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NWR.L - Q3 2015 New World Resources Plc Earnings Call

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CORPORATE PARTICIPANTS

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Boudewijn Wentink *New World Resources plc - Finance & Legal Director*

PRESENTATION

Operator

Good day and welcome to the NWR 9M 2015 results conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Radek, Head of Investor Relations. Please go ahead, sir.

Radek Nemecek - *New World Resources plc - Head of IR*

Thank you, operator. Good morning, everyone. And thank you for joining us for this call where we will discuss our results for the first nine months of this year.

We are joined today by Boudewijn Wentink, our Finance and Legal Director, who will present our results to you. At the end of Boudewijn's presentation, we will open for your questions for about 15 minutes.

Before we begin, let me remind you that this event is being recorded and that the recording could be made available on our website shortly after the presentation.

With that, I would like to hand over to Boudewijn.

Boudewijn Wentink - *New World Resources plc - Finance & Legal Director*

Thank you, Radek. Hello and welcome, everyone.

I would like to begin with some general remarks about the first nine months of 2015. Everyone is well aware that challenging global market conditions persist for our industry; slower global industry output putting pressure on coking coal prices, even though the CEE is structurally short of coking coal. And the dynamics of our regional thermal coal market are also challenging, there was regional oversupply and aggressive pricing by certain competitors.

But all this is not to say that we're standing idly by. We're beginning to benefit from our previously announced cost saving initiatives. More savings will come in the coming quarters, though, as I will explain later in my presentation, we're now facing harder choices to be able to reduce costs further.

Meanwhile, we're proud that our lost-time injury frequency rate has continued the lowering trend from the first half of the year.

While management is focused on performance improvement, we are keeping a close eye on NWR's long-term potential as a key component of our region's infrastructure.

And finally, given the persistently tough trading conditions, let me be clear about our financial position. Cash control remains our priority, as demonstrated by the cash position moving back to EUR80 million. But we're never complacent. And as I will explain later in my presentation, we're pursuing all opportunities to further secure our financial position and long-term potential.

We are accelerating cost cuts, though harder choices lie ahead, by tightly managing cash and analyzing long-term strategic options, including optimizing operations, maximizing cost savings, and regional asset consolidation.

Now I'd like to walk you through the highlights of our financial performance during the first nine months of 2015. Please refer to slide 5.

Our revenues for the period were EUR445 million, 12% down year on year, as a result of overall lower sales volumes and negative mix. Our coking coal sold for an average realized price of EUR92 per tonne, up 7% year on year. And our thermal coal sold for an average realized price of EUR51 per tonne, down 9%.

Looking to costs, you will see that we have maintained our cost management discipline along with new targeted saving initiatives. Together these have partially offset the top-line pressure.

We have successfully reduced sales administration costs by 14%, and cash mining costs were at EUR96 per tonne (sic - see slide 5, "EUR69"). Though up 2%, this is still a decent performance, given our lower production and the high portion of fixed costs in our business. Clearly more savings will need to be secured to counterbalance persistently soft demand.

We posted an EBITDA loss of EUR4 million for the first nine months of the year. Below EBITDA you will see the non-cash gain of EUR47 million on the fair value revaluation of our mandatory convertible notes, which we already reported and discussed in the first quarter.

Going to the bottom line, we reported a basic loss per A share of EUR0.28, a result not flattered by a negative EUR8 million year-on-year increase in tax expenses, because of the fair value change of the convertible notes, which is taxable income that could not be offset.

Net debt stood at EUR321 million, including cash of EUR57 million.

Now let's turn to NWR's operational performance. And the summary is on slide 6. Again please note the improving safety performance. In the period under review we had a 31% improvement in the lost-time injury frequency rate versus 2014, with another record low LTIFR of 5.6.

Our coal production for the first six (sic) months was 5.7 million tonnes, with external sales of 5.4 million tonnes, down 10%, and 12%, respectively.

