as of the end of June 2024. The increase was due to a revolving credit facility of R$1 billion that was taken out at Two Rivers for the purposes of funding the completion of the Merensky project. Despite that revolving credit facility, ARM still has a relatively low interest-bearing debt, I would say, relatively, and closed the year at a net cash to equity position of 12.4%.

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This morning, Assmang declared a dividend of R$5 billion, of which R$2.5 billion is attributable to ARM. That amount is not reflected in this table that you see before you. If we look at our segmental capital expenditure. So, the capital expenditure for the reporting period was covered by Phillip in quite a bit of detail in each of the division sections, but just some things that you can note on this slide. The segmental capital expenditure on an attributable basis of R$8.6 billion for the year under review, was R$1.4 billion up when compared to the prior corresponding period.

The majority of it, R$6.1 billion, was spent at ARM Platinum operations, R$2.2 billion at ARM Ferrous operations and only R$202 million at our ARM Coal operations. Now our ARM Ferrous capital expenditure includes capitalized waste stripping cost of about R$1.3 billion, that's 100% Assmang basis. In terms of CapEx -- sorry. Sorry. So, in terms of the guidance as well, so the guidance for F 2025 shows a decrease of R$925 million to R$4.7 billion relative to the R$5.6 billion that we have communicated last year September.

This reduction is due to the completion of the Two Rivers Merensky project. CapEx for F 2025 to F 2027 includes approximately R$3.5 billion of sustaining capital expenditure per annum on a normalized level, which includes between R$750 million and R$800 million per annum on an attributable basis of capitalized waste stripping for the iron ore operations. Thank you very much.

Question-and-Answer Session

A - Patrice Motsepe

All right. Good. We're going to take questions and the Mike -- sorry, Phillip and Mike and André and Tsu will be available for any questions that anybody may have. [Operator Instructions] Let's start with the young people. Martin Creamer is the youngest. Can we start with you? And so, we'll take a few questions here and then.

Martin Creamer

I'd just like to get some more insight into the chrome recovery plant. What motivated you to do that? I mean the prices are looking good. How much chrome do you expect to cover there? And this will keep going for a long time. Do you think the chrome has legs? And then the other thing I'd just get some more color as well on this narrow reef boring system that you are going to introduce. What do you think you'll get out of that?

Patrice Motsepe

Thank you. Phillip, you'll take the chrome. Mike, you'll take the narrow reef, okay? Next question? I saw a hand here. Yes? If you don't mind, just introduce yourself and the company that you come from here.

Unidentified Analyst

[indiscernible], Investec Bank. I'm going to focus on the PGM business, mainly because it had the biggest negative impact on your earnings. You have placed the Merensky project on care and maintenance, and not necessarily Bokoni. So, if you can talk to the rationale of actually placing Two Rivers Merensky on care and maintenance and not Bokoni, and specifically, speak to your anticipated profitability or cash flows out of Bokoni at the level of production that you have guided, which seems a bit constrained, especially if the PGM basket price has not improved in the next, say, 3 years? And then in terms of Two Rivers, at what basket price would you consider bringing the Merensky project back online?

That will help us in terms of looking at that project and knowing when are you -- when would you put the trigger should the basket price actually improve. If you can also guide on the costs on Two Rivers, now that you've placed it on care and maintenance, what does it actually do to the costs, especially in FY '25? Thank you.

Patrice Motsepe

Two Rivers is not on care and maintenance.

Unidentified Analyst

Two Rivers Merensky project, sorry.

Patrice Motsepe

Excellent. You must tell them you've got a very special surname, Matus, very special. You can take that Thando, the wonderful questions on Two Rivers, yes?

Unidentified Analyst

My name is [indiscernible] coming from Investec. So, I think I have got two questions. One is for Andre and then one is for Thando.

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Patrice Motsepe

Andre is saying he doesn't want any questions.

Unidentified Analyst

So, for your Beeshoek in FY '24, you issued an impairment of R$422 million, and your guidance for local sales, which fix your Beeshoek line is under pressure within the next 3 years. So how should we look at -- or think of the future of that operation? And then Thando, in relation to ARM Coal, your -- what you form your revised guidance, particularly in relation to your local sales volume over the next 3 years? For example, if you're looking at FY '25, your revised guidance is actually 30% more than what you previously guided for.

Patrice Motsepe

Thank you, Andre, [Foreign language]. And Thando, [Foreign Language]. Andre will -- Thando will answer the coal. Any more questions?

