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NWR.L - Q2 2015 New World Resources Plc Earnings Call

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CORPORATE PARTICIPANTS

Yolanda Walliers *New World Resources Plc - Deputy Finance Director*

Gareth Penny *New World Resources Plc - Executive Chairman*

Boudewijn Wentink *New World Resources Plc - Finance & Legal Director and Executive Director*

PRESENTATION

Operator

Good day and welcome to the New World Resources H1 2015 results conference call. Today's conference is being recorded.

At this time, I would like to hand the conference over to [Yolanda Walliers]. Please go ahead.

Yolanda Walliers - *New World Resources Plc - Deputy Finance Director*

Thank you, Marion. Good morning, everyone, and thank you for joining us in the conference call to discuss NWR's first half-year results. My name is Yolanda Walliers and I'm the Deputy Finance Director of NWR, and I'm here today while unfortunately Radek is hospitalized. We wish him a speedy recovery and we hope to see him soon back in the office.

I am joined here today by our Executive Chairman, Gareth Penny; and by our incoming Finance & Legal Director, Boudewijn Wentink, who will present our results to you. At the end of the presentation, we will open the call for questions from participants.

May I also take this opportunity to remind you that this event is being recorded, and that the recording will be made available on our website shortly after the presentation.

Without further ado, I will hand you over to Gareth.

Gareth Penny - *New World Resources Plc - Executive Chairman*

Thank you, Yolanda; and morning, everyone. Welcome to this, our results presentation. Before I begin the presentation, I wanted to add my word of welcome to Boudewijn Wentink, who from September 1, as Yolanda has said, takes up his position as NWR's Finance & Legal Director.

Boudewijn, of course, has been our Legal Director for some time and played a key role here at the capital restructuring. And he now joins that role together with the finance directorship, and we wish him well in this new post.

I also want to take this opportunity to thank Marek who's here with us at the moment. Over the past years, he's provided -- past eight years, I should say, he's provided great service to the Company. And he's now decided to move on and we wish him all the best through the next chapter of his career and thank him for the contribution that he's made to this Company.

I want to start by summarizing our financial performance and highlights over the first half of 2015, and then I'm going to pass you on to Boudewijn who will talk through these in more detail. And I'll conclude with the outlook for the remainder of the year.

So let me ask you then to move to slide 5, and I want to start by looking at some of the key statistics over the past six months.

Of course, I need to start by saying that we've seen a continuation of a very difficult market. [It's the worst] that we've had to deal with over the past number of years. It's been very challenging for some time, as I think all of you know, and our focus, therefore, has of necessity revolved around cost containment and operational optimization.

Let's look at some of the key figures then.

Our revenue for the period at EUR286 million was down 17% as a result of lower sales volume, and Boudewijn will add to these in more detail in a minute.

Our coking coal sold for an average of EUR93 per tonne, which was up 7% year on year; and our thermal coal sold for an average of EUR52 per tonne, which is down 10%. The low prices and sales volumes were partly mitigated by our cost management.

Our selling and administrative costs were significantly down by 26% to EUR53 million compared to [last year].

Cash mining costs per tonne at EUR71 per tonne was up 11%, but of course, this was on lower production which was down 20%. However, we remain on track to achieve our targets of mid-EUR60 per tonne for the year, and I'll talk about more of that in a minute.

We recorded a positive EBITDA of EUR3 million for the first six months of the year, and we report a non-cash gain of EUR49 million on the fair value revaluation of our mandatory convertible notes. This non-cash gain was booked in Q1, as I think you're aware, and it helped to give us an accounting profit, net profit of EUR13 million.

We had net debt of EUR286 million, including cash of EUR89 million; and that cash figure was EUR84 million at the end of Q1. So we were largely cash neutral in the second quarter.

If we then move on to the next slide 6 and we look at some of the operational challenges and results for the first half, lost time injury frequency rate at 5.54 was an improvement of 32% on the same time last year and was a record low. So we're very proud of this figure and the work that Dale and the team has been doing in OKD in terms of addressing [obviously] our performance.

Whilst this testament is to the good work of everyone at OKD, our Czech subsidiary, it is, of course, tempered by the fact that so far this year we've had four fatalities, with three men lost in a single isolated incident which took place after the half year just a few weeks ago.

It is difficult for all of us at NWR and OKD, and we send our sincere condolences to the families of those who have lost their lives.

Coal production for the first six months was 3.6 million tonnes, with external sales of 3.3 million tonnes, down 20% and 17% respectively. CapEx for the period at EUR22 million was down 11% year on year, and attributable to our prudent approach to CapEx. Inventories stood at 938,000 tonnes, which is up on the same period last year.

And then finally, a note on steel production. In the Central European region, this was up 3%, as you can see from the bottom right-hand corner; and global steel capacity was around 72%. So our customers continue to face challenging market conditions, and we don't think that will change in the very short term; again, something I just want to talk about in a little while.

So with that, I'll hand over to Boudewijn.

Boudewijn Wentink - *New World Resources Plc - Finance & Legal Director and Executive Director*

Thank you, Gareth. Good morning, everyone, and thank you for joining this call. I'm turning to the P&L on page 8. And as Gareth has said, our revenues were down year on year by 17% to EUR286 million as a result of lower volumes sold.

Our total costs of sales was down 50%, which is evidence of our relentless cost management. Our selling and admin expenses in the half year were down 26% year on year. And we recorded a positive EBITDA of EUR3 million for the period, and an operating loss of EUR20 million.