CapEx for the period was EUR28 million, down 38% year on year which is prudent in current market circumstances.

Inventories increased by 66%, largely because of regional oversupply of thermal coal and aggressive pricing by our Polish competitors. And our teams are looking at ways to work down this inventory as efficiently as possible. Also, in winter, we always work down the inventories, as more thermal coal is sold in cold winters. And the total headcount, including contractors, was down 5% from a year ago.

Now onto slide 7 and coal prices.

Despite our region being substantially short of hard coking coal, we continued to operate in a low price environment. We have nevertheless managed to achieve stable pricing for our coking coal this year. And as we reported previously, we have agreed an average price of EUR93 per tonne of coking coal over our expected production.

Thermal coal prices, however, continue to struggle. Whereas our region is short of coking coal, it is over supplied with thermal coal and our Polish competitors are particularly aggressive in their pricing. Our average realized price on thermal coal for the nine months was EUR51 a tonne, down 9% year on year.

Slide 8 is a useful summary of our key metrics, many of which we already touched upon. And as you've seen, we've brought down sales administration costs by 14% and we've managed to contain cash mining unit costs reasonably well.

In the first half of 2015 unit costs was EUR71 and it is now EUR69 year to date.

There are further efficiencies to be squeezed but these will be relatively limited going forward. Additionally these mines have relatively short lives according to the current mine plan, if prices don't come back. But we all recognize that, given the state of our market, mining unit costs must be brought down significantly further to create a sustainable cost base. To do this requires careful planning and balancing interest, and I will come back to this at the end of my presentation.

Slide 9, the overview of our financial position, deserves some attention. Our net debt stood at EUR321 million at September 30, including EUR57 million. Cash flow from operations, was negative, [EUR23 million], mainly due to negative working capital developments.

Our practice of the receivable factoring was temporarily disrupted which caused a significant one-time impact. This was due to a voluntary and temporary pause to renegotiate improved factoring terms and we have now successfully reinstated the factoring program.

At the end of October our cash balance has bounced back to a more level of EUR77 million. We remain focused on maintaining tight cash control but our markets are tough and we do not foresee market condition bouncing back any time soon.

This provides a good lead into our outlook statement on slide 11. We've had clearly very challenging nine months, but the Company's performance is broadly on track and we are in line with our previous guidance for the year, which I reiterate as follows.

Our coking coal production is priced at EUR93 for the full year and we've agreed average thermal coal prices for EUR52 a tonne for the full year.

We continue to plan to produce 7.5 million tonnes to 8 million tonnes of coal this year and we aim to sell from our own production and stocks approximately 8 million tonnes.

Coking coal in the sales mix to be below the 60% target, principally due to the anticipated Q4 sell-down of thermal coal inventories.

Our target cash mining unit costs is around EUR65 a tonne and our total CapEx for the year will be between EUR30 million and EUR40 million.

Our safety performance is trending towards our target LTIFR of below 5.

On to our long-term growth strategy as outlined on slide 13. At this point in time I don't want to get in too much detail today because analysis and discussions with stakeholders are ongoing. But I want, at least, to give you a feeling for where we're headed and how we plan to get there.

Our strategy is built on three pillars. The first will be familiar to you, optimization of operations. This is what we have been focused on for quite some time now, but there's more we need to do and the low hanging fruit has been already picked.

The second pillar is about our commercial and our labor relationships. We will need to share some of the pressure of the [of the] Company [feels] with its key shareholders. And as ever, we'll be looking for the most beneficial and sustainable outcome for all concerned.

The third and final pillar is, once we have firmly established the other two, about considering potential for consolidating quality coking coal assets.

And with that I hand over back to Radek.

Radek Nemecek - *New World Resources plc - Head of IR*

Thank you, Boudewijn. We are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). There are currently no questions from the audio.

Radek Nemecek - *New World Resources plc - Head of IR*

Thank you, operator. Thank you, everyone, for your participation. If you have any further questions later today, give me a call. Thanks. Bye bye.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