Leroy Mnguni

Leroy Mnguni from HSBC. I understand that your Harmony stake gives you diversification and future copper exposure and it's done really well for you. The challenge seems to be that, that benefit doesn't carry through to your earnings or your free cash flow for that matter. I think Harmony declared about a 1.4% dividend yesterday. So, would it not be more beneficial for you to monetize that stake and invest that capital into assets that you can control and can directly benefit in terms of earnings and free cash flow?

And then maybe just a follow on from Martin's question. It does seem like all your peers are looking to increase their chrome ore production as are you. Are there any concerns that the additional supply could collapse the price?

Patrice Motsepe

Excellent questions, very, very good questions. Starting with the Harmony question. Okay. I'll respond to the Harmony and I think on the chrome, you'll deal with those. Any other questions here? Yes. Let's give the ladies there. I saw a young lady, they raised their hands, and I'll come back to the gentleman here, give the lady there.

Unidentified Analyst

I'm Karien Jafta from High Rollers Trading with Professor Kruger. I just wanted to find out the elements that contributes to the high increase of cost of sale. If you can, percentage-wise, elaborate on what is the contributors? Thank you.

Patrice Motsepe

Andre, you want to help there?

Andre Joubert

Yes.

Patrice Motsepe

Okay. Okay. Fine. Any -- unless come here.

Unidentified Analyst

Yes. [indiscernible] from Nedbank CIB. A couple of questions. So maybe just to add on the chrome one. If you could perhaps give us some numbers in terms of CapEx expected? And then also what sort of volume benefit is likely to give you that plant?

And then moving on to manganese. Phillip, you spoke about stopping unprofitable ore. Could you just expand on that as to which sections perhaps these might be? And then still related to manganese, I see that you have upgraded your export sales volume by around about 200,000 tonnes versus previously. Could you just expand as to what having that upgrade to your sales volume, especially given what we've seen with Transnet?

Patrice Motsepe

Thank you so much. Andre, you will take the manganese question, okay? And then Phillip, you'll deal with all of the chrome issues. Any other question? Okay. Tsu will read questions that are on the webcast.

Tsundzukani Mhlanga

I'll read them out. Thank you. So, Chair, we've got a question from [indiscernible] from Bateleur Capital. The question is in relation to the Harmony stake, earlier this year, we saw Glencore consulting with investors about the decision to keep or unbundle their core business. Would ARM consider doing the same and potentially putting this to a shareholder vote? One question.

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The next question also from [indiscernible]. Please provide an update with regards to Machadodorp Works monetization of the energy-efficient smelting technology and the trajectory of the current losses from here?

Patrice Motsepe

Current losses at Machadodorp Works. Okay. So, okay.

Tsundzukani Mhlanga

The next question from Tim Clark, SBG Securities. Please -- so this is a question on unit costs. Please, may we ask for more color on the unit cost outlook for Two Rivers? Can you get the cost pressure to reverse?

Patrice Motsepe

Good question. Do you want to -- I mean you and Mike will -- I mean, you'll deal with it? Tsu, it's part of that question -- And Mike, if later, you want to add something to that. Thanks, Thando.

Tsundzukani Mhlanga

Okay. Next from Lisa Steyn at News24. Some other manganese producers really benefited from higher prices after April this year. Why did ARM not benefit from these high prices? Please explain further what the market conditions were or are?

And then second question, the 15% manganese railing allocation, which transmit awarded to junior miners' impact ARM at all? ARM. If not, why not?

Patrice Motsepe

Okay. So, you will take those, Andre.

Andre Joubert

Yes.

Tsundzukani Mhlanga

Another manganese question...

Patrice Motsepe

Okay. Andre, you take all the easy questions.

Tsundzukani Mhlanga

Another manganese questions. Okay. Also, from Tim Clark, SBG Securities. Manganese prices have been higher, but it seems like there has been a buyer strike at the elevated price levels. Were you able to benefit from the higher prices? Are sales at normal levels in line with production?

Patrice Motsepe

You're writing down because of the [Foreign Language]. Okay.

Tsundzukani Mhlanga

All right. Next question on coal, also from Lisa Steyn, News24. Please offer a bit more explanation on the increase in coal sales to Eskom. Are these ad hoc sales or new contracts? What is driving fresh Eskom demand for coal?

Patrice Motsepe

Okay. It's fresh coal. You've got it, Thando? Great. Next.

