An extremely challenging year for Implats

Impala Platinum Holdings Limited (Implats) announced results for the full year ended 30 June 2012 today.

Terence Goodlace, CEO of Implats, says that FY2012 was an extremely challenging year dominated by changing workforce dynamics both at the company and across the industry. “The platinum industry is experiencing increased levels of industrial action as witnessed at both Impala Rustenburg at the beginning of this year and more recently at Lonmin with the associated tragic loss of life. These developments pose a significant risk to the industry. We condemn violence in the strongest terms and firmly believe that the disputes facing the industry today can only be resolved in an environment of peace, stability and order. Respect and care for our people and our communities is integral to this process. Implats is actively and collaboratively engaged in dialogue at the highest levels to create a sustainable long-term future for the industry for the benefit of all stakeholders.”

He continued: “Implats’ operational and financial performance in FY2012 was significantly impacted by the six week illegal strike at Impala Rustenburg. The lower sales volumes resulted in a loss of revenue of R2.8 billion. At the same time, the weakening macro-economic environment driven primarily by the Eurozone crisis, had a detrimental effect on PGM prices which are impacting on the platinum mining industry. As a result Implats’ cash generation decreased by 40% and the company has implemented cash preservation strategies to weather the economic downturn. Our operations are continually being assessed to ensure profitability. A full review of capital spend has been undertaken and expenditure for FY2013 has been reduced to around R6 billion, down from R7.3 in FY2012. However, the long-term market fundamentals remain sound and we continue to invest in our current suite of capital projects to ensure future production.”

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Key features

- Safety – a mixed performance and a new cultural transformation model required
- Production and costs – six week strike contributes to a 21% reduction in platinum produced to 1.45 million ounces and a 24% increase in unit costs to R13 450 per platinum ounce
- Profits – gross profit reduced by 40% to R7 billion and net profit by 37% to R4.3 billion
- Capex – capital investment, primarily on major long-term projects, increased by 38% to R7.3 billion
- Earnings and dividend – headline earnings 38% lower and the final dividend reduced to 60 cents per share
- Market – the market for PGMs under pressure although automotive demand remains resilient

Safety

Safety remained a challenge for the group and a major new initiative is required to change the safety performance at the South African operations. Regrettably seven employees and five contractors died in work-related incidents during the year and the Board and the management team extend their sincere condolences to the families and friends of the deceased.

There were a number of notable safety achievements during the year and we continue to drive safety as our key priority in doing business. Safety initiatives include the development and implementation of a new cultural transformation framework and driving the Du Pont STOP process. The South African operations have also committed to installing safety nets in addition to hanging wall bolts, proximity warning devices on mobile trackless mining equipment, shaft safety devices and the training of 3 200 safety representatives. Implats has joined the Chamber of Mines as a full member and will participate and contribute to the tripartite industry health and safety initiatives.

Market

Platinum group metal markets have been primarily influenced by macro-economic events rather than fundamentals for the metals themselves. The recovery in world markets post the 2008/9 global financial crisis has been negatively impacted by the financial woes currently being experienced in Europe. The resultant low metal prices in conjunction with low productivity and high mining costs have stressed the platinum mining industry. The key drivers for PGM demand, however, remain sound. Automotive sales still show positive growth globally driven by the US and China but offset by a decline in Europe.

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Ticker symbols:
JSE: Imp
LSE: Ipla
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Financial performance
Implats’ financial performance was significantly impacted by lower production volumes primarily due to the six week strike at Impala Rustenburg. Revenues fell by R5.5 billion from FY2011 to R27.6 billion. Units costs for the group increased by 24% due to inflation on wages, power and consumables and the lower volumes. Cash from operating activities decreased by 40% to R5 billion and, as a consequence, the cash balance decreased from R4.5 billion to R0.6 billion. In line with the decline in headline earnings and the poor economic outlook, the Board has lowered the dividend for the year to 195 cents per share.

Operational performance
At Impala operational performance was adversely affected by the six week illegal strike and the subsequent slow build-up of mining volumes. Production declined by 20% to 750 100 ounces of platinum. The lower output negatively impacted unit costs which rose by 29% to R13 913 per platinum ounce. Capital expenditure increased by 24% to R5.3 billion the bulk of which was spent on the new shafts.

Labour relations continue to receive management’s attention and the company increased dialogue with all stakeholders and remains committed to working within the legal framework with all the associated parties in order to achieve a new multi-union dispensation.

Zimplats once again delivered an excellent operational performance. An increase tonnes mined resulted in a 3% increase in platinum matte production to 187 100 ounces. Unit costs increased by 6% to US$1 239 per platinum ounce in matte, driven by steep increases in power tariffs and wages. The Phase 2 expansion remained on schedule.

A new indigenisation plan presented to the Government of Zimbabwe in March 2012 was accepted in principle and management remains in discussions to finalise the details of the plan.

At Marula platinum production in concentrate was in line with planned levels at 69 100 ounces. Unit costs per platinum ounce in concentrate declined by 2.4% to R16 483.

Mimosa marginally increased production to 105 950 ounces of platinum in concentrate. Unit costs increased by 6% to US$1 453 per platinum ounce in concentrate due to a combination of higher wage and power costs. The indigenisation plan is being advanced and is receiving priority attention.

At Two Rivers an increase in tonnes milled boosted platinum production to 149 900 ounces in concentrate. Unit costs increased by 12.5% to R10 814 per platinum ounce which was in line with planned levels.

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At IRS refined platinum production declined by 22% to 698 000 ounces due to a fall in the third party and toll treatment contracts over which Implats has no control. This was due to a combination of the once-off toll treatment for Lonmin in the corresponding period a year ago, the closures at Aquarius Platinum and operational challenges at Eastern Platinum.

The Board approved the first phase of the Leeuwkop project located on the Afplats property. The mine is designed to produce 145 000 ounces of platinum per annum from the UG2 reef horizon which will be mined at an 132 centimetre average channel width. The total cost is R9.8 billion in real terms of which R261 million has been approved for the sinking of the main shaft down to 330 metres below surface.

Prospects

The global economic climate is finely balanced between a gradual recovery, supported in some measure by further government stimulus packages, and an unwelcome visit back to recession, driven by the inability of world leaders, particularly those in Europe, to find sustainable solutions to their financial woes. Whilst a recovery in the global economy, coupled with meaningfully reduced South African supply, would see the markets move towards tighter conditions thereby supporting metal prices, a downturn would result in further reduction in margins and a reassessment of capital plans going forward.

CEO Terence Goodlace concludes “Implats continues to invest in the future, but balancing these requirements with maintaining a healthy balance sheet. Our strategy is firmly focused on the delivery of profitable ounces. Mining is a long-term undertaking and requires capital expenditure to ensure future production. The Group is positioning itself to take advantage of the medium- to long-term fundamentals for our metals by ensuring a stable, long-term production platform.”

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