

# **Impala Platinum Holdings Limited (IMPUY) Q4 2024 Earnings Call Transcript**

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**Body**

Impala Platinum Holdings Limited (IMPUY)

Q4 2024 Earnings Conference Call

August 29, 2024, 5:30 AM ET

Company Participants

Johan Theron - Group Executive, Corporate Affairs

Patrick Morutlwa - Chief Operating Officer

Meroonisha Kerber - Chief Financial Officer

Nico Muller - Chief Executive Officer

Moses Motlhageng - Chief Executive, Impala Rustenburg

Adelle Coetzee - Executive, Metallurgy

Mark Munroe - Chief Technical Officer

Lee-Ann Samuel - Executive Director and Group Executive, People

Conference Call Participants

Chris Nicholson - Morgan Stanley

Gerhard Engelbrecht - Absa

Arnold Van Graan - Nedbank

Leroy Mnguni - HSBC

Adrian Hammond - SBG Securities

Presentation

Johan Theron

Good morning, ladies and gentlemen. And welcome to the Annual Financial Results Presentation for Impala Platinum. Joining us today on the webcast and also on the call will be some other colleagues. As usual, we'll do a high level reflection on the results and then provide an opportunity for robust engagement.

I'll take questions in the room first and after that we will divert to the webcast and the call for questions as well. So very, very welcome. You'll see today a slight deviation from what we've done in the past. I'm going to ask the expanded team to just talk at a high level to the results before we go to the Q&A.

So following me, I'm going to ask our COO, Patrick Morutlwa to just reflect on the operations; Meroonisha Kerber, our CFO, will then just give highlights on the financial side; and then we'll ask Nico just to close the formal proceedings before we jump into Q&A.

We operate as a team so we felt it's very important that you also get the faces and the sound waves of the entire team. So, hopefully, that they don't disappoint me too much. So no pressure guys.

So without further ado, let's start. I just want to point out to our forward-looking statement. Just please take note of that again and then without further ado, I'm going to hand over to Patrick. Patrick, please.

Patrick Morutlwa

Thank you, Johan, and good morning, ladies and gentlemen. Let's start first on a safety side. Regrettably, we had a regression in our fatal injuries. We recorded 19 fatalities for this year and this is despite year-on-year sustained improvement on our LTI frequency rate and total injury frequency rate. If you look at from 2019 until last year, we've seen a 29% improvement on our rates, but it's not necessarily translated in reduction in fatalities. We have a plan and I'll present that plan in the next slide.

Moving over to operations, we had a strong performance from our operations, 13% year-on-year, mainly because of the inclusion of IBR, but we also had strong performance from our key asset, Rustenburg. We've seen a 4% improvement year-on-year, Zimplats 6%. We also have seen 4% from Mimosa and Canada, despite us changing our operating strategy in response to the low palladium price, they've actually also performed very well.

The unit cost below the inflation of 4.6%, primarily also driven by good production and also the cost cutting that we've done during the course of the year as a response to low platinum prices. Capital mostly is because we've now included IBR and also our expansion capital mainly from Zim.

During this year, we've also completed our key project. All of our three furnace in Rustenburg have all been rebuilt, which comes in handy to work down the work in progress stocks that we have. We have completed a 35-megawatt solar project in Zimplats. We've also now completed our 38-megawatt furnace in Zimplats. We should be bringing it online now in October. So, and also, lastly, we have seen us completing the BMR debottlenecking project that will give us about 10% more capacity. So, a very disciplined execute of our project in this year.

So, we also see improvement for this year at Marula and Styldrift. Let me now talk about Marula. So, Marula did not perform up to expectation, mainly because we've encountered difficult geology that actually decimated our face land. We have plans in place to restore that face land. I'll touch on Styldrift in the following slide. Styldrift is still very key to our success and future at the Western Limb.

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Let me try and dive deeper on safety. So, on the 24th of November last year, three days before the 11th of November fatality, we actually called a Safety Summit, where over 150 of our leaders, led by ESCO. We convened in Rustenburg. We also had a minerals council attending, because we felt after the third fatality last year that we should reflect on the next steps and really come up with plans to eliminate fatalities from our business.

We also had a follow-up in May this year. And from those two safety summits, what you see on the Board, that's a plan that we've come up with, because as Implats, we believe without any shadow of doubt that fatalities can be eliminated. We have pockets of excellence within our own group, which has proven that it is possible and I'll just mention one.

We have a shaft at Marula Driekop, since its inception 14 years ago, it has never had a fatality. So, we can learn from this point of excellence and actually eradicate fatalities. Since the implementation of this plan somewhere early May, I know it's still early days, but we've seen some promising green shoots. If you look at quarter four in particular, it was the lowest quarter in terms of LTI frequency rate and total injury frequency rate for the last 20 years.

Within a very same period, we have seen what we call white flag days. We have seen three of them. Two of them actually happened now in August. So, white flag days is a day where all our employees, all the way from Canada, all the way to Marula, they go on a graph for 24 hours and none of them got injured, even in a medical treatment case.

So, we've never seen this before in Implats. So, we believe that this plan that we have in place, it is starting to show that if we are relentless, this will be in execution, we will definitely be able to see the elimination of fatalities. Personally, I have been part of this journey before. So, it is possible to actually eliminate fatalities from high labor intensive environment, like what we see in Rustenburg.

So, we beg ourselves with the team that we have, both operational and also from the safety front, and all the change that we've made to strengthen the team in this previous year, to be able to eliminate the scourge of fatalities from Implats. So, what has happened has not dimmed our belief and commitment to see fatalities being eliminated from our business.

Moving over to Styldrift, you all remember that last year, we stood here, really just this time in August, after we've taken over IBR and we told you that IBR have got three parts. We said BRPM, it is meeting the expectation and you will have seen that despite the labor unrest that we've experienced in that shaft in particular, it's still delivered according to plan.

