Tharisa PLC now operating chrome and PGM mines at full capacity, and enjoying renewed commodity price strength

No one could doubt that the world now is a very different place to the world as it seemed at the beginning of this year. Coronavirus has come and wreaked havoc on the health and wellbeing of millions around the world, and disrupted markets and income streams everywhere.

In one or two serendipitous cases however, the outcomes haven’t been all bad. There’s the online delivery and tech sectors, for a start. There’s the international iron ore mining industry, in which prices have held up as supply from Brazil has collapsed even as demand from China remains strong.

And there’s the chrome market, which has undergone a sharp reversal of fortune since the beginning of the year, as Chinese stimulus money has impacted the market.

“The recovery of the Chinese economy has spurred demand for chrome,” says Phoevos Pouroulis, the chief executive of Tharisa PLC (LON:THS), a major producer with operations in South Africa.

“Metallurgical chrome was under pressure at the beginning of the year, but with the stimulus packages from China demand is opening up again.”

Demand is primarily for the use of chrome in stainless steel production, and stainless steel in turn is used in infrastructure and construction, two sectors which the Chinese are keen to boost to support the economic recovery there.

That in itself is all to the good. But there are other factors aiding Tharisa too. Other producers of chrome still remain hamstrung by the coronavirus crisis, meaning that supply is still significantly curtailed.

South Africa accounts for a significant portion of global chrome supply, but because many mines are underground where social distancing is near impossible, production was disrupted during the lockdown and ramping back up to full production is proving to be more difficult.

Tharisa’s operations on the other hand are unequivocally open cast.

So, from the very first announcement of lockdown in South Africa, Tharisa was able to apply for and be granted a dispensation to continue with production. Not at full tilt, mind, but at a robust enough rate to allow Pouroulis to be confident about the second half of the year.

Because the uncertainties around coronavirus are still swirling Tharisa, in common with many companies across many sectors, is reluctant to give formal forecasts at the moment as to production and revenue rates.

But suffice it to say that the chrome price has risen from the US$113 per tonne that it was trading at at the beginning of
the year to the current levels of between US$165 and US$170 per tonne.

"The stainless steel market signals and indicators are there for demand," continues Pouroulis.

"What happens next really depends on the supply side. But operationally we're doing well. The effort we've made in optimising our open pit and processing plants are paying dividends, and we're now operating at full capacity."

Yes, some production will have been lost by the enforced go-slow, but on the other hand significantly higher margins will make up for much of that lost output. There are also benefits to be accrued from the weaker rand. The uncertainty that remains is more to do with how much ground will be recovered, than whether Tharisa is going to come out of the coronavirus crisis leaner and more efficient.

"We're feeling very positive about how things are operating," adds Pouroulis. "Relatively speaking, things are in good shape. And people are grateful. Our workforce are grateful, and we're grateful."

Indeed, there is much to be grateful for. Only one case of coronavirus has thus far afflicted the Tharisa team, and this was right at the beginning of the crisis. The worker in question has now recovered and those she came into contact with have not contracted the illness.

Meanwhile, operations continue in a wider Southern African context where underground mines remain partially shut, and economic uncertainty abounds, as it does in many countries of the world.

But Tharisa has more than one string to its bow. There's also significant platinum group metals production from the South African mine and, although the PGM price has weakened somewhat of late as autocatalyst demand has fallen, it's still relatively high and at a level that Pouroulis is happy with.

What's more, the company also has expansion to look forward to in the shape of its Zimbabwe chrome operations. Moving into Zimbabwe is described by Pouroulis as "a very important step", and it shows, if nothing else, that the company remains proactive at a time when many peers are hunkering down.

Much of the proof of this optimistic pudding will be in the third quarter results which are likely to be the next major news item from the company. Whatever happens, they'll be worth a read.
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