Tsundzukani Mhlanga

Okay. Next is from Shilan Modi from HSBC. What should we think about the future portfolio given the capital investments in PGMs and now copper? Given the logistics issues in bulk materials, what gives you confidence in a turnaround and not a further deterioration? Given the majors have flagged concerns on the outlook for iron ore, how are you thinking about the space? Is capital spend becoming pro-cyclical, i.e., high when prices are high and low when prices are low? Can you reduce CapEx cyclicality?

Patrice Motsepe

I think, Andre, you'll deal with part of that Andre, the context of Transnet.

Andre Joubert

The one on the -- I'll deal with that.

Patrice Motsepe

Okay. And Thando, if there's an element that has with coal and transport -- Transnet, you will deal with that also, okay? Is that all?

Tsundzukani Mhlanga

And then Chair, just one more for now. Did the Board discuss the future of the Harmony holding with shareholders?

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Patrice Motsepe

Okay, it's related. Is that all?

Tsundzukani Mhlanga

Some more coming through, Chair.

Patrice Motsepe

I mean for now?

Tsundzukani Mhlanga

Okay. Just three more. What is the current status of Surge Coppers -- project? When can we take this project moving from resources stage to reserve stage?

Patrice Motsepe

Mike, you'll deal with that, Mike? Not now.

Michael Schmidt

Yes. I just didn't get the questions.

Tsundzukani Mhlanga

Okay. Let me just repeat it. What is the current status of Surge Copper's Berg project? When can we expect this project moving from resources to reserves? Okay.

And then the next question from Brian Morgan at RMB Morgan Stanley. How much is left to be spent to complete the Merensky project at Two Rivers?

Patrice Motsepe

You heard it, Thando?

Thando Mkatshana

Yes. Okay.

Tsundzukani Mhlanga

Another manganese question. Can you kindly give us some insight on manganese prices going forward and where the Chinese port stocks may be diminishing? Can we see another spike in the manganese prices? Can you please provide us with your average manganese realized price?

Patrice Motsepe

Okay. You've got it. You see there's -- a lot of the questions are interrelated and some are repetition. Some say you must begin, others say you must start and others say you must comment, but it's still -- they want you to get going. Okay. Any other questions at all? I see there's a question here in front. So, we just want to give everybody a...

Unidentified Analyst

This is [indiscernible], I'm also Benazir because I'm Muslim. I'm from Kuji Consulting. I've got a very, perhaps out-of-the-radar question. In terms of management, are you all in concurrent with your management capability? Are you saying that all the hires that African member has, because with every decision, investment, whether you -- whatever decision -- business decision that has been taken was made by management?

I would like to just get an understanding of are you 100% confident that there is no managerial talent within the company? Also, if you can paint a picture of a similar scenario where a company went through this type of dip and how you recovered.

Of course, we know the basket prices and all various variables. But -- just give us an overview of how you recovered from a managerial perspective, from obviously dealing with the basket prices, the increases, the global challenge as the President has already alluded? So, the two questions, if I were to summarize, is management, are you happy with your current hires?

And second would be, just give a scenario where you overcame this type of challenge and how you did it? Thank you.

Patrice Motsepe

Yes. Tsu will answer that. Okay. Are there any other questions? All right. Okay. So, let's start with our CEO, and then we'll move -- okay.

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Phillip Tobias

Thank you very much, Chair. So, a question relating to the chrome investment decision at the Bokoni mine. I mean, the current installed capacity of 60,000 tonnes per month due to operational, we'll produce around 40,000 tonnes per annum of chrome. And the rationale behind that it's coming at a cost of R$670 a tonne with a sale price of about R$3,600, thus giving you 80% margins, as I said, it's going to really uplift in terms of your overall rand and ounce or -- at about 10% on that. So highly profitable, highly -- high margins.

And if you look at the trends, you would have seen that China has really been basically buying lot of chrome ore, vis-a-vis, a produced -- a finalized product. So, they basically taking off. So, it's at the back of that, that we want to explore this. And also aligning it to what we have done as well as at Modikwa and Two Rivers because there is an additional revenue. It comes in on top of what you already have in terms of your fixed costs, therefore, being able to dilute your overall operating cost. Thank you, Chair.

Patrice Motsepe

They asked you so many questions and you just give -- you don't have anything else to say?

Phillip Tobias

I was -- I'm answering that one on the chrome side. And then...

