Is mining's feast or famine mindset a thing of the past?

By Danette Breitenbach

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The mining industry hasn't really changed much in mindset from the gold rushes of old. In the good times, there's big-spending, and in the bad, the belt is cinched. However, in a decade from now mines will be completely different.

Photo: Sibanye

Technology will make mines safer and more productive. It should be the one area all mining companies are thinking about, from software optimisation, remote monitoring, drone and robotics. Mining companies that genuinely understand technology, and leverage it strategically, will benefit the most.

This is one of the key finding of the PwC *Mine 2017* report, which surveys the top 40 mining companies globally (of which only one South African company features, AngloGold Ashanti in the number 40 spot) according to market capitalisation

Consumer will decide what is mined

Looking forward the report sees both opportunities and hazards on the horizon. Apple has posed the question: can we stop mining the earth altogether one day while Elon Musk has put forward a 100-day guarantee to fix a state’s energy crisis with battery technology.

“We believe that it is the consumer that will determine what will be mined in the future as consumer behaviour drives down vertical integration into mining,” says Andries Rossouw, energy and mining assurance partner at PwC.

Taking a step back, the report also examines how the Top 40 fared in 2016. While it confirms a return to profitability for mining companies, the narrative of the 40 reads like a mantra; Stop. Think. Act.

Restoring balance sheets

The story of 2016 is all about restoring the balance sheets and these have been strengthened. Cash was spent to improve the balance sheet and settle debts, not pay dividends.

This made a big difference and overall increased credit ratings by one point on the scale. Alternative financing has delivered premium valuations and helped companies to recover right to the bottom of the cycle.

When it comes to exploration, safety has been the name of the game. Only 4% of exploration budgets globally went to South Africa, with 13% to Africa overall. This is compared to 14% and 13% in Australia and Canada respectively. Gold is still at good levels compared to other commodities with 48% of budgets related to gold exploration worldwide. This said, China is bucking the trend with a number of transactions such as Freeports’ stake in Tenke mine in the DRC.

Old guard rolls up its sleeves

However, while income statements and impairments have been significantly reduced, so has capex. “The industry has rolled up its sleeves. The old guard have donned hard hats, high viz jackets and steel-capped boots in a bid to protect themselves from the pitfalls of the recent past,” says Rossouw.

2016 was a year of reflection and the question now is, will the industry react or reinvent. “Traditionally the mining industry has been characterised by excessive spending in the good time, with write offs in the bad times, says Rossouw.

He adds: “We now wait to see who will be bold and step out beyond the fluctuating market confidence.”

ABOUT DANETTE BREITENBACH

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