

That was the year that was for the world's top 40

Mining companies – PwC

(Mine Web *2 June) – Global professional services firm PricewaterhouseCoopers has released its sixth consecutive publication of Mine, a detailed analysis of the previous calendar year's aggregate performance of the world's 40 most valuable mining companies, measured by market value.

Without falling into the trap of repeating how the world generally fell off a cliff after Lehman Bros., an erstwhile Wall Street investment bank, went bust on 15 September 2008, PwC notes that despite strong financial results, 2008 was “definitely a year of two parts with the good times quickly turning bad as the global economic crisis took hold in the last quarter and commodity prices went into freefall”.

The speed of the drop took many by surprise, and exposed a number of issues; for the world's Top 40 mining companies:

- Operating costs during 2008 continued to rise at a greater rate than revenue (27%), further eroding margins;
- 50% of the Top 40 recorded impairment charges in the year that total USD 31bn (80% of this charge relates to two companies who completed deals close to the top of the market).
- The impact of the above on net profit was a decrease of 14%, the first decrease since the start of PwC's analysis, and
- Short-term debt repayments became tough to refinance.

A year ago PwC posed the question whether this is ‘as good as it gets?’ After all, 2008 started where 2007 had left off, and threatened to answer the question with a resounding ‘No’. Continuation of strong demand and record prices, epitomized by record-breaking iron ore prices negotiated by PHP Billiton, Rio Tinto, and Vale, provided, says PwC, “the foundation of another spectacular year for the industry”.

In aggregate, during 2008:

- Revenues increased 23% year-on-year;
- Net assets increased 10%;
- Cash flows from operation increased by 25% and exceeded USD 100bn for the first time; and
- Record EBITDA (earnings before interest, tax, depreciation and amortization, but excluding the impact of impairment charges) of USD 141bn was posted.

What happened to the monster cash flows? PwC finds that the industry's investing cash flows illustrate that companies spent the majority of their free cash developing and acquiring assets. Companies in 2009, by contrast, "are intently focussed on reducing capital and operating expenditure and managing production levels to ensure they operate at the lowest possible cost.


"The cash flow analysis shows that the industry did not commence these programs until late in 2008 or early 2009 and, like many others, did not see the rapid decline in both price and demand coming".

PwC explores the challenges facing leading CEOs; its discussions have highlighted that conditions have created two kinds of companies: the 'haves' and the 'have nots', and actions will depend on which type of company the CEO is leading. Indeed, argues PwC, one of the keys to managing in the current environment "is having a motivated and experienced team to support you. Shareholders impacted by the significant fall in share prices and with the prospect of reduced dividends in the period ahead will be quick to criticize any perceived excessive reward.

"How to reward and retain the best in the industry in this environment will be high on the agenda of most public company remuneration committees. Flexibility will also be important. The boom encouraged the industry to invest heavily in capital projects and grow the top line. In these more cautious times, the ability to turn the cost tap on and off quickly may be the difference between success and failure.

"Finally during times of uncertainty the ability to be transparent and have open dialogue with stakeholders will be crucial. Real time, clear guidance outlining the company's strategy will endear trust, and potentially bring confidence back to the market.

"Most indicators point toward a tough period for the industry as the short-term issues dominate the agenda. Success in the long-term will depend on how the mining industry reacts when the going gets tough".



So where, asks PwC, does this leave the industry? The short-term outlook, argues PwC, “looks bleak, and without management intervention margins will be quickly eroded. During 2008, market capitalization of the Top 40 mining companies decreased by 62% compared to the S&P 500 which declined by 38% over the same period, as shareholders lost confidence and share prices plunged”.

Even so, the overall level of market capitalization was above that recorded in 2005 (which, at the time, says PwC, was seen to be a ‘spectacular year’). The full effect of the downturn is, of course, not evident in the 2008 financial information, but first quarter 2009 releases from a number of companies report significantly reduced profits, and in some cases operating losses. There is no doubt, argues PwC, that the industry is facing tougher times, “and steering a path through this downturn will require tough decisions from the leaders of the Top 40”.

PwC's TOP 40 GLOBAL MINING COMPANIES, 2008*

	<u>Stock price</u>	<u>From high**</u>	<u>From low**</u>	<u>Value UDS bn</u>
ARM	ZAR 143.01	-53.4%	88.2%	3.76
Agnico-Eagle	USD 60.44	-25.2%	189.6%	9.41
Anglo American	GBP 18.33	-43.8%	102.3%	40.40
AngloGold Ashanti	USD 41.49	-3.9%	210.3%	14.70
Antofagasta	GBP 6.60	-3.4%	184.6%	10.67
Arch Coal	USD 19.68	-74.6%	88.7%	2.842
Barrick	USD 37.04	-29.4%	114.5%	32.35
BHP Billiton	GBP 15.39	-22.3%	110.4%	155.92
Cameco	CAD 31.70	-28.6%	121.2%	11.44
China Coal	CNY 11.91	-42.4%	98.5%	15.96
China Shenhua	CNY 26.88	-44.7%	67.2%	64.90
Cliffs natural	USD 29.01	-76.2%	145.8%	3.80
C. Vale	USD 20.44	-49.9%	132.3%	100.16
Buenaventura	USD 28.74	-19.4%	219.3%	7.90
Consol Energy	USD 43.57	-63.4%	135.5%	7.87
Eldorado	USD 9.69	-7.0%	307.1%	3.59
Eramet	EUR 205.00	-68.7%	113.4%	7.74
ENRC	GBP 6.76	-56.0%	269.1%	14.28
Exxaro	ZAR 84.06	-48.6%	76.9%	3.71
Fortescue	AUD 2.80	-78.7%	141.4%	7.03
Freeport-MacMorRan	USD 58.12	-54.1%	270.2%	23.93
Fresnillo	GBP 7.20	-2.1%	673.7%	8.47
Gold Fields	USD 13.39	-4.3%	188.6%	9.43
Goldcorp	USD 36.91	-29.9%	166.7%	26.95
Grupo Mexico	MXN 13.52	-46.3%	110.5%	9.934
Harmony	USD 11.60	-12.5%	112.1%	4.94
Impala Platinum	ZAR 197.98	-40.9%	128.7%	14.85
Industrias Peñoles	MXN 207.54	-28.1%	204.7%	7.886
Kinross	USD 20.18	-20.4%	194.6%	14.02
Lihir	AUD 3.30	-9.3%	117.1%	6.35
NMDC	INR 433.50	-11.3%	276.3%	36.54
Newcrest	AUD 33.89	-8.8%	104.8%	13.33
Newmont	USD 47.99	-10.7%	126.7%	22.99
Peabody Energy	USD 35.82	-59.6%	123.9%	9.58
Randgold Resources	USD 70.51	-3.8%	216.5%	5.41
Rio Tinto	GBP 30.01	-51.8%	201.6%	71.12
Teck	USD 17.15	-66.1%	559.6%	8.19
Vedanta	GBP 17.32	-31.1%	382.8%	7.86
Xstrata	GBP 7.64	-69.0%	164.4%	36.91
Yamana	USD 11.40	-32.9%	244.4%	8.36

* Numbers shown above are current.

** 12-month