Patrice Motsepe

All the others -- deal with all of the ones that are related to you.

Phillip Tobias

Okay. Another question on the Bokoni was the 60-kiloton per month production, obviously, is not sustainable. We did share that our original intent when we made an investment was to deliver or produce 180,000 tonnes per month at Bokoni. So, where we started, we started recommissioning and refurbishing the 60-kiloton UG2 plant, which went into operation by November last year. And with that volume, we know that it's below par.

I mean, ideally, those mines, with all those big costs, should be running at about 240,000 tonnes capacity. That is the ideal installed capacity. So currently, busy with the studies, looking at analysis to say how do we really improve the situation. Because at the 60,000 tonnes per month with those volumes, it's loss making. It's not sustainable. So, we are really going through doing some studies and having some internal debate and review of Bokoni. And at the right time, when we have really landed and concluded, we'll come back and report our accordingly.

Patrice Motsepe

Okay. Thank you. Let's go to you, Thando, all of the questions, including the coal and the PGM questions.

Thando Mkatshana

Okay. Thank you so much Chair. First, let me address the question raised by -- and I think Tim had the same question related to Two Rivers' unit cost. In the presentation, Phillip highlighted the challenge that we've had with the UG2 operation, where we had to negotiate a tag. We did anticipate that, however, based on the modeling when we call treated, it was more complex than what we anticipated, and it took us longer to develop through.

That meant that UG2 couldn't deliver the volumes that they were supposed to deliver because we didn't have a face land and areas to mine at all the time. I am very pleased that we have negotiated for that back now and we're beyond it. So as a result, thereof, and I think in line with our strategy being entrepreneurial, management saw an opportunity to -- ensure that we delivered ounces is to mill the stockpile coming out of Merensky development. This is a development. It's a new mine. The grade were lower compared to UG2. And as you -- some of you would know, Merensky is harder to mill than UG2. So, we also had to pay in an additional rented Cato plant to increase the volume. So as a result, the additional costs coming out Merensky and the volume that we had contributed around 8% on our unit cost.

So, we see those as ones, of course, going to be coming off. And to answer Tim's question then directly, yes, going forward, we're going back to normality, I think we arrest these cost increases, and we're going to be maximizing production out of the UG2. And I kind overemphasize what also Phillip raised that UG2 itself also give us the benefit of the coal as the additional revenue. So overall, going forward, I think we're seeing the cost being normalized and going back to the normal UG2 cost.

The second question related to Merensky, the incentive price that we're currently looking at and -- is in the region of around R$850,000 per kilogram of PGM 6E. That will be a right incentive price to Two Rivers to bring Merensky back. What I'd like to highlight is that this really incentive price is a major impact on putting Merensky on care and maintenance was our ramp-up cost. The project is almost complete, but to ramp it up to full production, it will require a cash and we went into a cash conservation strategy. Hence, we put it on care and maintenance. Had we had Merensky at full capacity at -- despite our projection is that we would have been at the least just breaking even. So that's what we are looking at and working through that process.

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The capital left to complete Merensky, we put a lot of unnecessary and things that we believe that could come -- be bought back quicker when we -- or the joint venture decided to primaries prepare to production. It's in the region of about R$800 million, that's still remaining to be spent. To date, we spent just over R$6 billion -- R$6.2 billion. Question, going back to a strategy of putting Merensky on care and maintenance and keep Bokoni running. Going back to what I've highlighted, the Merensky, in terms of the contained ounces at Merensky, is less because of the grade compared to Bokoni where we're going to be mining UG2.

Our investment on Bokoni is on UG2. I think also when Mike talks around the technical and the mechanization process that we are planning and implementing at Bokoni, Phillip did touch only to that, the NRE or narrow reef equipment has gone underground started working. We see a huge potential coming out of that in terms of the quality of mining as well as the unit cost position that it will be favorable. It will go through a challenge in terms of cash. I think there was a question related to that.

In terms of the cash required, it's still going to be funded to get the operation running at these prices, it's in the region of about R$400 million pay at 60,000 tonnes. But I'm quite also pleased to highlight that, I mean, the team that we've got a -- sorry, at Bokoni, both on the project and operational side is a very sharp team. I think we've got one of the best teams in the industry. Hence, they're looking at opportunities to maximize and take advantage of the existing old infrastructure. We're playing in this chrome plant as highlighted, is to also cushion that cash requirement going forward, while we're looking at also other approaches to ramp it up into higher volumes.

