

# Exxaro eyes CoAL of Africa

**J**ohn Wallington, CEO of Coal of Africa Limited (CoAL) will be heartily glad to see the back of 2012, a year in which the coal exploration and production company has seen its share price shrink a ghastly 70% to date. Given that the share was already in the throes of a 37.5% decline when he took over in 2011, Wallington must be wondering what he has to do.

In truth, Wallington hasn't done a lot wrong. He has recapitalised the balance sheet which was, like many small-cap growth companies in the mining space, stressed. The board has also been revamped, including installing David Brown, the former CEO of Impala Platinum, as its chairperson.

But the market has turned on Wallington and CoAL. Thermal coal prices, once \$125/t, slid to a low of \$80 to \$81/t ex Richards Bay after it became clear that the last underpin to the commodities market, China's economy, showed signs it was slowing for a protracted period. Moreover, coal-market analysts say South Africa's thermal export prices could revisit that low again soon with Europe oversupplied and Asian buying of coal unreliable, default-prone even.

This has placed enormous pressure on CoAL's cash flow, derived from two ageing thermal coal mines. What's needed is fast-tracking the company's coking coal production, which is used in steelmaking

(whereas thermal coal is for power generation). Coking coal prices are also under pressure, but CoAL's future is predicated on large-scale output from SA's Soutpansberg coalfields in the Limpopo province.

CoAL's Vele mine, which Wallington described earlier this year as the most famous coal mine in SA owing to the spectacular row that developed over its potential to damage the nearby Mapungubwe region, is due to scale up production later this year. Other potential mines, Chapudi and Makhado, are in development. What CoAL most desperately needs, however, is a big brother with a handsome balance sheet; in other words, an equity partner.

Enter Exxaro Resources. The diversified mining firm has an option over 30% of CoAL's Makhado mine, production from which will also supply ArcelorMittal SA's steelmaking plants if the product passes quality tests currently underway. But it doesn't make sense for Exxaro to be taking a minority shareholding in an asset that's barely priced into CoAL's share price. The expectation is that Exxaro is preparing a bigger offer for CoAL, which may be a larger slice of its coal resources, or a bid for shares in CoAL itself.

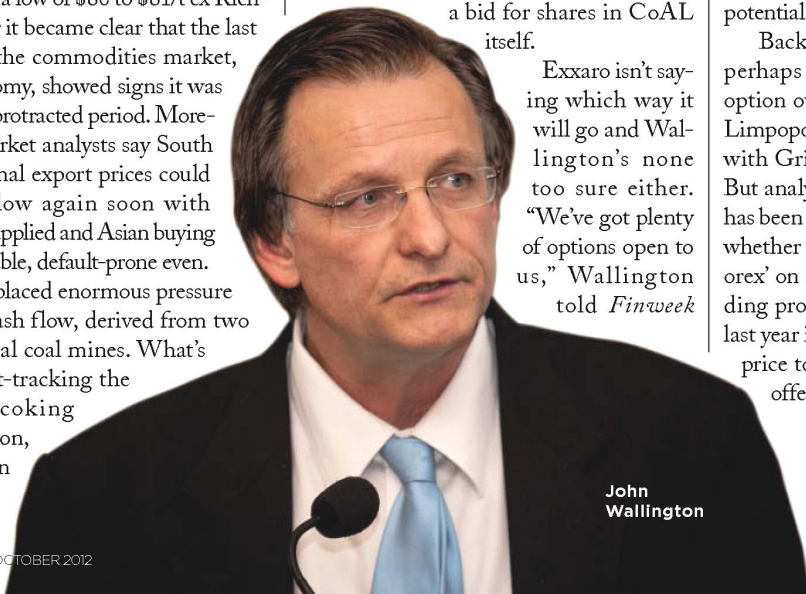
Exxaro isn't saying which way it will go and Wallington's none too sure either. "We've got plenty of options open to us," Wallington told *Finweek*

days before Exxaro's board (28 September) is due to decide on whether it'll exercise its option over Makhado, or perhaps extend it into something more ambitious. The stress is telling: "I really can't talk now. We're right at the end of the process," Wallington said, chivvying this correspondent off the telephone.

There's no doubt CoAL has options, but so do buyers. In fact, struggling junior coal exploration firms are readily available: JSE-listed Firestone Energy, Continental Coal (ASX-listed), Ncondezi Coal Company (AIM-listed) are all seeking equity partners to help them through funding at a time when cash flow, if they had it in the first place, is drying up.

Vitol, a Dutch commodities trader, is known to be on the hunt for cheap coal assets having recently bought itself a stake in Mozambique's Matola coal terminal from Grindrod. Trafigura is another, although its newly appointed mining division CEO, Darryll Castle, isn't convinced there's massive value in the market. "If you think long-term commodities are going to increase again, then perhaps it could be a case of Christmas coming early," he says of potentially cheap junior mining companies.

Back to CoAL, there's a feeling that perhaps its greatest pulling point is an option over 20Mtpa of rail capacity from Limpopo province to Matola, a deal struck with Grindrod (and by extension, Vitol). But analysts are worried. "The share price has been under huge pressure. I just wonder whether potential buyers are doing 'a Metorex' on it," says one, referring to the bidding process for mid-tier miner Metorex last year in which suitors allowed the share price to dwindle before finally pitching offers.



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