We told you at the time that processing, we were unhappy with the recoveries, and because of the extensive knowledge and expertise that we had in Rustenburg and Mimco [ph], we believe that we will be able within 12 months' time to reverse that trend when it comes to recoveries, and I'll talk about it now.

And lastly, Styldrift, we acknowledge that it was lagging behind in terms of the ramp-up and we all -- we said it is about an 18-month to 24-month job for us to get it set up to be able to ramp up default capacity.

So today, I want to take you through this simplified value chain, but before I dive deeper into it, I really need to tell you that it is supported by a very comprehensive framework of work that we're doing. For example, we are integrating IBR now into Impala Rustenburg to leverage the synergies that were identified before the acquisition. We have changed the reporting lines, the executive head of IBR reports directly to Moses, and from last year, the processing division has been reporting to Rustenburg.

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So now, going into the value chain, so last year, we told you there's nothing wrong with the mine design. We still maintain that. The bulk infrastructure is still in place. We have no problem with that. Development is actually going very well, to a point where we had to stop some of the main capital development because they're actually far ahead of schedule.

Last year, it was very clear that our bottleneck was to mine our facelifts and that's what we've been working on for most part of the last 12 months. So the graph at the bottom, you will see that last year, we had only seven workable facelifts instead of the 16 that actually was planned and just mainly because most of the sections were flooded. They had backlog in terms of some of the support, ventilation issues, so literally, you could not complete the whole mining cycle in those sections. So I'm glad to say that by the end of this financial year, we're now sitting on 16. We've got 14 stopping crews, so literally, we're sitting with the flexibility of 1.2.

So, yeah, then the other problem that we had at the time was sectional infrastructure. That's your tip-to-face distances, your roadways. We have done a lot of work. You can see the graph, tip-to-face distance that we've managed to drop it to 116. The ideal is about 110, so there's still work to be done together with the roadway conditions and also water management.

At that time also, we were not happy with the grade. So for us, it's quality before quantity. So there was a lot of work we've done to fix the grade. As you have seen, it's now responded. We're now at 4.01. There's still a bit of work to be done, but that turnaround has been effected.

And so as I speak to you now, where we have a bottleneck, as you know, the value chain, if you solve a problem here, you actually move down the value chain. It is now our ability to move the ore. But like I said, it is also compounded by some of the problems I was talking about, leadership that we're dealing with.

So we now have brought Sandvik on Board to really look at the whole fleet management, to really to empower ourselves to be able that if, when we blast and generate this all from this section that we've now created, we have the ability to move that.

For completeness sake also, as I said, that another area of improvement was the processing division. We have brought the expertise that we have in Rustenburg and we have been able to turn around the recoveries now to about 82.2. The ideal we're looking for is 85. So more work is still to be done in terms of changing the agencies, continue with the work that we're actually putting in place to embed those changes that become now ways of how we do things.

So, as I close on Styldrift in particular is that, it is still a world class asset, it is still high grade, long life and shallow and mechanized fleet. So, and that's where we believe that the future of the Western Limb actually resides and that's why we beg ourselves that in the next few years we should be able to be exact about FY 2027. Towards the end of it, we see ourselves that we will get to the full capacity as stipulated on the name plate.

On that note, I'll hand over to Meroonisha.

Meroonisha Kerber

Thank you very much, Patrick. Maybe just to start off with, I mean, notwithstanding the combination of a very commendable operating performance, excellent cost controls and several initiatives that we implemented around prudent capital allocation, the key feature of the results was essentially the lower PGM prices. That affected profitability and free cash flow generation.

If you look at our earnings for the year, there were two notable once-off non-cash items. The first was the combination of impairments at Impala Rustenburg, Impala Canada, and both our JVs. And that was largely just due to the lower pricing environment, as well as the elevated levels of interest rates that we're seeing at the moment.

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The other significant charge that we had during the year was a R1.9 billion once-off IFRS 2 B-BBEE charge. And that arose on the conclusion of our landmark empowerment deal, which we did for value, and which basically underpins our commitment to sharing value, even whilst the sector faces reduced profitability and margin compression.

If I look at the cash flow, similarly, the cash flow was impacted by two large items. The first one was the conclusion of the RBPlat transaction. We had R11.4 billion outflow to acquire the remaining equity of RBPlat. But we also funded almost R900 million worth of transaction-related costs, largely from Impala Bafokeng.

The second material item on our cash flow statement is really, and you'll see it, the significant increase in capital expenditure, as we basically progressed many of our processing expansion projects, as well as the installation of solar at our Zimbabwean operations.

Despite the lock-up in working capital, so you'll see our in-process inventory went up to 390,000 ounces as a result of constrained processing capacity, but also the large receipt of Impala Bafokeng data, which is really just due to contractual terms. I think what we're very pleased with is that all of the growth we managed to fund from our generated cash flows.

After three years of really elevated capital expenditure, following the decision we made to strategically expand our processing capacity, you should see the business return to more normalized levels of capital intensity.

I'm particularly pleased with where we ended up on the balance sheet. We ended the year with strong adjusted net cash, with only R1 billion worth of, Nico calls it real debt, and that was largely on Zimplats going down to fund its peak capital funding requirements, but also more importantly, R17.7 billion of liquidity headroom.

So, when I look forward into FY 2025, I certainly think the company is going to benefit from the labor rationalization or restructuring that we did, which underpins our commitment to controlling costs. Secondly, reduce capital intensity. This is because of decisions we made around the portfolio around Impala Canada and Marula, where we adjusted production and project plans, but also given that most of our operations are through the peak funding of expansion and replacement projects.

Patrick talked about our expanded processing capacity. I'm very pleased with that, because that now gives us the opportunity to basically systematically work through the 390,000 ounces of excess inventory that we've built up over the last three years as we've rebuilt our Rustenburg furnaces. This cash should -- this -- the unlock of the stock should support free cash flow generation, and more importantly, protect the balance sheet. I think all of this actually positions the company well to navigate through -- and provides it with the flexibility to navigate through a period of low pricing environment.