Chair, I'm going to then move to coal. I think I've covered all the platinum-related questions. On the coal side, first, in terms of the sales volume is -- the domestic sales have gone up. However, I think it's an area where through our partners, we always look at balancing the volumes that we produce. As coal mining [indiscernible], it's gone up by about 20% on the Eskom. It's coming from a low -- a very low base. We all know the challenges that Eskom has had and the improvement that they are showing now, hence, they're consuming a little bit more. There is one additional -- it's a very short-term contract that we also entered to, as that increase the volume. The remaining increase on the domestic sales to other customers. And as I highlighted -- or has been highlighted that the issue around TFR based on the performance of TFR impacts how much coal we've got on to be able to market domestically.

So that's -- it's a domestic sale. Looking forward, I think it's going to be -- we always prioritize an export market, but where there are opportunities then with the domestic, we'll do so. So, I think sort of look at the same general numbers going forward over the next two years.

With that, Chair, I think I've covered any other -- all the questions, right, unless...

Patrice Motsepe

Excellent. Can we go to you, Andre? André Joubert?

Andre Joubert

Yes. Thank you for all those interesting manganese questions. I think I want to start with a -- I'm just going to go through the questions as I should noted them down here. In terms of the question about the cost of sales, I assume that question was related to the total ARM Ferrous or the total Eskom cost of sales. Those costs -- our total cost of sales is R$26 billion a year. So, the cost increase was R$1 billion, which is just over a 4% increase in the total cost of sales. And those costs were split between the working cost component of that with operate of mines increased by R$275 million year-on-year. And then the big one was a R$400 million that was the increase in distribution costs, which is logistics and freight.

And also -- Transnet also allocated additional cost to us where we had to do our on-mine shunting at our manganese mine. So that's the answer on the cost of sales. There was also a question about why they increased -- the 200,000 tonne increase that we had foreseen for this year? There was a rollover of tonnages from the previous year with one shipment that moved into the new year. And also, Transnet is performing pretty well on the manganese side with the two ports going to Saldanha and going to Port Elizabeth.

And in that way, we actually worked very well with Transnet. And in that end, we believe that we will get those additional tonnages coming through. Then there was a question, why did we not benefit from the higher prices that we saw? We take a view on our prices, and most of our contracts are -- our sales are contract-based. So, when we entered into the contract, we entered today into a contract for a ship that's going to sail roughly 3 months from now.

So, we fix the price today for something that's going to happen in 3 months' time. So, there's a lag on the prices. And that is the reason why we could not benefit immediately from those prices. But as we speak now, as we're sitting here, we're still benefiting from the price -- from this peak because it lags by 3 months. So, we will benefit, and we are benefiting right now from those higher prices.

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There was a -- I think it was Tim that asked the question is there -- was there a buyer strike because of these high prices? No, I don't think there was a buyer strike. What happened is that the whole world jumped up and down and very happy about these high prices and just started trucking material to the various ports and exporting this manganese ore. So, the net impact of this, at Australia's [indiscernible] Island, we had the challenge there, output in the 9 months was 1.5 million tonnes less than the previous year. But then we, as South Africans came, the people in the Ghana and Gabon.

So collectively, South Africa did at 1.3 million tonnes more. We even exported manganese ore out of Luderitz. We -- for the first time, we exported manganese ore out of Durban, and that was all road truck. And so, the net impact of this is that South Africa was 1.3 million tonnes in these 9 months more than the previous year, Ghana was 300,000 tonnes more, and Gabon was 1.3 million tonnes. So, it offset the negative from the Australians, the negative is 1.5 million tonnes and the net of that was a plus 1.4 million tonnes.

And that immediately had an oversupply impact, and it was all low-grade material. And that had the impact that, that is why the -- we did not see the benefit. And that's also why you see the current drop in the manganese ore prices. Then there was a question about the stocks in China. The stocks in China improved very -- increased very marginally from about 4 point -- 4 million tonnes to 4.6 million tonnes -- and -- but it is pretty stable at about a 1.9-month consumption rate. So, there's no real -- you can't say there's a real buildup of stock in China.

The pricing -- the CIF pricing, I'm very careful because this is an opinion. I mean this is not a prediction or a forecast or a promise. But what we see is that the high-grade manganese ore is going to maintain a CIF price in the order of around about $5 -- $25.30 per manganese unit and the lower grade, the 36, what we call the ferruginous manganese ore, will be about a $3.80 in that order. And that's what we think it is. But again, the disclaimer, this is absolutely a forecast.

