

Energy investing in SA

By Graham Stacey

Ian Cockerill's move to Anglo Coal prompted a brief look at the South African coal sector and investment opportunities for regular Joes. While Eskom will always squeeze domestic coal producers in terms of pricing, supply contract prices have, as predicted, risen dramatically over the last 24 months. Eskom's quality spec is also in a different league to export coals, meaning that previously marginal low-quality deposits have now moved into the black. Of course, the export coal market has been similarly buoyant and, should the rand continue to slide against major currencies, that sector will continue to deliver exceptional returns.

So where to invest? The coal sector on the JSE currently comprises Coal of Africa, previously GVM Metals Limited which includes a metals trading arm which accounts for all of Coal's earnings; Hwange, currently loss-making but, dependent upon the outcome of Zimbabwe's election shambles, may offer value in the medium-term; SA Coal Mining Holdings, the re-listed entity previously known as Yomhlaba Resources; and possibly Sentula which gives exposure to mining contracting with large interests in the coal business. On the Alt-X, there's only Wescoal Holdings. Over the last twelve months, the only two pure South African coal plays returned 51% (SACMH) and 48.6% (Wescoal). Not a large sample, but enough to generate sufficient interest.

Keaton Energy are due to list on the JSE Main Board this month and aim to be in production early in 2009 which will broaden South African investors' exposure to pure coal companies, and has a resource base that suggests a good value investment in an environment of potential coal shortages, not restricted to steam coal but including industrial, metallurgical and domestic applications. Considering the hype surrounding coal and it's prospects, there's unfortunately not a great range of public investment opportunities through which an average investor can gain exposure.

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