We're reporting a net profit for the six months of EUR13 million, reflecting a non-cash gain of EUR49 million from the fair value revaluation of our mandatory convertible notes that were booked in quarter 1.

Our net cash flow from operations was negative for the period, but was, in fact, in line with our budgetary projections. Our CapEx in the first half of this year was EUR22 million, which is 11% down year on year.

Now turning to slide 9 on pricing, [this section] being substantially short of coking coal. Prices have remained low, and unfortunately, this graph will look all too familiar to those of you who are following NWR.

As reported earlier this year, we've agreed an average price of EUR93 per tonne of coking coal for the majority of our expected production for this year. However, this does shield us slightly from any further price declines in the short term, but as you can see, the price of our coking coal is one-half of what it was not even four years ago.

Thermal prices continue to fall, which partly reflects Polish oversupply in our region, and partly reflects subdued demand due to the mild weather. Our average realized price of thermal coal for the first half year was EUR52 per tonne, down 10% year on year, which is the agreed price for the calendar year 2015.

Now turning to slide 10 where you can see the EBITDA bridge, the EBITDA development over the year (technical difficulty) development year on year. While lower coking coal and thermal coal sales volumes and a change in inventory took EUR57 million from the revenues, lower costs offset the top-line weakness by some EUR30 million. And as a result, we went from EBITDA positive of EUR90 million in the half year of 2014 to EUR3 million positive EBITDA in the first six months of 2015.

If we then look at slide 11, and looking at our two coal categories, we see that coking coal revenues are at EUR193 million, and that is down 13% year on year. And that stems from an 18% fall in tonnage, something that was only partially set off by the 7% rise in the average coking coal price year on year.

Thermal coal revenues fell steeply by 23% to EUR65 million due to a combination of (technical difficulty) drop in prices and a 15% fall in sales tonnage. And our cash costs rose 11% on 20% lower production. Sales and administrative costs were managed down by 26%.

Turning to our financial position on slide 12, net debt stood at EUR286 million as of June 30 this year. This includes cash of EUR89 million, and that includes a non-cash gain as said earlier of EUR49 million, due to the fair value revaluation of our mandatory convertible bonds.

Gross cash flow from operations, and that is after working capital changes, was negative EUR14 million, and we paid EUR2 million in interest and spent EUR22 million on CapEx.

As you can see from the chart on the bottom left-hand side, net cash flow from operations was positive EUR11 million during Q2, leading to a net increase in the cash balance since the end of March.

As the chart on the bottom right-hand side [displays], we face very little debt maturity over the next five years.

That, I think, briefly summarizes the financial aspects of [the results] this morning, and I'll now hand over back to you, Gareth, for the outlook.

Gareth Penny - *New World Resources Plc - Executive Chairman*

Thank you, Boudewijn. And if I can ask you to all turn to slide 14.

As this [presentation] shows, we've had another challenging six months, but the Company is performing to budget and we are in line with our previous guidance for the year. I'll reiterate this as follows.

We've agreed coking coal prices of EUR93 for the full year for three-quarters of our expected production, and we've agreed thermal coal prices of EUR52 a tonne for the full year.

We plan to produce somewhere between 7.5 million and 8 million tonnes of coal this year. Of course, given that we've produced 3.6 million in the first half, it means that we will be producing a greater amount in the second, and that's to do with the mining plan. And we aim to sell from our own production and our stocks about 8 million tonnes.

We're targeting a minimum of 60% of coking coal sales in the sales mix and cash mining unit costs of around EUR65 a tonne.

We plan CapEx to be between EUR30 million and EUR40 million for the year. And our focus on safety remains on track to achieve a lost time injury frequency rate of below 5.

If we then turn to our final slide, slide 15, and we've put this up in front of you a number of times in the past, our strategy remains unchanged. Our intention is to become Europe's leading miner and marketer of coking coal by 2017 across these three [domains] that you see in the slide.

Firstly, by ensuring that we have an efficient and safe existing mining operation, and the key metrics that we've identified there are the continuation of cash mining unit costs in the mid 60s, annual CapEx below EUR50 million, coking coal above 60%. You've seen the impact of the two different prices, so it's far more beneficial for us, of course, to produce coking coal, and lost time injury frequency rate below 5.

But, of course, we remain focused on new business development. We haven't spoken about that in this presentation, but we have been making progress with both Debiensko and Morcinek, our two major new projects, both directed in Poland.

And on the sales and marketing side, I think we have continued to develop our expertise and feel that, actually, the sales and marketing team that we have has been doing an outstanding job under extremely difficult circumstances.

So that concludes our presentation for today. We remain focused on these key elements of the business: safety, productivity of our people, our cost per tonne, reducing our overheads, both our [mine and off-mine] costs; and focusing on the marketing opportunities and capabilities, together with the progress that we'll be making on the new mining business side.

I'll hand back to Yolanda.

Yolanda Walliers - *New World Resources Plc - Deputy Finance Director*

Thank you, Gareth. Operator, can we have questions?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). There are no questions on the telephone at this time.

Yolanda Walliers - *New World Resources Plc - Deputy Finance Director*

Thank you, Marion. With that, I would like to conclude the call. Thank you, Boudewijn, thank you, Gareth, for your explanations. And, of course, we're available for any questions that you might have.

Thank you.

Operator

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