Then there was a question on the iron ore and the iron ore pricing and the forecast of that. We definitely don't see a repeat of the good prices that we had in this past year. So -- and again, what we see and what the market tells us that the prices will hover between $100 and maybe $90, in that area. And we've seen that actually happening right now. It's pretty volatile, and it's sort of hovering in that range and that's also what we forecasting against, some of our actions that we've taken that Phillip mentioned in terms of looking at further value enhancing projects, et cetera, et cetera.

Then the question was asked about Beeshoek Mine and the life of Beeshoek and the contract that we have. Beeshoek is -- if I can say, Beeshoek does not have export capacity, and we are -- we've got one customer. And what we're doing at this point in time is we're negotiating very hard with this customer and it's very critical for us to get, at least a 3-year contract with this customer of ours. And that we can fix in that contract. We want to fix a price that will make sense for both Beeshoek Mine and for the customer.

And we're very well advanced with that process. Then the question was asked about if there's anything -- I just want to make double sure. I think the question about the 15% that was taken away from us by Transnet. That was over 3 years ago. So, our capacity -- our rail capacity is 3.7 million tonnes. And it's also true that some of the small or the emerging miners could not take up that capacity. So, we used -- a portion of that was reallocated to us. And that's why although the performance was against the contract was a bit lower than what it should have been. But because we got that additional capacity, we achieved our total contractual volumes. And I also see that we're going to maintain that for the remaining part of this year.

The question about Machadodorp Works and the research and development work that we've done there on the -- on this energy-efficient smelting technology. I'm very pleased to say that we've -- from a plant that we operated there, which is a fully -- full but instrumented operational demonstration plant, but just at scale. And the results that we have there is very, very promise -- very positive, not promising, it is positive. And to that end, we've concluded a definitive feasibility study. And in that study, we currently, as management reviewing the outcome of that study and management will make an investment decision or some funding decisions on that going forward.

The question was also asked, what about the care and maintenance cost at Machadodorp. So, we will continue with care and maintenance at Machadodorp until such time the investment decision is made on this new technology. But in the meanwhile, we're looking at various ways to reduce the cost. For instance, we put a tender out to see if we cannot utilize the rail infrastructure at that facility, which is very well placed for the chrome producers in the area to export and take their product on rail and not on road to either Mozambique or to Richards Bay. And then I'm also very happy to announce that the water treatment plant that we've commissioned there to prevent any further pollution is in fact, being commissioned.

So, I think I've answered all the questions, Patrice, so...

Patrice Motsepe

I think everybody thinks so as well.

Thando Mkatshana

Thank you. That's a long answer, but many questions.

Patrice Motsepe

Some of them needed long answers there. Thank you.

Thando Mkatshana

But overall, I'm very confident with the way forward. And we've got an excellent management team, a really strong team and everybody knows what they need to do, and they are delivering.

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Patrice Motsepe

Yes. And that management team is under your leadership.

Andre Joubert

That's correct.

Patrice Motsepe

Thank you. Thank you, André. Mike?

Michael Schmidt

Martin, I wasn't entirely sure when you said NRE, which is narrow reef equipment, are we speaking about BMC, which is cutting technology, but I want to touch on both because they're absolutely uniquely have all the properties. I want to go back very briefly there. I grew up in the industry in gold and platinum. And we know that the platinum and gold seems in South Africa, narrow tabular, are in general, 60 centimeters and less. The containment within there varies between 6 and 12 grams per tonne.

As a conventional industry, we've been mining at 120 to 150 centimeters, which is 100% to 120% dilution and the industry yields between 3 and 4 grams per tonne. And the industry has been saying for decades now, more than 20 years, 30 years, research industry, Congo and you recall all of that is how do we get people out of the phase, improve grade, productivity, efficiencies and do that cost effectively and make more money. And we've had many attempts in the past, over the last 20 years, and not really successful from a commercial point of view. So that just underpins the intent. And then we started 20 years ago, and we introduced what we call LP, which is low profile, and forgive a couple of my acronyms, yes, but they're important because you raised them.

And then we moved over to XLP, which is extra low profile. The limitation has always been your different, which we had to take out and get into trucks. And now you appropriately talk about NRE, which is to the rest of the audience, narrow reef equipment. And that has more flexibility in these confines.

