

Minergy's strategic turnaround plan showing early signs of resilience and progress in a tough trading environment

Strong potential to achieve Minergy Coal's financial goals and emerge stronger in the coming years

Key features

- *Operations successfully resumed:* Our mining operations resumed in February 2024, boosting coal production efficiency.
- *Cost efficiency improved:* The new mining contractor has reduced costs by 25%.
- *Safety and environmental excellence:* We maintained our record of zero lost time injuries ("LTIs"), with this achievement recognised by the Botswana Chamber of Mines.
- *Customer re-entry progress:* We have regained key customers, and are in ongoing discussions for major contracts.
- *Positive coal market trends:* Global coal prices are improving, strengthening of Minergy's market position.

25 September 2024 – Gaborone – Minergy, the coal mining and trading company, today released results for the year ended 30 June 2024. Minergy is in the midst of a significant transformation, strategically and operationally.

"Previously, operational disruptions presented challenges, precipitating this new strategic and operational drive towards business improvement. The implementation of the strategic turnaround plan is well underway, showing a resilience backed by early signs of progress that are positioning the company for operational stabilisation and a successful turnaround," said Matthews Bagopi, Acting CEO of Minergy Coal (Pty) Ltd (Minergy Coal).

Key focus areas, such as establishing robust strategic partnerships, improving efficiencies and production, strengthening customer relationships, and optimising the capital structure, are currently being actively addressed with a measure of vigour and persistence. Bagopi explained that as these initiatives take hold, the company has a strong potential to achieve its financial goals and emerge stronger in the coming years, with a positive outlook for the coming financial year.

"Being a mining operation, we are also extremely pleased to announce that we have maintained our exceptional safety record, with no LTIs or reportable incidents during the financial year, thus preserving our zero LTI frequency rate."

In respect of Minergy's ongoing environmental efforts, the company is collaborating with its new mining contractor, Meropa Resources, to explore an environmentally friendly chemical dust suppression solution along the road to Lentsweletau, addressing community concerns related to truck traffic dust. "This is an interim solution whilst plans for upgrading the mine access road are being finalised."

Terminating the previous mining contract was a significant milestone in the strategic turnaround, compounded by the financial challenges in the 2023/24 financial year. This led to the stoppage of mining activities and resulted in over six months of lost revenue. The appointment and onboarding of Meropa Resources has been successful and mining activities were resumed after six months of no mining.

Meropa Resources is a consortium of local and citizen owned mining companies, not only successfully resuming operations at Masama Coal Mine, but also changing the landscape of contract mining in the country, diversifying an environment largely dominated by large multinational contract mining companies.

According to Bagopi, steady state production was envisaged for June 2024 but this has not been achieved due to slower than anticipated market offtake. “However, the production capability to ramp up to steady state is now in place. The new operational processes have resulted in efficiency gains that have improved mining costs as planned, marking a critical step towards entrenching profitability.”

Marketing and sales activities are gaining momentum, with customer requests coming in and offtakes starting in May 2024. This followed coal production through the processing plant during the month of April, enabling several product trials by customers to assure themselves of the quality. “The resumption of mining has not only regained our customers but has opened up new markets and new supply routes which have shown the innovation of our sales teams and our logistics partners.”

Financial Review

The financial results mirror the gloomy operational year that encompassed almost six months of no mining and reduced/minimal coal sales. However, the transition to Meropa Resources is now complete, with full production capacity expected by November 2024, following current market offtake trends.

Minergy’s strategic turnaround plan involved securing substantial funding from the Minerals Development Company Botswana to stabilise operations and to ensure Minergy is positioned as a low cost operator into the future.

In line with the stoppage of active mining during transition, revenue significantly decreased year-on-year, with an 81% decrease compared to the previous year. During the period, coal sales were expectedly minimal. “Minergy is now singularly focused on implementing strategic initiatives to stimulate growth and improve performance in the coming year,” Bagopi explained.

The cost of sales decreased by 64% year-on-year in line with the above. The continued fixed costs, in the face of declining revenue, put a strain on the company’s cashflows, necessitating further borrowing that enabled the ongoing business transition.

Operating expenses were 47% lower year-on-year, largely due to the reduced scale of operations. Certain key management positions are currently being supported by seconded staff from the MDCB.

Finance costs increased by 37% year-on-year, driven by the highly leveraged capital structure and the additional debt as highlighted.

The company’s net loss before tax, increased by 35% year-on-year mainly due to a significant decline in revenue and higher finance costs. The decrease in the year-on-year net profit shows the combined impact of operational disruptions, increased financing costs, and the delayed recovery in sales, all of which reflect the challenging operating environment during the financial year.

The total comprehensive loss for the year amounts to P187 million, with a resulting loss per share of 40.10 thebe.

Market conditions and outlook

Minergy Coal has made significant strides in gaining new customers and some success in regaining its customer base, particularly within the traditional blue chip customer base, which is the primary consumer of duff coal. This is supported by the quality of coal and the renewed availability of product. Customers are resuming off-takes increasingly as the new financial year progresses, with an expectation that more customers will re-engage by September 2024. “This positive trend suggests stabilisation and recovery in this crucial market segment.”

Bagopi went on to add that Minergy is engaged in focused discussions with long-term offtake customers in the regional power sector, as well as project developers looking at using unwashed Minergy coal products. “Minergy continues to ensure operational stability during this period to solidify these potential long-term supply agreements, which would significantly enhance the company’s market position.”

Global coal price trends have trended above the long term average of USD85, presenting reasonably favourable conditions for Minergy, albeit not as lucrative as the record levels of 2022. As of 14 August 2024, globally traded coal prices have surged from an average of USD100/ton to USD117 (API4)/ton, reflecting a robust resurgence in the market.

“This price increase bolsters confidence in offshore exports and positively impacts inland market prices, where Minergy primarily operates. While the offshore market is promising, Minergy plans to capitalise on these opportunities.”

In conclusion Bagopi said, “Looking ahead, Minergy is well-positioned to take advantage of these market developments. The combination of a lean and efficient production environment, regaining key customers and opening new markets, potential long-term contracts, and favourable global price trends offers a solid foundation for growth and profitability in the upcoming months. The company is working towards unveiling its long-term resource development plan for the life of the mine, and a five-year corporate strategy for the period 2025-2029, which will be shored up by a new business operating model designed to deliver the strategic goals contained in our medium and long term plans.”

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