Global mining recovered strongly in 2017

After years in the doldrums, the mining industry has shown a remarkable recovery with the world's 40 largest mining companies delivering an impressive financial performance in 2017, increasing revenue by 23% to $600bn.

©Alastair Cotton 123rf.com

PwC’s *Mine 2018* report confirms an upswing in the mining cycle, which comes on the back of rising global economic growth and a recovery in commodity prices. Helped by astute cost-saving strategies over the past few years, margins and cash-generating ability has improved significantly, leading to a 126% jump in net profits.

“For the world’s top 40 miners, 2017 was a remarkable year. We’re expecting the improved performance to continue into 2018 as companies continue to reap the benefits of the upswing in the mining cycle,” says Michal Kotzé, energy, utilities and mining industry leader for PwC Africa.

“One of the risks currently facing the world’s top miners is the temptation to acquire mineral-producing assets at any price in order to meet rising demand. While we expect capital expenditure to increase next year as companies implement their long-term growth strategies, miners must be careful to maintain discipline and transparency in the allocation of capital.”

While the top 40 miners are enjoying a bounce back, miners will need to stay focused and deliberate in the pursuit of their long-term goals to create value for all stakeholders on a sustainable basis.

Balance sheets in good shape

Miners continued to focus on strengthening their balance sheets in 2017, with $25bn being allocated to the repayment of debt, and capital expenditure at a record low of $48bn. As a result, gearing has fallen from 41% to 31%, which is back in line with the top 40’s 15-year average. With the liquidity concerns that were still lingering in 2016 now largely resolved, balance sheets are strong, and companies have the flexibility to act.

Record high increase in tax contributions

Tax expenses increased 81% in 2017, with cash taxes paid to governments rising by 67%, despite the fact that corporate tax rates remained relatively stable across most key markets.

The jump in tax expenses was driven mostly by increased profit and the impact of USA tax reforms, which saw a one-off 4% (or $2.8bn) rise in the effective tax rate due to a revaluation of deferred tax. It is expected that USA tax reforms will ease the tax burden on USA operations going forward.

Shareholder windfall to continue, but for how long?

Shareholders returns have almost doubled year-on-year, from $16bn in 2016 to $36bn. Based on current levels of performance, dividends are likely to reach record highs in 2018.

“Shareholders who endured the boom cycles of 2008 and 2012 will be keen to reap the rewards of their patience now that optimism and profits are back. But the immediate temptation for larger returns – for shareholders or other stakeholders – must also be balanced against the on-going need to invest for sustainable long-term value,” says Kotzé.

New entrants staking their claim

There was a range of new entrants active in the mining sector in 2017. Private equity (PE) investors took a keen interest in mining investment opportunities, for example, and were active participants in almost every quality coal deal brought to market in Australia during the year.

There are also examples of non-mining companies partnering or merging with miners to secure access to commodities. For example, Agrium, a Canadian fertiliser and chemical wholesale and retail company merged with the world’s largest potash producer, PotashCorp, while Tesla continued to invest in lithium supplies, including their recent transaction with Kidman Resources in Australia.

Safety better, but always room for improvement

In 2017 there was a 36% reduction in the number of fatalities among the 28 companies (of the top 40) that disclose safety statistics. Of the 22 companies that disclose injury statistics, 15 reported that the number of injuries had either fallen or remained consistent compared to the previous year.

While an improvement in the safety record of the top 40 is welcome news, there is clearly more work to do to ensure a safe working environment for all employees.

How is South Africa impacted?

Bulk commodities such as coal, copper, iron ore, zinc, manganese and chrome also showed remarkable price increases over the last two years. Miners of these commodities in Africa will reflect similar trends to those explained for the global mining industry.

Unfortunately, precious metals haven’t done as well. The US-dollar gold price has remained relatively flat and platinum prices are at extreme lows. With higher input costs driven by input cost inflation, miners of these commodities are not experiencing the same growth as other commodities. They are still faced with the challenges of the bottom of the commodity cycle and job losses and mine closures are real risks.