Perspective
Investment Management

021 418 0686 | **www.perspectiveim.co.za**
Unit 22, Victoria Junction, Prestwich St., Cape Town 8001

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When R2bn is not enough to get upset about

Kumba disclosed in its first half results they could not sell 2.4mn tonnes of iron ore because of 'challenging performance' by a key logistics supplier, Transnet, who operates the only railway line between their mines in the Northern Cape and Saldanha, as well as the Saldanha port terminal. In short, iron ore can only be sold once it can be transported from the mines to a port and loaded onto ships. To call Transnet a key supplier to Kumba is an understatement.

By my rough calculations, 2.4mn tonnes of iron ore equates to revenue of R2.2bn and operating profits of R880mn. In addition, Kumba had to declare force majeure to their global customers, which causes reputational damage that takes a long time to heal. These are clearly material issues.

In the previous 5 years, there were 4 derailments on that railway line, but in the past 12 months there have been 6. This is an outlier, yet only 1 page of their 37-page financial results booklet covers this matter. In addition, to date Kumba has received no explanations from Transnet.

It is perfectly reasonable to expect the leadership of any business in any industry materially hurt by any supplier to be upset. No, let me rephrase; I expect them to be mad as a snake. I also expect them to prioritise and come up with and implement a proper solution; whatever it takes.

Well paid former and current Kumba executives have been talking about improving their relationship with Transnet for many years. I am unfortunately still not picking up any real sense of urgency or concrete action in this regard, which does not add up. The executives of the businesses in our funds act differently.

Our work continues…

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