I will now hand over to Nico. Thank you.

Nico Muller

Thank you very much and a hearty welcome to everyone here from my side. I just want to acknowledge Patrick and Meroonisha, who was far more eloquent than I could ever be, and also our silent weapon at the end there, Moses, who is the Chief Executive of Rustenburg, who will assist us in answering questions. Further to that, Mark, Kirthanya, Sifiso, and online, Lee-Ann, as well as our Chief Executives, Tim from Canada and Alex from Zim, and on top of that, the management teams and the other 60,000 people that have assisted the company to deliver its results. We often say, but it remains true, without our people, we are now saying that a company is not still brick-and-mortar. It is the people. And so it's wonderful to have them to share the load with me.

From my side, I'm going to restrict myself to just giving a broad 30,000-foot view of the company and I will start with -- and I will end with a little bit of guidance. One of the key features of this year is the conclusion of the RBPlats transaction, thankfully, and on that note, it was associated with very important transformational elements, such as us joining hands with a new partner, and I'd like to welcome Lindani as well and Imran [ph] as our new partners. They're sitting on some of our Boards and already they've added significant value to the conversation, so welcome to you as well.

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So if you look at the left-hand side of the slide, it really depicts the market conditions. You know that there's been a 30% decline in the rand basket price. From our point of view, the analysis that assists us with, we see the markets, certainly for the next year or two, in deficit. However, we are also aware that the prices of PGMs are not determined purely by market dynamics. There's also the global economy, global sentiment. We see persistent high interest rates. It has a negative bearing on sentiment.

And so if you want to think about how do you divide your attention to respond to that, on the right-hand side, if you just look at the elements, the company is really focused on a defensive posture, strengthening the internal business. Our attention predominantly is not on M&A and growth and all of the wonderful things that we do when we are in a super-profit cycle. It is about making sure that we can strengthen ourselves to the point where we can remain successful, even at current spot, which for our company is around R24,000 an ounce.

We are cautiously optimistic that there may be price support. We have seen some indications, some signals that interest rates may start to be lowered late in the year, certainly in the U.S., and that may be followed in other jurisdictions as well.

So, if I look on the right-hand side, no mining company has ever been successful when they have had a large number of fatalities or poor safety records. So, Patrick spoke about two things. For us, it's really important to make sure that every employee who arrives at work returns safely at home to their families. We have to develop a shared vision, shared behavior. If you want to reduce the speed on the freeways, you can have traffic police, fines, but ultimately, it only works when the population desires safe conditions and desire to travel at lower speeds. So that's -- I think that's the challenge that we have, is to make sure that we have a shared vision, a shared passion and shared behavior towards this improved goal of zero harm.

From an internal operational point of view, Patrick spoke about successes. We have had our three biggest assets, Styldrift, Rustenburg, Zimplats in particular. We have seen strong performances. Canada has done exceptionally well under the current conditions. So, I know we've got our analyzed numbers in the financial statements, but in the fourth quarter, they produced palladium at $948 an ounce, which, I mean, when we acquired the asset, we spoke about a $1,000 an ounce objective and seeing also -- I mean, our operating cost went up to $1,200 an ounce. So for that operation, to change the strategy, to improve profit margins on the ounces that you produce, becoming at $948 is just an unbelievable achievement and we are so proud of their effort.

So, part of our thinking is to take the positive momentum that we have at the assets that we have and to continue driving that and to bleed that into the other parts. There are two big areas of improvement. Marula, you spoke about it, and naturally, Styldrift, which is the latest part of our portfolio. It has so much potential and we have been part of it. There is nothing wrong with the ore body. It is exactly what we anticipated. We are currently producing 483, I mean, we produce 483 and mine has got the potential to go up to 650 by 2027. I have absolute belief in the support of Moses and Patrick. I think that we will get there. I am very encouraged with the progress that we are making with developing our understanding of where all the critical constraints are on the business. So we have to maintain operating momentum where we have it and then develop improved performance in the areas that we have perhaps not done particularly well in.

One of the things that I think the company did particularly well is cost leadership. We -- I mean, our issue -- so if you exclude RBPlats integration into the company, our unit cost went up by 3% and that is below mining inflation, it's below inflation. On top of that, we made changes. We restructured the labor. So that is going to assist us when we get to the guidance later on. We are also guiding a 3% unit cost increase for next year and so I want to thank the team for assisting us in the commodity industry, you have to compete on unit cost and that is one of the things that we have done particularly well.

Then, there is -- I mean, we just talked about the strategic decision to invest in our processing capacity. Base metal refinery improvement at Springs, the smelters at Zimplats. We have got all three furnaces in Rustenburg operating. There is a massive opportunity to leverage that capacity. There is the processing of excess inventory. There is the potential opportunity to look at partnerships to utilize the surplus capacity to expand through total arrangements with other partners to the extent that that is possible. So these are things that we can focus on.

And so whilst I have said that our posture, our focus is predominantly internal to strengthening the business, giving the markets. With Kirthanya's thought leadership, we are keeping an eye out on our long-term competitive position and so we want to make sure that we have flexibility in our portfolio, that we manage the portfolio to suit the conditions and we do a lot of market analysis as does the rest of the industry, but we know that we can only do it on the best information of the day and this changes. So we do not quite understand the rate of technology development, whether it is battery electric vehicles or hydrogen. We take positions and that changes depending on how the technology evolves and so we want flexibility.

And so one of the strengths that we have as a company is that we are exposed on the Eastern and Western Limb. We have got some interest in the Northern Limb. In particular, we have got a very substantial footprint in Zimbabwe and that is also where we believe future world-class assets are located. So we want to make sure that we always consider the movement in markets and how we organize the company's asset portfolio to suit the prevailing conditions.

