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COMPANY COMMENT

Platinum woes spur Lonmin into K4 action

Harsh financial realities mean companies are sometimes forced into actions, particularly around their assets, that they wouldn't normally consider.

The platinum mining sector is under considerable duress at the moment. Nearly two-thirds of operating mines are unfrofitable and the bare-bone numbers from Lonmin, which released interim results on Monday, show just how difficult the business is in a stressed environment. Lonmin is in the process of mining the last of the available platinum group metals from its first-generation shafts and is switching considerable focus and attention to its newer second-generation mines.

The old mines are being worked over by contractors, who, in the interests of keeping their workforce gainfully employed, are extracting every ounce they can and finding extensions to prolong their presence on these mines.

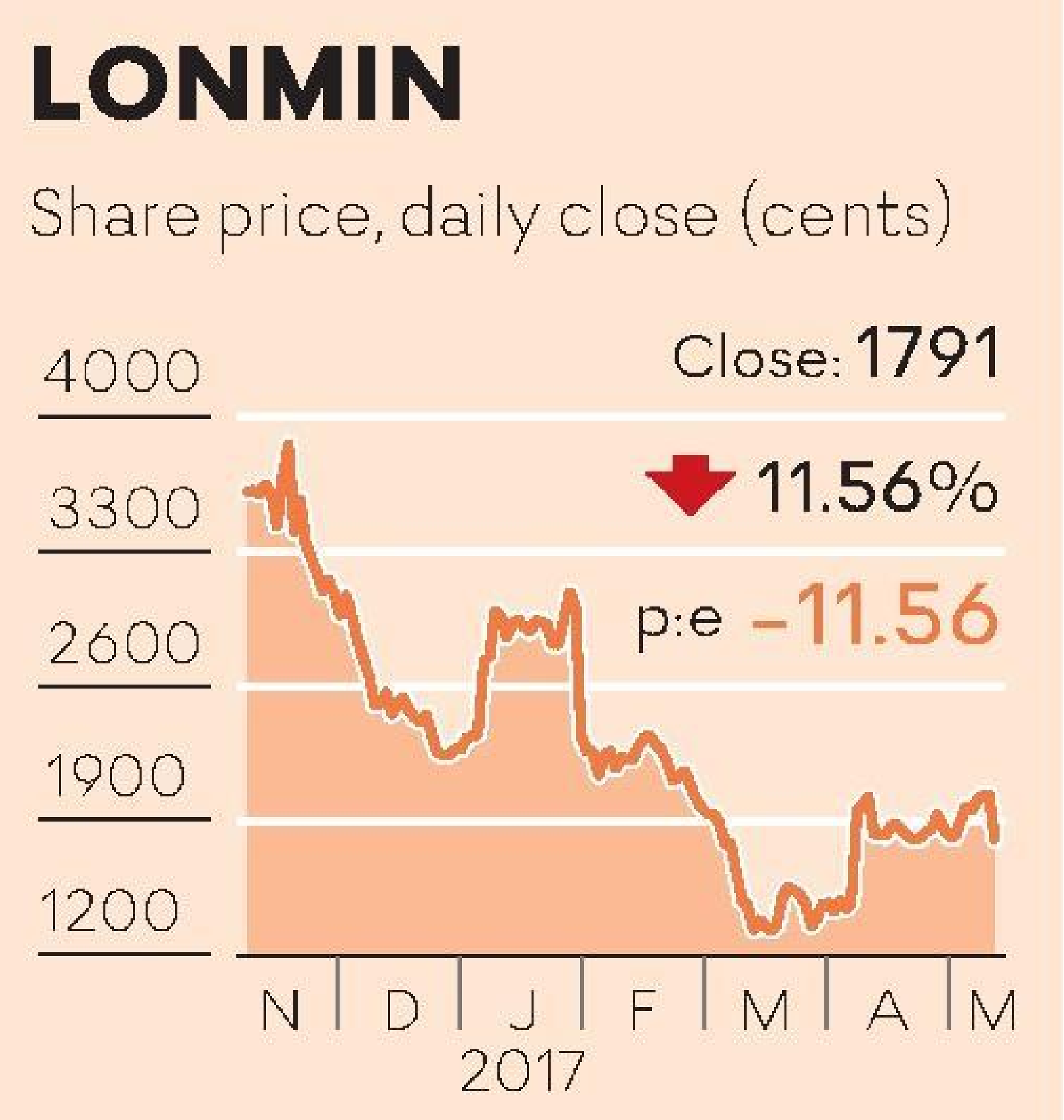
Lonmin is dusting off the studies of two projects that have long been on its shelves. The first is the suspended Limpopo mine that CEO Ben Magara points out had a fifth of its production coming from a modern mechanised mining system.

The second project, and the one most analysts are the most keyed up about for Lonmin to bring into production, is the partially built K4 mine.

There are a few billion rands left to spend at the mine and Lonmin may not have to find all that money itself.

With deal-hungry Sibanye Gold. which has cast a covetous eye over Lonmin, just next door to the K4 and K3 mines, there are obvious synergies to be explored if the economics can be made to stack up. Lonmin, in its stretched financial position, may just have to come to the table to bring K4, which promises to be one of its lowest cost mines, into production.

Industrial services specialist Accentuate, which operates in the flooring, cleaning and water-reticulation segments, has taken, relatively speaking, a big first step in building critical mass and diversification.



Graphic: RUBY-GAY MARTIN Source: IRESS

On Monday, Accentuate announced its intention to acquire Pentafloor, a supplier in the access-flooring market in SA, for R40m. This is a big deal for Accentuate, which has a market capitalisation of only R105m. It is also the first deal since TBI Strategic Partners, a low-key investment firm, emerged as an influential Accentuate investor.

Access flooring, used in commercial developments to meet underfloor infrastructure and cabling requirements, adds a dimension to Accentuate's core vinyl flooring business.

Pentafloor should enhance Accentuate's bottom line, having reported profit after tax of R6.1m in the year to February. This should offer some reassurance around Accentuate over paying (again) for an acquisition.

What is somewhat heartening is that the acquisition will be settled with an initial payment of R20m — of which R16m will be in cash and the balance in scrip. While a bigger share issue to the Pentafloor vendors may have helped share trading volumes, at least the scrip element will prompt investors to rethink the poor rating accorded to Accentuate's shares.

Possibly there will be a chance to issue scrip — at better prices — to vendors or new and existing shareholders if Pentafloor is the trigger for further bouts of corporate action at Accentuate.

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