So what XLP and NRE do for you, they reduce your -- they achieve all of those if we can get productivity, safety, people out in the phase, increase grade. We used twp acronyms, which I grew up with and one, we were hammered about this as youngsters, the one is called GIK and I'm going to explain it now. Another one was called WAR.

Now GIK is grade is king. And you can just do the numbers. If you write mining at 2 grams a tonne, someone asked about the Merensky project. Doesn't matter what you do at 2 grams a tonne, if you can do half of that at 4 grams a tonne or 1/4 of that at 6 grams a tonne, the benefits are immense. And part of the reason where with the current price, we had to curtail the Merensky project until better prices.

So, let me go back. So, the intent with NRE is to achieve all of that, Martin. And come and mine under a meter which immediately gives you all those benefits. So, I think the real question is why the confidence now and what makes it different? Well, the proof of the pudding is going to be in the eating. So, we have got 20 years of knowledge, experience and frustrations collectively to the industry, and we've applied what we call best practice with working with the industry. It's not ARM alone, albeit our preferred technology. We've learned from industry and failures. And one of the areas is that you can't try and put machines into a conventional layout.

Doesn't work. You have to change your mining layout to suit your equipment. But currently, we've done that. We've also taken the NRE equipment from the preferred suppliers and all the learning and manufacturing the first set of equipment, and that is, as we talk going underground on trials to see where it goes. So, we're taking quite a -- still taking a conservative approach and to see if we can yield the results we want.

So, I think GIK is grade is king. WAR, the acronym is waste as reef is WAR. And in WAR in this environment, companies die, not people because you can't get it out. So, it's vitally important for us to get our industry. So, what has also changed is technology has changed, automation, process has changed, the learnings. And certainly, technology and IT, technology and software where we can do predictive maintenance and all these. So, all these benefits with software combined with the layout, combined with new mining technology gives us what we're looking for, but we're doing it in a conservative manner, and we are implementing it as we stand today. And hopefully, in 6 months, we can give you an update on that.

I just want to move forward straight on to what I call two other acronyms because I think it's appropriate for your question and the audience here. RCM is recutting machinery or RBM, reboring machinery. So, what that does, it moves you from conventional 15 below one with its NRE, and this technology has two major advantages. It allows you to extract only the seam. 60 centimeters is the height of these cutting and boring technologies. And boring has been with us for more than 100 years. You see it across the world. Micro boring is another challenge.

And with all appropriate technology, we seem to have overcome. We've been doing 2 years of research, development and trials. And that is slowly coming to the full. It's not as advanced as where we are with NRE but it's pretty close, very reliable, very efficient. And what that will do, it will double the grade again and completely automate and take people out of the stope.

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But the most important thing, everyone around this table knows what the impact of explosives is on hanging wall and exposure in terms of carbon. This technology allows you to be explosive-less mining. So, these are the -- as if the mining guys make money and can help us, we can do that research and the industry, the next generation, yes, will benefit from this. We have to do it, and we intend to go there. Thanks, Martin.

Patrice Motsepe

Thanks, Martin, you asked all the difficult questions.

Michael Schmidt

I had one more, sorry, lady asked me about where we are in Surge. So, the Surge is in a good destination. I'm not going to repeat. I think it was Slide 30 of -- Phillip around the rationale and strategy around Surge. The question was really, where are we? So, we've completed a PEA and post, which is a preassessment, a pre-economic assessment being done and premised on the drilling and that work, we saw fit to invest into Surge Copper at a level, I think we're now at 15%. This -- to get it to free fees and ultimate feasibility, it's at least another 18 months. And we are on the technical and advisory and we intend to get on to the Board so that we can pay a meaningful and -- we don't want to be passive investors, albeit we got a small investment, we want to get in there. And it is part of ARM's strategy of diversification into copper. But again, we're taking it one step at a time.

There are at least six identified, and two of them extensively drilled porphyries there with high grade -- reasonable grade but good byproducts. And the combination of those byproducts puts us on the PEA, well positioned on the cost curve, and we can ramp that up to a reasonable level. I want to qualify; the copper industry today is 26 million tonnes. And within 5 years based on the projects is going to close to 50 million tonnes. But if you look at the supply -- long-term supply/demand of the world and EVs and ESGs, it's looking at 70 million tonnes and they're saying, there's another 20, 30 major mine shortages to supply long-term fundamental needs.