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And then the other thing that we want to focus on is, I'd say, growth. And by that, I do not necessarily mean ounce growth. I mean value growth. And it is associated with portfolio management. So we want to make sure that we own and operate assets that we are able to operate at a position below the prevailing price of today and make sure that we have got the right balance to ensure longevity and robustness to prosper throughout the cycle.

And this is the last comment I want to make on that, is organizational leadership. For me, it is very encouraging today to sit with the team. During the past year, we have had a number of critical changes. Mark came up from Rustenburg. He is now the Chief Technical Officer. Patrick joined us as the Chief Operating Officer. Moses transferred from Marula to take the very onerous task of managing Rustenburg.

And so we -- during the past year, we have had in those three positions, as well as in our safety that the retiring of very strong pillars in the company. We have had positions move. And now, a year later, I think that we have established some maturity and continuity in those positions, and I think that is going to help us in the next few years.

I then just want to talk to our group outlook. I am going to start with 6E ounce production, which is essentially the second blue line. Oh, my goodness. I will have to just talk this slide as is. I had some fantastic animation, but I will have to forgo that.

So the group production, you see our -- we are guiding between 3005 -- 3.5 million ounces and 3.7 million ounces, and that is broadly in line with what we achieved in the past financial year. But if you look internally, there are a few changes.

There are two operations where we are, forecasting an improvement, and the one is Bafokeng. So, if you look at, we achieved 483 and the other -- so we are guiding 490 to 530, and that is as a consequence of our assurance that we are engaging with a process. As I said earlier, we want that operation to grow to around 650 in financial year 2027, so we are confident that we are going to increase production during this coming year.

The other one is Marula. As Patrick has mentioned, once we have dealt with the geological challenges that we have encountered, we re-established the available working phase. We are guiding that to go up from 223 to between 230 and 250. But then there are two areas where we are guiding lower production.

The one is Canada, if I can remember correctly. It is -- I can't see Canada. Oh, Canada. So it was 281 for this year and we are guiding 250 to 270, and that is as a consequence of a change in strategy where we are favoring higher profit ounces and foregoing some of the lower profit ounces and that's in order -- and then we can see the positive results that Canada has achieved as a consequence of that.

And of course, the last one is our third-party treatment IRS. The way we guide on IRS is always based on the existing contracts. We had two contracts that lapsed in the past year and so the guidance there purely is based on the existing contracts and the volumes associated with that.

If you then look at refined production, so I'm going to go to the top now. Refined production is taking a step up. So, there are two ways I look at refined production. First, refined production in relation to group production and you always have processing losses, so it's always going to be a bit less. But you'll see that the guidance of 3.45 to 3.65 is higher than what we achieved this year and in part that is a consequence of us guiding between 100,000 ounces and 130,000 ounces of excess inventory, given the fact that we've got all three furnaces in Rustenburg plus the Zimplats furnace kicking in, and so we will have excess inventory coming through as refined production.

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Group unit cost I have spoken to earlier. If you take the 21,000 to 22,000 to midpoint, that's 21,500. That is essentially 3% higher than the 20,922 that we achieved this year. And then the capital expenditure is going to decline from R14 billion to between R8 billion and R9 billion, and also for the next few years we are estimating capital to remain steady at between R8 billion and R9 billion.

I'd like to thank everyone again for being here. We are very happy to take questions. Thank you so much.

Question-and-Answer Session

A - Johan Theron

Thank you, Nico and team. I think it's important that you heard more voices and saw more faces, because truly we operate as a team and we deliver results as a team. So there is some microphones being passed around in the room, so let's start with questions in the room. So if you raise your hand, please just introduce yourself for the people online, so they can also hear who's asking the question and then we'll just deal with questions here. For people on the call, you can start queuing so that we can see people on the call as well. We'll give you a second chance. And then on the webcast as well, there's an opportunity to type questions. I'll receive that and I can share it with the audience in the room. But let's start in the room. Chris, let's start there.

Chris Nicholson

Good morning, Nico, Patrick, Meroonisha and team. Thank you very much for the presentation. I'm going to do what a lot of analysts always do and just focus in on maybe one of the problem children. But before I do that, it's probably worthwhile saying well done on the cost performance and volumes. It was a very good year, all considered. So I just wanted to chat a little bit more about Impala Bafokeng. I think three questions around that. So, obviously you're guarding volumes higher this year. In that current environment, do you think that the mine can be a free cash flow break even, Styldrift in particular, or do we still need to deliver more there in terms of volumes and costs to get that mine to a break even position? That's the first question. Second question, you talk about excess capacity. The 50% of the concentrate at Royal Bafokeng, that's at your option. Is it not time to maybe bring that in-house now? What are your thoughts around that? And then the final question, you note that you're looking at chrome and tailings processing at Bafokeng. Maybe if you could just give us a bit more info on kind of volumes, parameters, what you think that could bring to the asset? Thank you.

Nico Muller

Thank you so much, Chris. I'm not sure, Moses, are you happy to lead in with some of the answers?

Moses Motlhageng

I can do that.

Nico Muller

Okay. Cool. Okay.

Moses Motlhageng

So, perhaps, if you look at, if I can come through, I mean, the question is, will we be cash neutral this year? I think that's our intention. And if you look at the experience and what we are bringing from Rustenburg as a team, the capacity that we've got in Rustenburg that we are taking into Bafokeng. And if you look at the progress that we've made so far, I think, we are on our way there.

And if you look at how we've taken our employees at Royal Bafokeng into account, because they are the ones who must make this difference. They are the ones who must improve. They are the ones who must have a buy-in. They understand the model that Rustenburg has used to produce. They understand the credibility that Rustenburg has managed to achieve with the performance that they've done. And they are running behind us with the experience that we want to roll out at Royal Bafokeng so that we can easily get to cash neutral as soon as possible.

