

Life After Consolidation: The South African Ferrochrome Industry Landscape

Over the last eighteen months or so, a number of South African producers either went into business rescue or reduced their ferrochrome output. At the end of the third quarter, chrome ore prices reached a six-year low, though by July, prices had rebounded to its highest levels since 2008, driven by Chinese demand and relatively low chrome ore inventory levels.

The recovery in chrome ore prices has coincided with the consolidation of the South African ferrochrome industry. This follows the closure of Tata (KZN), International Ferro Metals (IFM) and ASA Metals (ASA). Common to these three producers are that they were not fully vertically integrated. Either they had no direct ownership of chrome ore assets (Tata) or they had relatively high cost mines. Mitsubishi has announced that it is ready to sell its stake in Hernic ferrochrome, which appears to face similar challenges to IFM and ASA, namely that of high cost ore production.

While South Africa boasts the largest chrome ore reserves in the world, as freight charges to China declined, the cost of shipping ore as a percentage of the overall cost of producing ferrochrome declined. Consequently, those South African producers, without a captive chrome deposit and fully reliant on purchasing chrome ore in the open market, had little advantage over Chinese smelters that needed to both purchase ore in the market and ship it over to China. This, coupled with increased electricity prices and wages in South Africa, has eroded South Africa's competitive advantage with respect to ferrochrome production.

The South African ferrochrome market is now going through a

consolidation phase, which could result in some of these plants coming back into operation. This is our take on the current and future landscape of the industry.

- **IFM** has now completed the ZAR300m sale of its local subsidiary to **Samancor**. The remaining transactions, for which conditions are in the process of being fulfilled, will see ZAR140m raised for the IFMSA mining rights and beneficiation plants as well as for Sky Chrome. In addition the IFM's sale of Sky Chrome's equity will go through for ZAR100. We expect that the IFM plant will be brought back into operation by 4Q16. (total nameplate capacity 267,000 tonnes)
- Chrome ore trader, **Sail Mining** has entered the mining game. The company has bought a stake in the **Chrometco** chrome operations. In addition, Sail has confirmed that they are in the process of acquiring **Mooihoek** (located in Dilokong, Limpopo). At the time of writing, the announcement was not yet formalised so Sail management could not elaborate further.
- **Mooihoek's** nameplate capacity is around 410,000 tpa, rendering it one of the largest chrome ore mines in South Africa. We speculate that if the deal goes ahead, that Sail will work out a JV arrangement with **Samancor** to expand production of Samancor's ferrochrome and then take on the marketing role.
- **Traxys** has finally bought out **Tata Steel KZN**. Traxys is expected to start planning the commencement date of Tata in the near future. The plant will be supplied with ore from Traxys' mines in Steelpoort and Safateng, which is just over 600km away from Richards Bay. Tata Steel has a nameplate capacity of 150,000tpa of ferrochrome. Tata KZN often struggled to meet its target owing to production costs and lack of captive ore and for a number of years had been trying to acquire a suitable

chrome deposit.

- **Glencore-Merafe** guided higher 2016 ferrochrome and nickel production for 2016. In 1H16, Glencore's attributable share of ferrochrome production was 762,000 tonnes and the company has guided 1.575m tonnes for 2016, up from 1.462m tonnes in 2015.
- While there has been no indication from either Herculite or Glencore for a possible merger or buyout, the Herculite plant may be a good strategic fit for Glencore. We expect that these increases in corporate activity may increase the likelihood of Glencore bidding for the 420,000 tpa Herculite operations.
- Glencore dominates the UG2 chrome ore market on the Western Limb and Herculite is located close to Rustenburg. If there was a merger, then Glencore's overall chrome capacity would rise to 2.7m tpa.

In effect once the dust settles, South Africa's ferrochrome market is expected to be dominated by two major players, namely, Samancor and Glencore. While Afarak and Traxys will remain much smaller entities, producing charge chrome and we expect that Afarak may even be bought out or merge in the relatively short term.