

Riding out the downturn

By  Danette Breitenbach

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Worldwide commodity prices have dropped as the mining industry finds itself in a commodity downturn. The impact on the local industry has been severe, and for the sixth consecutive year, the South African mining industry has underperformed. Currently, the South African mining industry has a market capitalisation that is less than Apple. The big question on everyone's lips is when will the cycle turn and when it does, what can we expect?



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This was put to a panel chaired by Jim Rutherford, Non-Executive Director, Anglo America plc and former Capital Group Mining Analyst, at the recent Joburg Indaba 2015.

Panel members included Henk Groenewald, Analyst, Coronation Fund Managers, Fidelis Madavo, Executive head, listed Investments, Public Investment Corporation (PIC), Piet Viljoen, Chairman, Regarding Capital Management, and Sandy McGregor, Portfolio Manager, Allan Gray.

Decade-long cycles

This is an industry that experiences decade-long cycles and if the size of the previous upcycle is anything to go by, then this down cycle is big and will cause lots of pain in the industry before it recovers, says Groenewald, adding that he does not see it getting better soon.

Madavo believes we are somewhere close to the bottom of the cycle. "We are still seeing a lot of supply in the market in all commodities. Our view is that China is still growing."

Many miners are still coming to us looking for cash he says. This leads him to believe that we will see distress in the market next year.

Each commodity is different and for some, the downturn is worse than others, says Viljoen. He differs from Madavo as he is unsure of where we are in the commodity cycle. "It's a difficult one to call and we try not to call tops and bottoms." What he does see is companies not cutting down fast enough.

All cycles go through the same phases, says McGregor. This one is no different. "First prices collapse and we have seen that happen. The second stage is the industry's reaction. It starts to reorganise and part of this is bankruptcies. (In 1980 we were close to this.) We are now entering this phase and we are starting to see companies run into trouble."

Is this cycle different to the last one?

"China was in the equation previously and it was big, and that will not be repeated ever, so I think the downturn will be longer than expected. Compounding this is the fact that the industry has entered into this cycle with far worse balance sheets than previously."

It is the mind-set of the industry that when it has money, it spend it, he adds. "Mining companies are too often run by a leadership that has great experience in the operations of a company but none in capital allocation. Even their boards lack this knowledge and experience. It makes them easy pickings for financial lending institutions."

When the cycle does turn, the industry will need to attract investment. "Capital is mobile and we need to make this country an attractive investment destination," Groenewald states.

Despite the downturn and its consequences, he says the industry will remain. "In 10 years' time there will still be a mining industry in this country. The commodities we have available in this country will always be needed by the world and demand will eventually grow and over time normalise."

The Joburg Indaba took place 14-15 October at the Inanda Club in Johannesburg. For more info, go to www.joburgindaba.com.

ABOUT DANETTE BREITENBACH

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