So the signs are there that we can get to cash neutral. I think the most important thing, as we heard what Patrick said and what Nico said, there's nothing that prevents us from producing in that mine. We just have to address a few issues which we are currently addressing and we should be able to get to cash neutral, I guess.

Nico Muller

Okay. Thank you. Chris, I think it is our ambition to get cash neutral and I reach to that position in this next financial year. We don't want to have negative cash at any of our assets for any sustained period. It raises a lot of frustration within ourselves and things don't go well if we don't have at least a likelihood of being cash neutral at all. So as far as the excess capacity, Meroonisha, do you want to talk to the…

Meroonisha Kerber

Yeah.

Nico Muller

… agreements?

Meroonisha Kerber

Yeah. So, Chris, as you mentioned, in August 2027 we will get our 50% of material from Imperial Bafokeng. If you just look at the guidance we've given on the excess inventory, we are guiding that over the next three years we will basically release all the excess inventory. So if you look at FY 2025, 2026, 2027, once we're done with that, the backlog of inventories is through the pipe. And the -- so when the IBR concentrate comes in, that's actually perfect timing for us. It actually doesn't make sense for us to get the concentrate earlier and then stockpile it. So I think the way things have worked out with the capacity expansion coming online, it actually works well for us. Thanks, Chris.

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Nico Muller

Do you think you would want to comment on the IBR chrome and tailings? So we asked maybe Mark or Adelle. Do you guys -- do you want to give -- maybe a microphone to Adelle? Do you want to comment on that? Adelle, is our Group Metallurgist intimately involved in the chrome and the tailings treatment?

Adelle Coetzee

Yeah. Thank you. Thank you for the question. We are busy with a chrome project, as well as a scavenging project. Both those projects will come online in financial year 2026, pending legal environmental approval. And we're looking forward to, from the tailings scavenging operation, to at least see a benefit of 1% on our efficiencies in the specific concentrate where we will apply it and similar to that is our chrome beneficiation. And we look to at least see some 200,000 tons of chromite concentrate to be produced and then sold. Thank you.

Nico Muller

Thank you, Chris.

Johan Theron

Yes. Please go for it, Gerard.

Gerhard Engelbrecht

Gerhard Engelbrecht, excuse me, from Absa. Nico, maybe just a little bit of a long-term -- longer term strategic question. I see in the reserves report you show a hard stop to Rustenburg's production in 2034 with options to extend that with projects. The question is when do you have to start spending CapEx on those extension projects? Is it something that is at the top of your mind and that you're thinking about at the moment and are they large mega projects or small things?

Nico Muller

Thank you so much, Gerhard. That is a very appropriate question. Those projects typically are not large mega multi-billion projects. We currently have two underway. We've got 11 Shaft and 12 Shaft extension projects. These are typically mine replacement projects. They are much smaller. They are focused. They are some of our shafts where we are doing feasibility studies in order to do that. They obviously are the shafts like 1 Shaft which has mined out its reserve and similar to 6 shafts, that is more likely to close.

But there is -- so there's a pipeline of projects at the appropriate -- that will kick in at the appropriate time to evaluate it. The challenge right now is to initiate any extension project and to have a financial return. I mean, we don't want to just present life extensions if we don't believe that there's going to be some economic return on it, but I'm happy that we've got a very rich pipeline of projects at various shafts to look at the extension of Rustenburg life in the event that we have supportive pricing.

Johan Theron

Yes, Arnold, please go ahead.

Arnold Van Graan

Hi. Arnold Van Graan from Nedbank. Two questions from my side. Nico, one of your focus areas for this year is reducing sustained business capital [ph]. And you need to say about impacting the integrity of the assets and retaining reserves and those type of things. But how do you do that? That's the -- how do you achieve that? And how long can you run at this reduced capital level before there's some sort of catch up? Maybe the other way to ask the question, are you not setting yourself up for a big catch up sustained business capital in future? Then the second question is on Styldrift. It's a bit of a bigger, broader, longer term question and you emphasize that the ore body's fine, but there are lots of assets that we know about where the ore bodies are fine, but they just never get to the production point that you envisage. So are you comfortable with the mine design and the mining method? And again, another way of asking the question, what surety can you give us that we're not sitting here year after year and we're still talking about Styldrift's ramp up? So is there potential debasement of that production profile that would be sustainable, because you need a certain level of volume or volume level to maintain it. So, yeah, broader, big picture questions there. Thank you.

Nico Muller

Thank you, Arnold. So, firstly, when we talk about capital reduction, predominantly we are referring to expansion capital, and in some cases, replacement capital. So we're talking about the Two Rivers Merensky project, the North Hill project, to provide life extension to Mimosa. Typically, it does not include material reductions in sustained business capital, other than in isolated cases.

And let me take one, and this is again going to sound counterintuitive. At Styldrift, we've got an alternate shaft decline order. We've got decline extensions that have been planning, but it's so far ahead. You've got a multiyear buffer, which is not entirely required. So I mean, those things have been advanced. It derisks to some extent, but I mean, the length of buffer that you have is not required and so when you're going to lean times, it's not as easy. So typically, it is not a major area of focus.

So when we talk capital deferment, it is the things that I've mentioned. It is the base metal refinery in Zim. It may touch on the aspired solar plant. But it's not, so for -- I mean, so for us, the integrity of infrastructure, and to be quite honest, I include in that the existing phase length is critical and I am not convinced that you can cut sustained business capital and not increase risk exposure in your business.

Patrick mentioned in the beginning, of the 19 fatalities that we had, 17 were engineering related. We had the 13 shafts, we had a conveyor, we had tractors, mobile equipment and two windshields. Already, that is an indication that we have to be very intensely focused on all the integrity of our tractors fleet, as well as our infrastructure. So I apologize if we've created an impression that we are focusing on the reduction of SIB.

