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BANPU

Coal still king

Thailand-based Banpu well positioned to continue expanding regional mining operations to meet demand for higher-quality coal.

The Gaohe mine in China last year completed its third year of operation with production growth to 8.6 million tonnes, well above plan and representing a 43% increase from 2013.

Despite global economic weakness and a general decline in commodity prices, SET-listed Banpu Plc remains bullish on the prospects for its thermal coal and power generation businesses this year and beyond.

Now entering its 33rd year of operation, the coal and power generation company has a footprint in eight countries: Thailand, Laos, Indonesia, Singapore, Australia, China, Mongolia and Japan. Net profit last year rose 5% to 2.68 billion baht (US$82 million), on sales of $3.14 billion, down 6.2% from a year earlier.

Chief executive officer Chanin Vongkusolkit said that given the naturally volatile and cyclical nature of coal prices, the company had to be well-prepared for any future changes. It focuses on saving costs, improving productivity and maintaining a proper revenue balance between coal mining and power generation.

"The effective cost reduction programme in Indonesia, productivity improvements in Australia and continuous growth of our power business in China have ensured a resilient performance," he said recently.

"We are well positioned for the low coal price environment as well as ready to take full advantage of new growth opportunities or any coal price recovery."

Under its five-year plan, Banpu continues to seek synergies between coal mining and coal-fired power plant operations across the region. At the same time, it is seeking to diversify into both thermal and renewable energy ventures.


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Chanin: Some competitors are stepping back

Deputy CEO Somyot Ruchirawat said Banpu's production target for thermal coal this year was 48.5 million tonnes, the same as last year. It plans to increase output in Indonesia from 29.1 million tonnes to 30 million, and in China, from 4.2 million tonnes to 4.5 million. However, Australian production is expected to decline to 14 million tonnes from 15.2 million.

"We also plan to create a regional synergy through a blending strategy, using a proper mix of coal from Indonesia and Australia," said Mr Somyot. "This will increase the coal quality which will allow us to sell at a better price, while serving the higher demand for better-quality coal in the market."

As well, Banpu expects its ability to offer better-quality coal will allow it to bargain for better freight costs, secure and expand a premium customer base through a stronger brand image, and maximise its coal reserves while minimising capital expenditure in Indonesia and Australia.

Banpu currently has coal mines in Indonesia, China and Australia, and is undertaking a pilot project in Mongolia.

In Indonesia, the Jakarta-listed subsidiary PT Indo Tambangraya Megah Tbk (ITM) operates six coal mines that serve export and domestic consumption. In Australia, Banpu wholly acquired Centennial Coal Co Ltd in 2010 and has improved its operational efficiency dramatically.

"We expect to turn Centennial Coal into another strong base for the company as we see that future growth of the business lies [in Australia], owing to accessibility of railways and ports," said Mr Chanin.

In China, Banpu Investment (China) Company Co Ltd (BIC) holds a 45% stake in Shanxi Gaohe Energy Company Ltd, which operates the Gaohe mines, and 40% in Hebi Zong Tai Mining Co Ltd. In Mongolia, Banpu is taking the first steps in thermal and coking coal operations in Tsant Uul, Altai Nuurs and Unst Khudag after it has successfully acquired Hunnu Coal Limited in 2011.

RISING INDIA

While high thermal-coal production in Indonesia and Australia has added to supply pressure in Asia Pacific, the large supply would be offset by rising demand in India this year.

"India continues to lead global import growth with an increase of 28 million tonnes last year, rising along with its forecast GDP growth of 7.5%," said Mr Somyot. "Coal imports have benefited from continuing strengthening of the Indian rupee, falling coal prices, and insufficient domestic coal supply."

Banpu sees coal imports in India continuing to grow on rising demand from the power sector, timely development of infrastructure capacity, and the inability of domestic producers led by the state-owned giant Coal India to keep pace with demand.

In addition, he said, domestic coal often loses competitiveness at power plants located far away from mining areas. "It's much cheaper if they import the coal from us and imports have become a key component of the supply mix in India."

"We expect thermal coal demand in India to rise 20 million tonnes this year driven by the positive outlook of the country's growth while demand in North Asia including China, Japan and Korea will shrink due to [the resumption in Japan of] nuclear power plant operations," said Mr Somyot.

Mr Chanin added that for a developing country with weak infrastructure like India, it was crucial to have reliable power plants or development would be impossible. The Delhi government has cracked down on substandard mines in order to protect the environment, and is likely to increase imports of better-quality coal in the future, he said.

"We are now diversifying our exports to India because the growth potential is there and we project a rise of 10-20% this year," he said. India accounted for just 11% of Banpu's total sales volume in 2014.

However, because India continues to subsidise electricity prices, "we can't sell at a very high price because they will not be able to afford it", he added.

India is expected to import 180 million tonnes of coal this year, up from 150 million last year, and 300 million by 2020, according to Glencore, the world's largest producer of high-quality thermal coal.

Mr Somyot said coal imports to China declined last year and this trend was expected to continue due to several factors, notably the sluggish economic growth, weak domestic coal prices, anti-pollution measures, domestic protectionism and high coal inventories.

The US investment bank Goldman Sachs estimated that Chinese thermal coal imports declined about 2.5% to 146 million tonnes last year, and would dwindle to 75 million tonnes by 2018.

The declining imports, it said, reflect "the country's growing concern over air pollution, as environmental regulations are expected to lead to a gradual deceleration in coal-fired generation in favour of expanding new capacity for renewable energy sources, mainly hydro, wind and solar power."

The bank said that as China reins in its demand, India and other Asian markets would emerge as the key drivers of demand.

Last year Banpu sold a total of 28.9 million tonnes of coal produced in Indonesia, down from 29.2 million a year earlier. Sales from Australia rose to 15.47 million tonnes from 13.59 million. China was the major buyer with 28% of total volume, followed by Japan at 16%.

The company's average selling price for coal last year was $65.40 a tonne, down from $72.40 in 2013, as market weakness persisted.

"Coal prices remain low, but I believe prices have passed through the bottom and should rebound in 2016," Mr Chanin said at an investor briefing last week.

In the future, Banpu will increase its opportunities to export thermal coal to Europe and America. The company sold 3% of its total volume in 2013 to Italy, 2% to the United States and 1% to New Zealand.

Mr Chanin remains optimistic that in 10 years' time, thermal coal will still be Banpu's core business accounting for 60% of revenue, with power generation contributing the rest.

"With the technologies and human resources we have, we will become one of the most powerful players in the world," he said. "Large coal companies have shown a tendency to step out of the coal business during the doldrums, leaving Banpu with fewer competitors."