

BIDDING FOR CONTRACTS

Shaft Sinkers regains a firm financial footing as mining activity picks up

Charlotte Mathews

Shaft Sinkers, the 55-year-old specialist mining contractor, had put its business back on a firm footing and had bid for about \$12bn of work globally in the past year as it saw activity picking up in the sector, executive chairman Marius Heyns said this week.

Shaft Sinkers was one of the pioneers in sinking vertical shafts in hard rock, when SA's gold mining industry started to build the world's deepest mines in the 1960s and 1970s.

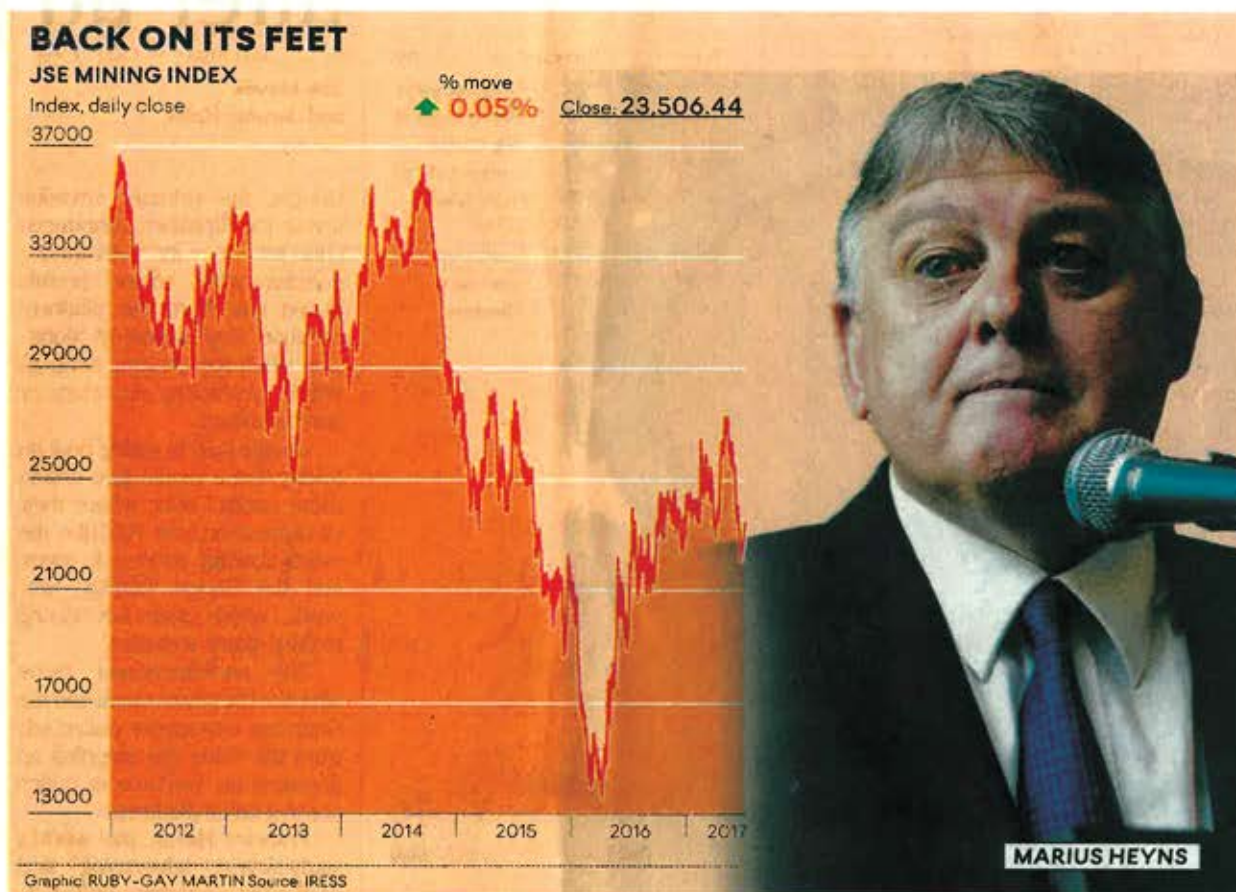
The company listed in London in 2010, but in 2015 the listing was suspended as its South African subsidiary was placed in business rescue. Other units were unaffected.

The main contributors to the South African company's financial problems were a \$917m damages claim by EuroChem for substandard work on a Russian potash mine, which cost Shaft Sinkers \$20m in legal fees to defend.

The five-month strike in 2014 at Rustenburg platinum mines added to its financial difficulties. Shaft Sinkers had contracts with Impala Platinum, Royal Bafokeng Platinum and Lonmin. The former two contracts were cancelled.

Heyns, a former CEO of Basil Read who had retired to Knysna, was recruited in August 2014 to turn Shaft Sinkers around. He said despite its problems, the brand was still well regarded in the mining industry and the group had been supported by its clients, as well as Standard Bank and its main shareholder, a London-based private equity firm.

The group was reorganised into a simpler structure centralised under a London



1,300

employees still work at Shaft Sinkers, down from about 3,000 when Marius Heyns was recruited to turn the company around

holding company, Underground Mining Services (UK).

It now has three divisions. Shaft Sinkers sinks shafts and develops underground infrastructure. Mining Engineering Technical Services (Mets), which was the internal design arm, was established as a standalone entity, Mets Design, to do work for external clients. A new division, Mets Projects, was set up to provide engineering, procurement and construction services.

Heyns and the management team spent months visiting and reassuring established and potential clients. In the past year the order book had swelled to \$150m, Heyns said.

Heyns spent 2015 "putting out fires". Shaft Sinkers SA and EuroChem reached a clean settlement. An unprofitable contract at a chrome mine in Kazakhstan was fortunately cancelled and the firm exited other unprofitable contracts.

The headcount was cut from about 3,000 to 1,500 without retrenchments and it is now

THE GROUP WAS REORGANISED INTO A SIMPLER STRUCTURE CENTRALISED UNDER A LONDON HOLDING COMPANY

1,300, through natural attrition.

The business rescuers of Shaft Sinkers SA, which has been ring-fenced, are still winding up its affairs to settle its obligations.

In SA, Shaft Sinkers is completing work at Lonmin's K3 shaft. It has picked up smaller contracts at Styldrift and Evander and a larger contract at Kumba Iron Ore's Kolomela mine. It is also bidding for work on three large local mining projects.

Elsewhere in Africa, it will finish its contract for Randgold Resources and AngloGold Ashanti at the Kibali gold mine in the Democratic Republic of Congo by the end of 2017.

In India, Shaft Sinkers still has two years to go on a contract to sink three shafts for Vedanta Resources' Hindustan Zinc mine.

It has bid for other work in India, Europe and Canada. Although the recent upturn in commodity prices had encouraged mining companies to revive projects, and margins on work in SA were still satisfactory, it could take up to a year between bidding and being awarded a contract, Heyns said.

Now that Shaft Sinkers, which remains a private company, is profitable, Heyns' goal is to build up the order book to \$300m-\$400m.

mathewsc@fm.co.za