So, part of our strategy is to diversify into copper but do it in a conservative staged approach we go with them and we execute optionality at least 18 months, I would imagine on the program to get to full production by 2030, if it's successful. Thank you.

Patrice Motsepe

Excellent mike. Good -- very important questions and the indication that copper is a medium-term project. Will you answer her question?

Tsundzukani Mhlanga

All right. Okay. I'll try. So, to your questions…

Patrice Motsepe

And she also knows [indiscernible] did you not employ -- yes, we're running out of time. Let her response to your -- sorry. What she wants Okay. Give her the mic quickly. We're running out of time because she's already ready to answer that question.

Tsundzukani Mhlanga

I apologize for pitching in here. I just want to comment on the inputs, particularly from the operations and the research. I think I'm absolutely thrilled, and I think your investors will be as well, understanding the road map on copper. So, my biggest -- was -- I mean, I pose a very controversial question because I'm talking to management. But just to set it out, I think I'm purely confident that the team will sure drive this vehicle in the right direction.

Patrice Motsepe

It's an excellent question. It's not a controversial question. You don't want to answer it then. She answered the old question. Okay.

All right. Thank you. Just quickly, the gentleman from -- they were reminding me that they have to go to live interviews, studios, but there will still be people here. I think Mike and the whole team will hang around for any questions that anybody has and the whole management team, and I think Imrhan is here as well [indiscernible] and the rest of the team. Welcome David Noko, who's our Lead Independent.

Just two quick questions. The gentleman from HSBC asked a very, very important question. We've been looking at this question for the last, I don't know, 15 years with a simple objective, what's in the best interest of our shareholders. Do we sell it? Do we hold on to it?

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Our role in Harmony is significantly more than just a passive role in the sense that Harmony was a merger between our company, ARM Gold, which laid the foundation to African Rainbow Minerals and Harmony. And so, we are very long-term, and I think there's all sorts of issues about being an anchor shareholder. But our view of Harmony is the same like any other investment, we have to do what's in the best interest of our shareholders.

If what's in the best interest of our shareholders is to sell Harmony, we'll do that. We got some of our shareholders earlier during the year who said that price is so high. And the point you raised is absolutely correct. If you look at the dividends that we receive, and we operate -- even our interest in coal where our shareholding is limited, we are an active participant in the ExCo, in Board -- not just Board meetings, but also make fundamental inputs on the operations and how they are run. So, the bottom line for us in Harmony is we are enormously excited about Harmony's huge investments in copper.

Harmony got into copper because of us. I'm Chairman of Harmony and I became Chairman at the time of the merger. And so, we have a very clear expectation that we want to maximize the equity we have in Harmony. One of the things that the management was looking at, and good work has been done, is does part of the strategy in the short-term entail using some of the Harmony equity, which are -- which is very high right now to enable us to get loans from the bank and use it, in essence, a security or to pledge. We're looking at all of those options. We are not -- the beauty is we are not desperate. We've made mistakes in the past where at a given time, we were told and, in fact, not that we were told, it was the right thing at the time to sell. I don't want to mention some of the assets that we sold, which we should never have sold.

But at the time, it was absolutely the right thing to do. We're all smart with hindsight. And a few years down the line -- my shareholders came and said, "We put pressure on you at the time to sell, and indeed, it was the right thing. But now if we had held on, we would have made 4 times, 5 times, 7 times, 10 times the amount that we received at the time of the sale."

So, you don't fall in love with any investment. You fall in love with the profitability. You fall in love with its value creation capacity for shareholders. You fall in love with your absolute duty and commitment to create maximum value for our shareholders. There's another point that was raised, but I think we'll rather discuss this in private. Let me close the meeting by expressing our deep gratitude from the management and also on behalf of the Board to everybody who's here. And let me emphasize that, of course, we understand that we've got a fundamental obligation to our shareholders. We also recognize that we've got a huge obligation to the employees, to communities, all stakeholders, but also to the country. We said 30 years, 40 years ago, we want to employ the smartest and the brightest in this country. And we want this country to -- we want this company to fulfill the aspirations and the dreams of all our people, Black South Africans, white, green, yellow.

And I must say I'm very proud of what we've achieved. These are challenging times, but we are confident about the future. We've seen worse times in the past and we've been successful. And we are confident that we will continue to create value, and we will do well.

Patrice Motsepe

Thank you so much, and thanks for coming. Bye-bye.

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