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And then the second question was Styldrift, I'm not sure with what credibility I'm going to speak, because we spoke here about 16 and 20 shafts for 10 years. And today, in hindsight, we probably took a decade too long to bring that into fruition. Thankfully, it did.

So let me just talk to the mine design. It is a board and pillar mechanized mine design. To be honest, in mining that probably -- I mean, the only thing simpler than that is probably an open cost, but it's probably the one of the simplest mining methods that are out there.

I mean, I always say it's like running 100 meters. It's not running the car modes. You must learn how to run 100 meters. It's not difficult. Most of us can finish 100 meters, but not all of us can do a sub-10. And so for me, that's the issue with mechanized board and pillar.

The only complication is that you're doing it through a vertical shaft, whereas someplace, two of the other operations, we are doing it through a decline, so you're going to have surface workshops and so on.

So I don't think technically that the design is the issue. Also, if you look at the stoping width, it's matched to the ore body, where it is at the moment. So I think that the mine design has always been absolutely perfect. That's not the issue. It has been the operating performance. So as leaders, our ability to do the things that we have to do properly.

What are the guarantees I can give you that you won't sit here at the end of next year? I can just give you our expectation. I can give you -- every time we speak, we will give you assurance of our perceived level of progress. I think that we have made progress.

One of the things that we've done, which I think is absolutely key, is that we have integrated IBR under Moses and his team. If you look at Implats, we have got a very small corporate team. The bulk of our technical expertise in the company is in fact based in Rustenburg.

We've seen the early benefits of that through the 2% improvement in recovery in the concentrator plant. We've not quite seen it as far as mining volumes are concerned. We've seen a great improvement. So that's another area that we have seen improvement.

But I would suggest that in the year that we have now been in control of it, we have not actually seen the trajectory change. I think that it's been a year of getting the teams and the expertise and understanding to develop.

I believe that we got the absolute right skills within the company to deal effectively with the issue. And the fact that we have taken 16 and 20 from a decade of ramp up constraints and you -- we managed to overturn that into a success over the last two years. I mean, that gives me assurance because all those people are still part of the company. They are all based in Rustenburg. We can apply the same methodology.

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Johan Theron

All right. Leroy in front and then I'm going to go to the conference call. So just early warning on that.

Leroy Mnguni

Thanks, Johan. I'd like to echo Chris' sentiments. Well done on your operational performance, especially at Rustenburg, where you had to deal with the tragedy toward the end of last year. That was really impressive. Just for my understanding, Impala Canada, the strategy there was to focus on higher grades. But when I look at the grade trend year-on-year, this year it's been pretty flat compared to last year. Is that still expected to change? And then on Marula, you had a very good year FY 2022. I think last year the issues were community disruptions. This year it's geological issues that have affected your face length. I mean, do you believe you can deliver a similar performance than you did in 2022 and what is really required to get back there? And then lastly, if you could please just comment on the IFRS third-party material, the profitability of that operation as it relates to third-party material, please, because we understand prices have come off, energy costs continue to increase and your outlook for those. Can you renegotiate some of those contracts?

Nico Muller

I'll ask Meroonisha to prepare yourself for a financial position on the IFRS contracts. Marula, perhaps you can start thinking about expressing a level of assurance or not on Marula. And I think Tim is on the line, but let me talk to you Impala Canada.

So, I think, Implats has used the words, we are going to change to a high-grade strategy, hence your question. You should follow the grades. I think the right interpretation, actually, Leroy, is we have gone to a higher margin production.

So, if you look at the production zones within Lac des Iles, some parts of the ore body is deeper, it's more expensive to mine, it takes more effort to truck it from underground. So, we are focusing on lower cost ounces, not necessarily higher-grade ounces.

So, if we have spoken about a higher-grade strategy, that possibly technically is not entirely correct. It's a higher margin strategy and where you can see it is in the cost reduction. I mean, I spoke about the $948. So, they have come from over $1,200 an ounce to below $950 an ounce, not only because of the high-grade strategy, it's also restructuring and optimization and cutting some costs.

But a big part of that journey has been the higher margin strategy. We are nevertheless expecting marginal-grade improvements in the next year, but I caution, it is -- the strategy should not be interpreted as a high-grade strategy, it's an improved margin strategy, okay? So, Patrick, do you want to talk about Marula?

Patrick Morutlwa

Yeah. Yeah. Let me talk about it. So, I think it is not uncommon for a mine to lose space there because of some geology that we did not anticipate. But I think it is how quickly do you bounce back from that setback. And I think Marula was also hampered by a high turnover on critical skills, given the location of where it is.

So, we have worked very hard to appoint the right people so that we give ourselves the ability to execute the plan and I'm very confident that we filled all the critical positions, we have made capital available to be able to access the new areas and to bring those we have lost through redevelopment. But like I say, it was also exacerbated by the fact that the high turnover, we did not have the people constituted there to execute the plan.

So, I'm very confident that we will see the phase-out coming back. As a matter of fact, I can report that six months ago, we were sitting with a penalty-to-crew ratio of 0.5. It is now improved to just below 1. We want to be around 1.2, 1.4 because then you have flexibility. So, we are seeing exactly that.

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But we're also looking at broader issues, infrastructure, as you recall that Marula is now mining at the lower levels. But it is all anchored on having stability on the leadership front, which I believe we have now.

Nico Muller

So, the Eastern Limb for me is very interesting. You've got the Steelpoort Fault and all the mines to the south of that generally perform well. Booysendal, Two Rivers, historically ever south, all bodies are more benign. Communities generally are more mining-friendly. And to the north of the Steelpoort Fault with Dyke, Marula and everything north has always been challenging.

And one of the difficult things there is to attract and retain the right skills because north of the Steelpoort Fault, you start moving to Steelpoort Burgersfort which is not deemed the most attractive. So, if you're a mining professional or people prefer to live south, live in Lydenburg. And so, the regression happened when we transferred Moses to Rustenburg. So, we have certainty that he could move back if we don't. You must leave a lasting legacy and not allow.

