Kumba holds up well after strikes

By Brendan Ryan

24 Jul 2013

Kumba Iron Ore held up well during the first six months of 2013 against deteriorating market conditions and the lingering effects of 2012's strike and has maintained its profit levels as well as increased the interim dividend.

The group on Tuesday (23 July) reported a taxed profit of R10.2bn for the six months to June compared with the previous year's R10.2bn and raised the interim dividend to R20.10 a share from R19.20.

A key factor was the effect of the 16% depreciation in the value of the rand against the dollar in the first half of the year which was partially offset by a 7% drop in iron ore prices.

Chief executive Norman Mbazima said Kumba's total sales for the six months dropped 5% to 22.1m tons from the record level of 23.4m tons achieved in the first half of 2012.

Despite this, Kumba's overall revenues increased 4% to R26.3bn.

Export sales were down 3% at 20.1m tons, while domestic sales were down 25% at 2.0m tons.

Steel production

Mbazima said global crude steel production increased 3% to 787m tons in the first half of this year, with Chinese production going up 8% to a record 385m tons.

"However, faced with strong pressure on steel margins, Chinese steel mills reduced iron ore inventory levels and, as a result, demand for seaborne iron ore grew at a slower pace than crude steel production. Average prices in the first half of the year were marginally down and averaged US$137/ton for the period (US$142/ton)," he said.

Mbazima said steel market fundamentals remained under pressure as the Chinese economy slowed down.

"Iron ore prices are expected to remain under pressure as supply exceeds demand in the second half of the year though restocking by steel mills may support prices in the near term. Kumba's main objectives remain to satisfy domestic demand

and fill the iron ore export channel to optimise exports. The export capacity on the rail line is about 42-million tons and will remain so in the near future."

Asked about Kumba's plans to diversify into iron ore production in West Africa, Mbazima said the group "hoped to make progress in the near future" but would not be more specific.

"West Africa is a difficult environment right now. Most of the people there are running away. The juniors are still there but their balance sheets look distressed," he said.

Source: Business Day via I-Net Bridge