

# Suitors stalk Universal Coal

*Steel manufacturers aim to secure supplies and manage key variable input cost*

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JUNIOR miner Universal Coal has caught the attention of steel manufacturers who are on a scramble to secure coking coal assets.

The company is listed in London and Australia and said yesterday it has appointed financial advisors to assist it with "informal approaches from steel manufacturers". These manufacturers seem to be interested in taking equity in Universal Coal's Berenice-Cygnus coking coal projects in Limpopo.

In a statement released yesterday, the company said it expected increasing interest in these assets. "Universal has not received a formal statement or offer from any party regarding these assets," said the group.

"The company continues to be in discussions with various equity investors and industrial groups in the steel and power generation sectors regarding its operations in South Africa," it said in a statement.

According to media reports from Australia, the company has begun talks with unnamed Chinese and Indian steel manufacturing groups. The reports stated that the company might decide to appoint advisors as early as this month to manage the process of bringing in a strategic partner. Universal Coal declined to comment further yesterday.

Coking coal's demand has grown over the past few years at the back of strong



**COKE TIME: Steel manufacturers are said to be showing interest.**

Picture: GETTY IMAGES

steel markets particularly within the Asian and South American countries. Prices have rocketed adding to the growing cost base for steel manufacturers.

In 2009, ArcelorMittal, the world's leading integrated steel and mining company, bought a 16.3% stake in Coal of Africa for about R404.5m. The transaction was aimed at securing part of ArcelorMittal SA's future coal

needs, mitigating one of the company's key variable input costs.

As part of the transaction, ArcelorMittal South Africa had an option to enter into an off-take agreement with Coal of Africa for the supply of 2.5 million tons of metallurgical (coking) coal annually. Last year, ArcelorMittal announced that it was planning to increase its iron ore and coking coal interests by between 10% and

20%. ArcelorMittal SA has also said it was on the lookout for iron ore assets in a decision driven by similar fundamentals which have seen steel manufacturers scramble for coking coal assets.

In 2010, ArcelorMittal produced about 49 million tons of iron ore and 7 million tons of coking coal from its own production. When asked questions about the Universal Coal developments, an

ArcelorMittal SA spokesperson said the company did not comment on market speculation.

In December last year, Universal Coal advised its shareholders that its two early-stage coking coal exploration projects in Limpopo were likely to be the catalyst for substantial and increasing investor interest during this year.

The company said the Berenice-Cygnus project in particular, situated in the emerging Soutpansberg Coalfield near the Mozambique and Zimbabwe borders, with a gross in situ resource of 1.3 billion tons declared from the first phase of drilling, was already attracting interest.

It said despite the potential of the new coking coal projects, the company remained focused on developing a profitable business and strong returns for shareholders at its near-term production thermal coal projects in the heart of the Witbank coalfield. These three projects have a total of 294Mt of resource of export and domestic coal.

Universal Coal chairman Tony Harwood said his goal for this year was to achieve market recognition of the potential of the thermal coal projects to provide a robust and profitable platform for growth, and to fully exploit the potential of the coking coal assets that were set to redefine Universal's business and increase its appeal to investors.

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