So, I think, so Patrick has worked with me and I think that the -- so the change is -- I think the appointments that they're looking at now are people that have been there, that they've got assurance that they've been there for a long time and so, I think, in the east and the north, we can talk about community and there is some -- so I -- it was my view that in the lean times, we probably under-invested in some aspects of Marula, for instance, the mobile fleet. But essentially, it's got to do with the strength and the continuity of leadership and I think that we are at a point of changing that and creating consistency there. So, I see his optimism. I think it can get back to 2022 levels and it can be maintained there.

Arnold Van Graan

So, if you look at various margins, even in a low price environment, because your material is bought at a cost that's related to the market, typically, your margins will still be stable because we conclude them as purchase of material contracts. So, I would use margins of between 9% to 10%. So, similar margins to what you've seen in this year. Clearly, when price is on an upward trajectory, then the margins have the -- depending on how the timing of purchases and stock releases, those margins can then vary either up or down.

Nico Muller

But perhaps one truth that you touched on, it's not necessarily got to do with pricing, but we as a company have invested significantly in upgrading our purchasing capacity. So, if you look at historical terms of these off-take agreements, it was purely based on the marginal increase in cost associated with treating that processing. But right now, for us to consider new off-take terms and agreements, it's not just the marginal increase in cost, it's also the recovery of that proportionate share of capital that we've invested. So, I think the existing contracts, they are what they are. But for all new contracts, we have to consider a different financial position offering terms to new customers.

Johan Theron

Thank you, Leroy. We've got five or six minutes left. I definitely want to go to the call where we've got 50 participants. I see somebody has already queued, but I'm just going to hand over to the operator to just talk you through and then we'll take some questions from the call.

Operator

Thank you. [Operator Instructions] The question we have is from Adrian Hammond of SBG Securities. Please go ahead.

Adrian Hammond

Good afternoon, everyone. Thanks for the opportunity. I'd like to ask a few questions. Firstly, Nico, you talked about long-term competitive positioning for the business with a couple of options within the portfolio, but you did allude to Zimbabwe as having quite a few options. Do you plan on investing more in there and could you expand a bit more on whether that will be metal based and maybe tie that up with the expansion capacity you're currently doing? Does that allow -- how much capacity spare do you have and was that also earmarking the growth you expect to get from Bafokeng to 650,000 ounce I think you mentioned in 2027? And then just to qualify that should we be modelling that in our forecasts going forward for Bafokeng and is the CapEx guidance you've given, which is pretty flat for the next couple of years, does that accommodate for that growth? And also just perhaps you could give us a feel of how you've integrated Bafokeng into the business, given particularly on the labor front, you do have two very different unions with very leadership styles. How is that going to be managed? And do you intend to ever consolidate Bafokeng into the group, into, sorry, into Rustenburg such that you could actually realize further synergies with those two legal entities? And then perhaps if there's time, if Johan can comment on the market dynamics, you did mention in the past there was some increased buying from your clients. Perhaps you could give us some color where that sits today and where do you think the destocking cycle is? Thank you.

Nico Muller

What I intend doing is sharing the load, so let's just allocate. I'll talk about Zimplats and posturing and investment appetite. Mark or Adelle, between the two of you, they need a mic. If you want to talk about processing capacity and what capacity we have. There was a question about the R8 billion to R9 billion capital that provides the growth, I can touch on that. IBR integration, perhaps, you want to lead, but Lee-Ann is online, so you can also assist. Consolidation, we will talk to her, you can talk to that and then Johan between yourself, Emma, you can talk to the market.

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So, as far as our investment appetite or investment posture is concerned in Zimplats, we've been present in Zimbabwe since 2000, just after 2000, so in excess of 20 years. It's always deemed a high risk jurisdiction. For us, it has been an exceptionally positive experience. We understand there have been policy changes that happen from time-to-time. We frequently engage through Zimplats with the government. We are aligned with them.

On top of that, they have the remaining world-class assets. Shallow -- the Great Dyke is associated with mechanisable shallow assets. So, in my mind, if I look at the globe's PGM opportunities, that has to be the most attractive. So I would suggest that if there are going to be any new developments in the future in PGMs, if we are going to rebalance the assets of the industry, I am predicting a higher probability of us having new production emanate from Zim.

We are not planning any new growth in Zimbabwe. We will do everything that we can to extend the lives of Mimosa and North Hill is not happening, and Zimplats, when the new portal studies are in process. Our current position is to maintain life. We've got 50% of the group's reserves in Zimbabwe and so we see a long life, but we do have the processing capacity, which historically was a constraint.

So now we have got the -- Mark, do you want to talk to the exact excess capacity, but at least we have got the ability to consider treating Mimosa's material or part of the material in -- at Zimplats or potentially any new production that may emanate in that country. So, don't take my comments as us having an investment option on a table that we are going to announce to the market. It's more a long-range, strategic direction comment that I made. Capacities. Adelle, do you want to talk about it?

Adelle Coetzee

Thanks. Thanks, Nico. Yeah. We are in a very fortunate position to have good capacity available at the moment. Based on our roadmap on how we are going to use the capacity, as Meroonisha already mentioned or alluded to, for the next few years we will use the capacity to destock some of our concentrate stockpiles. After that, obviously, we will get the buffeting material in, 50% of that and that is part of our roadmap. And then we will have excess capacity going forward for our own growth or for more third-party concentrates.

And if I need to give, if I must give an estimate in terms of how much capacity will be available, depending on the base metal content of the concentrate, if we look at 660 ounces, I will say capacity-wise in the next three years to four years will be between 600,000 and 800,000 pg, 660 ounces, that we will have available going forward over the next four years or five years after depletion of our stock levels. Thank you.

