RBPlat to gird for year of cost, capital pressure

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A quantum increase in labour costs and the first draw on project debt would turn the screws on Royal Bafokeng Platinum (RBPlat) which said the current financial year would witness only modest support from the platinum market.

As a result, RBPlat CEO, Steve Phiri, said cost control remained the single most important goal for the company including keeping a tight rein on employment levels and a possible further reduction in capital expenditure.

In February 2012, RBPlat said it would defer R462.4m in capital spending, comprising exploration drilling at the Bafokeng Rasimone Platinum Mine (BRPM) and Styldrift II North shaft (R71.1m); construction of a chairlift at BRPM's South shaft (R90.7m) and R300m in BRPM concentrator facility upgrades.

“We will continue to review our capital expenditure and where possible, reduce expenditure, provided the reduction does not place our business sustainability at risk,” said Phiri.

“Given the economic climate and the level of cost increases in 2012, cost management will be a key success driver for RBPlat during 2013,” he added in notes to the group's full-year results announcement in which headline earnings fell just over a third to R170.3m year-on-year. No dividend was declared.

RBPlat's primary project cost is the R11.8bn Styldrift project, an expansion slated to double the company’s platinum production to 600,000 oz/year.

Having spent R1.19bn on Styldrift in the 2012 financial year (2011: R1.16bn), Phiri said the accelerated capital expenditure profile of the project, in which production was due to start in 2015, would see the company tap into some R500m in debt facilities in the current financial year. Some R1.3bn would be spent on the Styldrift this year.

A major pressure for the group, however, was labour costs which now comprise about 62% of all cash costs which compares to traditional levels of 50% on South Africa's underground, hard-rock operations.

Phiri said RBPlat had installed an incentive scheme which implied above inflation wage increases for employees as well as contractors. While the scheme was intended to lower overall costs in time, the short-term hit compounds runaway cost profile of the country's mining sector.

Utility cost increases exceeded the consumer price inflation index by 11% while labour costs exceeded this inflation measure by 3.4%, Phiri said.

“The grave state of the global economy, affected by the ongoing financial woes of the European Union and the consequent slowing of growth in China, has resulted in weak demand for PGMs and falling metal prices,” said Phiri of the market.

He believed that while the platinum price would trend softly up in the current financial year, automotive demand for platinum, which is a key driver in pricing of the metal, would remain flat year-on-year.