ADVERTISING FEATURE

Coking coal projects

Russia focus insulating against Chinese 'embargo'

Tigers Realm's Moscow-based chief executive Dmitry Gavrilin: fielding an increasing number of calls from Chinese customers.

China's move to curtail steel production may have suppressed iron ore prices, but the story is very different when it comes to the other key steel-making ingredient: coking coal.

Coking (metallurgical) coal prices are at record levels as Chinese steel producers clamour for alternative sources amid the unofficial embargo on Australian supply. Domestic Chinese production has also been disrupted by flooding in the coal-producing provinces of Shanxi and Henan.

If that's not enough, seaborne supply has been constrained by shipping delays that have affected many other commodities.

In the meantime, global steel production continues to grow at a reasonable clip. According to the World Steel Association, output (ex China) grew by 18 per cent in the January to August period, with Chinese production rising 5.3 per cent despite Beijing's "go-slow" dictate.

The association forecasts global steel production of 1.874 billion tonnes in 2021, up 5.8 per cent, with 2022 output growing by a still-healthy 2.7 per cent to 1.924 billion tonnes.

Given these dynamics, it's an ideal time to be an existing coal producer in a supportive geography – other than Australia. As a Russia-focused entity, Tigers Realm Coal (ASX code: TIG) is riding the boom.

"We are unique in that we are publicly listed in Australia but our only asset is in Russia," says Tigers Realm's Moscow-based chief executive Dmitry Gavrilin.

Gavrilin says over the European summer the company fielded a handful of calls from Chinese parties about securing supply from the company's producing Amaam North mine, in the Chukotka region in far eastern Russia (on the Pacific Coast).

"Now, I'm getting a call every day because they are battling with undersupply and we are well positioned to service that demand."

Tigers Realm was founded by Owen Hegarty, a legendary mining figure who headed up Oxiana (which became OZ Minerals). The company listed in 2011 at 50 cents a share, on the back of four geographically disparate projects.

These days, it is focused squarely on its Amaam North and Amaam projects, 50 kilometres apart in the Bering (Beringovsky) Coal Basin.

The company started mining the open-cut Amaam North deposit in 2017, at an initial rate of 250,000 tonnes per annum. This year, it expects to produce up to 1 million tonnes.

On the company's tenth anniversary, Gavrilin reflects on Tigers Realm's "substantial transformation".

In contrast to today's buoyant conditions, poor pricing in 2019 and 2020 meant the company twice had to seek an injection of fresh equity capital. The raisings were strongly supported by the company's biggest shareholder, Dr Bruce Gray, who now holds 60 per cent of the register.

In 2014, local investors Baring Vostok Capital Partners and the Russian Direct Investment Fund weighed in to the register and now hold 18.5 per cent and 8.5 per cent respectively. (Russian Direct Investment is a sovereign wealth fund and key backer of the Sputnik V vaccine for COVID-19).

The funding ensured the company could install a state-of-the-art coal handling and processing plant and finance working capital (which is crucial as the company can only ship during the warmer months of June to November).

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> Dmitry Gavrilin

A key aspect of Tigers Realm's transformation is boosting sales of metallurgical coal, mainly into the easily accessible North Asian market.

In its September quarterly report, the company reports run-of-mine output of 339,000 tonnes, taking the tally for calendar 2021 to date to 713,000 tonnes.

Management has guided to full-year production of 950,000 tonnes to 1 million tonnes.

Of this output, 75 per cent is destined for thermal markets.

But after completion of a new wash plant by the end of this year, next year's production should be weighted 70 per cent to the higher-margin coking coal.

"Our mid-term target is to double current annual production to up to 2 million tonnes of premium coking coal," Gavrilin says.

The company reports a current JORC-certified resource of 632 million tonnes – mainly pertaining to Amaam – with an exploration target of a further 115-410 million tonnes.

"We also have several targets in our proximity where we would like to explore and increase our resource base," he adds.

Gavrilin says when the new plant is completed, Tigers Realm will control the entire production chain with its company-owned mining equipment, haulage road, trucks and port.

"Having control over the entire process is critically important in terms of managing costs, capacity and risks, as we don't depend on any particular vendor for our operations," he says.

Gavrilin has a "measured confidence" in sustained prices for both coking and thermal coal. Or, in Owen Hegarty's famous bullish catchphrase: "stronger forever".

In the case of thermal coal, the market had been caught napping by the supply deficit partly created by the pressure exerted on producers by institutional investors with ethical investing mandates.

Despite China crimping its steel making, coking coal should remain strongly in demand as China's domestic reserves are depleted and new mines elsewhere fail to materialise.

"We don't see any mature technology emerging over the next few years that would replace blast furnaces and thus any demand for coking coal in a material way," Gavrilin says.

"For existing miners, the market should be supportive for some time to come."