Nico Muller

Thank you. And in the capital, the question on capital growth, the growth that I see happening in the company is from existing infrastructure. It is in the form of Styldrift, Marula, a bit of expansion at Zimbabwe. There is no new capital project required. It is from existing infrastructure that has the capacity to yield this increasing production. So I am not concerned with the idea that it requires more capital investment in order to, there is no expansion capital required in order to get there. IBR integration, are you integrating or are you not?

Mark Munroe

Yeah.

Nico Muller

What do you say on that?

Mark Munroe

Nico can comment on that, then maybe Lee-Ann can add. I mean, Adrian's question is really on how do we integrate the two entities and take into account that they've got different unions. I think our objective is very clear. We basically want to make sure that this integration, it makes sure that RBPlats make money.

I think that's very clear. And we obviously, we know it's a good asset. It will extend the life of mine in Rustenburg. I mean, we take that into account during this integration. Nico spoke about a few projects as well earlier on. And we obviously are aware that we want to make sure that people's jobs are secured.

So if we look at the operating model that we've put in place, we've taken these three points that I've mentioned into account. So IBR as an entity now reports to me, I've spoken earlier on with regards to what we intend to take to IBR from the experience point, from the performance point of view and I think we should be able to cover those three areas that I've mentioned.

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That's a program office that we've set in Rustenburg. The intention of the program office is really just to make sure that the low-hanging fruits from the synergies point of view is rolled out as quickly as possible. If it has to do with cost saving, we need to do it as quickly as possible so that we can just get RBPlat to cash neutral. I think that's from the operational point of view.

If you move on and look at it from the stakeholder, the key stakeholder point of view, we've got a framework and I think Rustenburg has in a long time implemented a strategy where we engage unions openly in robust discussions. We've made sure that we've set it up as such at IBR to make sure that if there are issues on the floor, the forums that -- and the ability of allowing people to raise open issues in those forums are actually addressed, those issues is actually addressed. I think that's what we intend to do, Nico, from the IBR point of view. I'm not sure if Lee-Ann's got anything to add.

Nico Muller

Lee-Ann, do you have any comments?

Lee-Ann Samuel

Very well. I think the one thing that I would like to add to the question specifically is that while it remains two separate entities, we will maintain and honor the recognition agreements that we have in place with the two majority unions there. At IBR, they do have the close shaft agreement that doesn't allow for other unions to gain recognition and we are working through a facilitated process at the moment to look at the close shaft agreement.

But once the business becomes one entity, then we are going to have to get the NUM and Amcu around the table so that we can go into a different recognition agreement. So we are foreseeing that that will happen before the end of the financial year, but we have been engaging all of the unions with regard to consolidation and how it will affect the recognition agreements. Thanks.

Nico Muller

Just to end off on that issue. When we acquired the asset, we made certain undertakings to management, unions, it was a…

Patrick Morutlwa

Competition.

Mark Munroe

Competition.

Meroonisha Kerber

Competition.

Nico Muller

…competition commission and so forth. And our undertaking was to provide job security and to make sure that there are no changes due to the transaction and that was absolutely correct. The asset made R3 billion loss last year. So, at the time that we were doing the transaction, we were at a different price point and I mean, it presented the ability and the security to provide that assurance.

So when you make R3 billion loss, it changes things tremendously. It changes the landscape very, very rapidly. So we have to choose between, well, this, I mean, production improvements, but clearly a R3 billion loss on an annual basis is not sustainable.

Adrian Hammond

Yeah.

Nico Muller

It has to change. Are we going to change it or close it? It is one of the two. I mean, no company can support a R3 billion loss continuously. So, it has always been our intention to, over a long time, to integrate it and even to consolidate it into a single company, but the undertaking was not to do that in the initial few years. So our ambitions have sped up. The position has changed. The urgency with which we do it has changed.

There are many aspects. Lee-Ann, Moses spoke about the unions. You have the bargaining units and the unions represented. You have terms and conditions of employees. You have management structures and processes. And I think there are massive opportunities for us to do different things over different time periods. I mean, to integrate great SAP [ph] procurement systems is probably going to take some time.

But we had our -- we had the two concentrators report into our mineral processing division within the first month. We have seen a 2% improvement in recovery because there are skills that can join hands and work together. I am not saying that we are superior. I am just saying there are more minds that can be applied to the position that can support one another. I think those opportunities exist in other areas and I do think ultimately we will see a consolidation into a single formal company. The two assets, no doubt about that. Mark, would you like to say something of client, customer…

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Mark Munroe

Yeah. I think maybe we can just close on that. We are a little bit over time. There are also some questions on the webcast that I have taken note of from JPMorgan, Bank of America, Citi, Noah and Visio. Sorry guys, I will make sure we get back to you. We haven't spoken much about the market.

I think the important thing is that I have spoken to Sifiso. We are seeing strong buying from our customers. So, all accounts, the market remains constructive. We are hopefully seeing signs that we are nearing the end of the destocking period with prices coming down. It is obvious that people have been putting metal back in the market.

Sifiso and his team are engaging with our extensive customer base and they are going to be looking at signing new annual contracts. We are confident that we are going to see a request for stronger metal into the next year or two. And some of the buying action that we have seen and some of the destocking that has run its course.

But we will be in a better position to report on that and I will certainly welcome any conversation on the market where we have more time and we can bring in some of our local experts to perhaps add to that. So, I think there is clearly still a dislocation between what we are experiencing in the physical buying and the prices and maybe we can explore that when we get together.

So, thank you for that, and thank you for my team and thank you for everybody that has joined us today, either here or online. Please, as we close now for people in the room, the whole executive team is here. We would welcome some further engagement and conversation beyond this call. For the people that we are going to be seeing in the next two weeks or three weeks on the road, looking forward to meeting up and then perhaps exploring some further these issues that have been raised. Thank you very, very much. And with that, we will close the proceedings.

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